

HOUSE BILL REPORT

E3SSB 5364

As Reported by House Committee On:
Finance

Title: An act relating to community revitalization financing.

Brief Description: Promoting economic development and community revitalization.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Zarelli, T. Sheldon, Regala, B. Sheldon, Winsley, McAuliffe, Hale and Rasmussen; by request of Governor Locke).

Brief History:

Committee Activity:

Finance: 2/20/04, 3/1/04 [DP].

Brief Summary of Engrossed Third Substitute Bill

- Expands the community revitalization program to allow local governments to finance public improvements within an increment area using increases in local sales and use tax revenues, as well as matching state sales and use tax revenues of up to \$1 million per year per project.
- Limits the annual aggregate amount of new local sales and use taxes that may be credited against the state tax to \$5 million initially.
- Authorizes the use of community revitalization financing only if a local government receives written agreement from taxing districts that in the aggregate would levy at least 60 percent of the regular property taxes within the increment area.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 5 members: Representatives McIntire, Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern and Morris.

Minority Report: Do not pass. Signed by 3 members: Representatives Hunter, Vice Chair; Conway and Santos.

Staff: Mark Matteson (786-7145).

Background:

Tax increment financing redistributes tax collections. It does this by diverting increases in property or excise tax revenues from the state or local government to locally created areas or districts to finance community revitalization programs within the areas or districts. Legislation providing for state property tax increment financing was ruled unconstitutional by the state Supreme Court in 1995. Three constitutional amendments that would have allowed state property tax increment financing in Washington did not receive voter approval.

As an alternative, the Legislature in 2001 authorized tax increment financing using local governments' regular property taxes. Bonds are issued to pay for community revitalization projects and programs and the diverted taxes are used to pay off the bonds. Community revitalization efforts funded this way include traditional infrastructure improvements and environmental analysis, professional management, planning, promotion of retail trade activities, maintenance and security for common areas, and historic preservation.

Local governments must adopt an ordinance to create a tax increment area. An area may not be established unless the local government taxing districts (not state) imposing at least 75 percent of the regular property taxes within this area sign written agreements approving the tax increment financing. In addition, any fire protection district within the tax increment area must approve the creation of the increment area.

Regular property taxes imposed by all local governments within the tax 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 tax increment area was created plus 25 percent of any increase in assessed valuation in the tax increment area) are distributed to the local governments as if the tax increment area had not been created. The state's property taxes are not affected.

One project in Spokane has attempted to use the state's community revitalization financing provisions.

Summary of Bill:

The community revitalization financing program is expanded to allow local governments to finance public improvements using not only the increased local property tax revenues, but also increased sales and use tax revenues from the increment area and a state match of local revenues, up to \$1 million per year, per project, deducted from state sales and use tax revenues.

The threshold for the requirements that taxing districts imposing at least 75 percent of the regular property taxes within an increment area must approve of a project is lowered to 60 percent. Fire districts may opt in or out independently, and their property taxes are not included in calculating the 60 percent. Local governments intending to finance public

improvements in an increment area need to reach agreement with private developers regarding private improvements within an increment area and must find that the improvements financed with this program will improve the viability of existing business in the area and would not likely occur without this program.

A jurisdiction may not use community revitalization financing for public facility district projects or to move Washington businesses into the increment area if the businesses are currently operating outside the increment area. Community revitalization financing can only be used in areas in need of economic development that could not develop without the program.

The procedural steps necessary to adopt an ordinance establishing an increment area are increased.

A local government that creates an increment area may use any increased excise (sales and use) taxes received by it from taxable activity within the increment area to finance the public improvement costs financed in whole or in part by community revitalization financing. When these tax allocation revenues are no longer necessary or obligated to pay the costs of the public improvements, the local government may no longer retain the excess excise taxes.

A jurisdiction that has created an increment area and financed public improvements under the community revitalization program may, upon approval from the Department of Revenue (DOR), collect sales and use tax within the increment area as a state match to the property and excise tax allocations, plus any private contributions, that the increment area has realized the previous calendar year. A jurisdiction may collect from this tax each year no more than \$1 million or the sum of the state property tax and sales and use tax increases from the increment area, whichever is lesser. This new tax expires when bonds issued are retired, but not more than 25 years after imposed.

The limit for credit against the state sales and use tax for all increment areas is \$5 million in the first year. In each of the three subsequent years, the total amount credited against the state sales and use tax increases by the percentage increase in the assessed value of all property within the state as determined by DOR.

Jurisdictions that establish an increment area must provide DOR with information on the taxes collected, the businesses attracted, the jobs created, and the wages paid.

A local government that issues bonds to finance public improvements may pledge for payment of such bonds all or part of any tax allocation revenues derived from the public improvements. It can also pledge the revenues of the credit against the state sales and excise tax. The bonds issued by the local government to finance the public improvements do not constitute an obligation of the state.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The underlying goal here is to provide local governments with another tool to enable economic development. This bill will enable local governments to increase their tax base and to ultimately increase revenues. The program is capped and is not a runaway freight train. At the end of the day, we won't be solving all problems. But we will be creating an additional opportunity that does not currently exist.

