

SENATE BILL REPORT

E2SSB 5364

As Reported By Senate Committee On:
Ways & Means, January 21, 2004

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: Economic Development: 2/7/03, 2/21/03 [DPS-WM].

Ways & Means: 3/4/03, 4/7/03 [DP2S]; 1/20/04, 1/21/04 [DP3S].

Passed Senate: 4/10/03, 47-2.

First Special Session: Passed Senate: 6/10/03, 39-7.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Third Substitute Senate Bill No. 5364 be substituted therefor, and the third substitute bill do pass.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Honeyford, Johnson, Regala, Roach, Sheahan, B. Sheldon and Winsley.

Staff: Catherine Suter (786-7442)

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 Third Substitute 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.

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 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.

Third Substitute Bill Compared to Engrossed Second Substitute Bill: The portion of property tax increases that will be redistributed to an increment area is limited to increases due to new construction or improvements in order to protect the tax base. Additionally, the findings that the local government must make are expanded to include existing business viability, need for economic development, and inability of the project to happen without tax increment financing.

Appropriation: None.

Fiscal Note: Requested on January 19, 2004.

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

Testimony For: The Community Revitalization Program is designed to encourage private sector investment for immediate public projects and long-term private sector job growth. It will result in at least 2,200 private sector jobs just with the public projects alone, and an initial \$400 million in private sector investment.

Infrastructure is lagging and border areas need to compete with neighbor states that have programs even stronger than this proposal. Local accountability is key, so there is a review period after four years, and if there is no incremental increase in taxes, the state does not participate.

Washington is at the bottom of the nation in offering tools for new business: other states have far more in their TIF programs than Washington has. Clark County has specific plans for employment sites to compete with the three close Oregon counties.

Concerns: Property taxing districts need to be able to opt out of a TIF project. Counties could be left out altogether from the agreement, yet still be obligated to participate. The bill also needs better definition of area boundaries so that areas do not get excessively large.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): PRO: Sheila Martin, OFM; Nathan Torgelson, City of Kent; Art Schuenemann, King County-Seattle EDC; Todd Mielke, Spokane Regional Chamber of Commerce; Bart Phillips, Columbia River EDC; Scott Noble, Washington Association of County Assessors, King County Assessor (in 2003, with concerns); Gerald Baugh, City of Vancouver; Ginger Metcalf, Identity Clark County; CONCERNS: Paul Parker, Washington Association of Counties; Michelle Hagen, Washington Association of County Officials.