Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Trade & Economic Development Committee

SSB 5720

Brief Description: *Promoting community revitalization.*

Sponsors: *By Senate Committee on Economic Development & Telecommunications (originally sponsored by Senators Carlson, West, T. Sheldon, Sheahan, Hewitt, B. Sheldon, Stevens, Winsley, McAuliffe and Rasmussen).*

Brief Summary of Substitute Bill

- *Authorizes a new system of **property tax increment financing** where increment areas may be created by a county, city, or town within which a portion of the receipts from regular property tax levies are diverted away from local governments imposing the property taxes and distributed to the sponsoring county, city, or town to finance facilities and programs within the increment area.*

Hearing Date: *3/27/01*

Staff: *Steve Lundin (786-7127).*

Background:

*State voters defeated proposed constitutional amendments in 1973, 1982, and 1985 authorizing counties, cities, and towns to engage in increment financing or community redevelopment financing. Tax increment financing or community redevelopment financing is a method of redistributing property tax collections within designated areas to finance infrastructure improvements within these designated areas. Enabling legislation was enacted in 1982, along with the constitutional amendment that year, but the enabling legislation was **not** made contingent on the approval of the constitutional amendment that was defeated later that year.*

The city of Spokane attempted to use this enabling legislation but the Supreme Court found the statute to be defective in 1995.

A variety of local governments are authorized to impose regular property taxes, some may be imposed without voter approval and others may be imposed only if authorized by voters. Port districts are authorized to impose several regular property tax levies and public utility districts are authorized to impose a single regular property tax levy. Port districts and public utility districts may also be authorized additional taxing authority to impose additional regular property taxes, without any limitation, to make payments of principal and interest on general indebtedness.

Summary of Bill:

Counties, cities, and towns may create increment areas within their boundaries where community revitalization projects and programs are financed by diverting a portion of the regular property taxes imposed by local governments within the increment area.

Community revitalization projects and programs include:

- *Traditional infrastructure improvements, such as: (1) Street and road construction and maintenance; (2) water and sewer system construction; (3) sidewalks and streetlights; (4) parking, terminal, and dock facilities; (5) public transportation facilities; and (5) park and recreation facilities.*

- *Any other publicly owned or leased facilities that the sponsoring county, city, or town has the authority to provide.*

- *Environmental analysis, professional management, planning, and promotion, management and promotion of retail trade activities, maintenance and security for common areas, and historic preservation.*

A sponsoring county, city, or town may pledge and use the diverted regular property tax collections to pay principal and interest on general obligations issued to finance the community revitalization projects and programs. Nonpublic participants may be required to provide security to protect the public investment in the increment area.

Regular property taxes imposed by all local governments within the increment area on 75 percent of any increase in assessed valuation occurring in that area after its creation are diverted to finance the projects. Regular property taxes imposed by any local government on all of the remaining value (the assessed valuation in the year before the increment area was created plus 25 percent of any increase in assessed valuation in the increment area) are distributed to the local governments as if the increment area had not been created. The state's property taxes are not affected. The basic regular property taxes imposed by port districts and public utility districts are subject to this potential diversion. However, the port district and public utility district regular property tax levies that may exist that are authorized specifically for making principal and interest payments on bonds are not affected. The sponsoring county, city, or town creating the increment area may agree to reduce the amount of property taxes that are diverted.

Each local government taxing district authorized to impose regular property taxes is granted the express authority to provide the public improvements financed by a property tax *increment financing, but if the taxing district is not otherwise granted this authority, the additional authority is only provided to the extent the taxing district participates in the tax increment financing.*

The projects financed by property tax increment financing must be expected to encourage private development within the increment area and increase the fair market value of real property within the increment area. Private development that is anticipated to occur within the increment area, as a result of the public improvements, must be consistent with the countywide planning policy adopted by the county under the Growth Management Act and the county's, city's or town's comprehensive plan and development regulations adopted under the Growth Management Act.

Any diversion of county road district regular property tax levies for such purposes is allowed without penalizing the distribution of state highway moneys to the county.

Limitations under what is called the 106 percent limitation continue whether or not an increment area has been created.

A direct or collateral attack on an increment area must be commenced within 30 days of the date the sponsoring county, city, or town publishes a notice that the increment area has been created.

The creation of an increment area involves a number of steps, as follows:

- *The sponsoring county, city, or town adopts an ordinance designating the increment area within its boundaries and specifies the public improvements and programs to be financed.*

- *The increment area may not be established unless the taxing districts (including the state) imposing at least 60 percent of the regular property taxes within this area sign written agreements approving the increment financing.*

- *A public hearing on the proposal is held.*

- *The sponsoring county, city, or town adopts an ordinance establishing the increment finance area.*

Voters of the sponsoring county, city, or town may take potential referendum action against the ordinance creating the increment area and cause a ballot proposition authorizing the increment area to be submitted to the county, city or town voters for their approval or rejection.

Appropriation: *None.*

Fiscal Note: *Requested on March 15, 2001.*

Effective Date: *Ninety days after adjournment of session in which bill is passed.*