I've had experience with tax increment financing (TIF) and am here to point out its benefits. The state of Oregon created a TIF district along the Columbia Corridor, running eight miles east to Troutdale from Portland. This was decided to be an industrial sanctuary, and TIF was used to finance infrastructure improvements. Now it is a world class business district.

This is a priority for the Governor. A number of economic development organizations are very interested in this. We prefer the House proposed language that would allow counties to have the option to opt out of an increment area. The House version also has a technical fix to the local excess excise tax base that is necessary. The Senate approach to limiting the boundary of an increment area is preferred.

The county tax assessors believe that the modification to the definition of increment value, from last year's bill, is a good one. We agree that the Senate's boundary language is better. We would ask the committee consider the potential effect of the proposed voter initiative that would reduce local property taxes by 25 percent.

The City of Vancouver supports the remarks by Representative Wallace. We have created an economic engine of change in southwest Washington. We could not have done this without proactive state policy. We have realized a decades-long dream of building a convention center. But we still need more tools and could use this.

The City of Yakima needs an "EDGE". One-third of the storefronts in down town are empty. Please give us a tool that is workable and provides meaningful funding. We ask that you trust city and county commissioners across the state to make local decisions. One size does not fit all. Our success will be yours.

The City of Spokane is losing the opportunity to land businesses to Idaho, because the state there is willing to advance the costs of infrastructure. We need this bill. In other states, tax increment financing works because other state's constitutions don't have the same uniformity requirements and do provide for rate-based property tax systems. We are coming to you to update the 2001 law because we don't have the same flexibility. This bill allows the use of local and matching state sales tax revenues. We have a couple of concerns about the bills. With respect to accountability measures, there is already an open public process that lasts from three to six months. And this tool is being used to encourage the location of businesses that must make a decision between 30 and 60 days. So we would urge caution about adding even more accountability. The second issue is that of opt in/opt out. If a jurisdiction is allowed to take all the risk of investing to attract a business, and another jurisdiction benefits from the investment, there will be no reason to have to opt in. Fire protection districts, from a public

safety standpoint, were allowed in the original law to have the authority to opt out, and this is reasonable. If you do go forward with opt-out language, please consider requiring the jurisdiction that opts out to forego the revenue until the time that the bonds are paid off. The last issue is that three years ago we attempted to design a tool that would be flexible enough in its application that it would work anywhere in the state, no matter the local situation. Please preserve that flexibility.

There are 47 other states that have this tool. The state needs to send a message to all financial investors that they promote this policy. I would like to comment on the House language. It is true that a lot of low-income housing is currently substandard and should be fixed. But in undertaking these developments, we are required to include a low-income housing portion of the development. And we are committed to developing a major mixed-use project. The TIF will compliment what developers are currently able to do. With respect to the relocation of businesses, we help relocate tenants. In the end, the market needs to be able to work.

King County needs this TIF financing. Infrastructure sustains our quality of life by accommodating growth, not only in urban areas but in outlying areas as well. The lid of \$1 million per project makes some sense, in that it ensures that projects will be located in various places throughout the state.

Infrastructure is fundamental to new development. A 1999 legislative study showed that local governments faced a \$3 billion deficit with respect to funding infrastructure. The Community Revitalization Financing program came out of a recommendation from that study. Clark County did its own study, and found that they have insufficient revenue to proceed. We need to be able to compete. This is not a grant. Money will come back through an increased tax base.

This is absolutely critical to rural communities. A lot of urban areas already have some infrastructure. However, many rural areas are working with undeveloped land. There are no roads, sewer lines, or other utilities.

(With Concerns) The Association of County Officials prefers the House language with respect to allowing counties to opt out. We also like the Senate boundary language.

This is an important job creation measure. We favor increasing the current limits. This needs to be equitable to those who choose to participate and those that don't choose to participate. It should be an opportunity for local government officials to make decisions. This is a real benefit to the state. In Lewis County, we have an opportunity to locate three businesses that could generate as much as \$20.8 million annually in state sales tax revenues. The number of full-time jobs that would be created exceeds 1,300. Our clients have stated clearly that without this legislation, they would not consider locating in the state.

Testimony Against: None.

Persons Testifying: (In support) Senator Zarelli, prime sponsor; Representative Wallace; Scott Noble, Washington State Association of County Assessors; Mark Brown, City of Vancouver; Douglas Howe, Touchstone Corporation/National Association of Industrial &

Office Properties State Chapter; Sheila Martin, Office of the Governor; Todd Mielke, Spokane Regional Chamber of Commerce; Steven Wayne, Seattle King County Association of Realtors; Vern Veysey, Washington Association of Realtors; Bill Cook, City of Yakima; and Ron Newbry, Washington Economic Development Association; .

(In support with concerns) Michelle Hagen, Washington Association of County Officials; and Todd Christensen, Centralia-Chehalis Chamber of Commerce.

Persons Signed In To Testify But Not Testifying: None.