SENATE BILL REPORT
SB 5325

As Passed Senate, February 8, 2006

Title: An act relating to community revitalization financing.

Brief Description: Promoting economic development and community revitalization.

Sponsors: Senators Zarelli, Brown, Doumit, Kline, Shin, Sheldon, Pflug, Mulliken, Kohl-Welles, Rasmussen and Pridemore.

Brief History:

Committee Activity: International Trade & Economic Development: 2/1/05, 2/8/05 [DP-WM].

Ways & Means: 3/1/05, 3/7/05 [DP].

Passed Senate: 3/14/05, 46-3; 2/8/06, 46-1.

SENATE COMMITTEE ON INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Shin, Chair; Pflug, Ranking Minority Member; Doumit, Eide and Zarelli.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Zarelli, Ranking Minority Member; Brandland, Hewitt, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

Staff: Terry Wilson (786-7433)

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 2001 Legislature 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.

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.

Committee/Commission/Task Force Created: No.

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

Testimony For (International Trade & Economic Development): This is an economic development tool that will make Washington more competitive. This will create revenue for the state, re-develop blighted areas, and help meet infrastructure needs. It is flexible, equitable, low-risk, and can help attract business. This allows the state to partner with the locals.

Testimony Against (International Trade & Economic Development): Tax increment financing works well with sales tax systems, but not with our single class property tax system. Tax increment financing (TIF) should allow for county commissioners to have a say about whether or not a TIF is created in a county.

Who Testified (International Trade & Economic Development): PRO: Tom McBride, AWB; Leslie McDowell, Douglas Howe, National Assoc. of Industrial and Office Properties; Mark Brown, City of Vancouver; Jim Hedrick, Spokane Regional Chamber of Commerce; Ron Newbry, WA Econ. Dev. Assoc.; Scott Taylor, WA Public Ports Assoc.

CON: Scott Noble, King County Assessor; Michelle Hager, WA State Assoc. of County Officials; Paul Parker, WA Assoc. of Counties.

Testimony For (Ways & Means): This bill results in a gain to the general fund because the activity would not otherwise occur. It has passed three times in the last two years. It expands the program to allow the state to be a partner with local government. It allows local government to bond against the revenues to attract new business and jobs to blighted areas.

There are two projects taking advantage of the current program in Spokane. Forty-eight other states use this.

Testimony Against (Ways & Means): None.

Who Testified (Ways & Means): PRO: Senator Zarelli, prime sponsor; Tom McBride, Assoc. of Washington Business; Greg Hanon, National Assoc. of Industrial and Office Properties, Jim Hedrick, Spokane Chamber of Commerce.