# SENATE BILL REPORT
# 2SHB 1277

As Reported By Senate Committee On:
Economic Development, Trade & Management, March 20, 2007
Ways & Means, April 2, 2007

**Title:** An act relating to expanding competitive local infrastructure financing tools projects.

**Brief Description:** Expanding competitive local infrastructure financing tools projects.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Kelley, Simpson, Wood, P. Sullivan, Conway, Kenney, Ericks, Rolfes and Morrell; by request of Governor Gregoire).

**Brief History:** Passed House: 3/08/07, 96-2.
**Committee Activity:** Economic Development, Trade & Management: 3/16/07, 3/20/07 [DPA-WM].
Ways & Means: 4/02/07 [DPA, DNP].

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## SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

**Majority Report:** Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Kastama, Chair; Kilmer, Vice Chair; Zarelli, Ranking Minority Member; Clements, Kauffman and Shin.

**Staff:** Jack Brummel (786-7428)

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## SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended.
Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hobbs, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

**Minority Report:** Do not pass.
Signed by Senator Honeyford.

**Staff:** Dianne Criswell (786-7433)

**Background:** Public infrastructure funding is accomplished in a number of different ways in the state, including through local public facilities districts, and state funding approved by the Public Works Board or the Community Economic Revitalization Board (CERB). The

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Legislature has, in recent years, examined a number of ways to increase investment in public infrastructure in the state. 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.

In 2006, the Legislature enacted the Local Infrastructure Financing Tool (LIFT) program through which public improvement projects designed to increase private development in a prescribed area, called a revenue development area (RDA), are selected. Local governments may finance public improvements within the RDA using revenue from a new sales and use tax, credited against the state sales and use tax and matched with local resources.

**Summary of Second Substitute Bill:** The limit of the annual state contribution to LIFT projects in the state is increased from $5 million to $7.5 million.

Revenues from local public sources, used to match the state's contribution through the LIFT program to an infrastructure project, may not include funds from state grants, state loans, or other state monies.

The definition of property tax allocation revenue value, which determines the amount of local property tax to go to the local infrastructure project, is refined.

Applicants for a competitive LIFT project award may apply in calendar year 2008.

When a sponsoring jurisdiction is located in multiple counties, a county may have more than one revenue development area. Revenue development area boundaries may not overlap one another, nor the boundaries of a hospital benefit zone.

New criteria for evaluation of competitive project proposals include the economic health of, and a project's economic impact on, an area; and a showing that neither local excise nor property taxes allocated under LIFT will exceed 80 percent of local funds contributed to a local infrastructure project.

If a local government does not issue bonds to finance an infrastructure project by the fifth year after the imposition of the new local sales and use tax credited against the state tax, then the proceeds of the local tax are returned to the state General Fund and the new local tax may no longer be imposed.

The Department of Revenue and CERB are given rule-making authority related to the LIFT program.

**EFFECT OF CHANGES MADE BY RECOMMENDED AMENDMENT(S) AS PASSED COMMITTEE (Economic Development, Trade & Management):** The annual state contribution limit is raised to $10 million. State and local funds can be used on a "pay-as-you-go" basis until bonds are required to be serviced; if bonds are never issued, state contributions will end but the proceeds of the local tax do not need to be returned to the state. Applicants for a competitive LIFT project award may apply in calendar year 2009. A county may have more than one revenue development area. Evaluation criteria related to economic health and impact and showing that neither local property nor excise taxes allocated to LIFT will exceed 80 percent are not included. There must be evidence and findings that projects and local improvement financing will not contribute to sprawl.

**EFFECT OF CHANGES MADE BY RECOMMENDED AMENDMENT(S) AS PASSED COMMITTEE (Ways & Means):** (1) Clarifies that the new criteria for the competitive round of projects added to the Local Infrastructure Financing Tool program by this act and the Washington State Economic Development Commission will apply to applications received after November 1, 2007.

(2) Removes the requirement that the applicant demonstrate that the project will not contribute to sprawl.

(3) Adds to the criteria used to evaluate the competitive projects, including: the project's ability to encourage transit-oriented development; the current economic health of the proposed revenue development area (RDA) and the contiguous community and the estimated impact of the project on the RDA and contiguous community; an analysis that demonstrates that, over the life of the project, neither the local excise tax allocation revenues nor the local property tax allocation revenues will constitute more than 80 percent of the total local funds; and if a project is located within a growth management area, evidence that the project utilizes existing urban infrastructure or that the transportation needs of the project will be adequately met through the use of the local infrastructure financing or other sources.

(4) Reinserts the one RDA per county restriction, but adds an exception for a local sponsoring government that is located in more than one county and an exception for counties with named demonstration projects.

(5) Reinserts the $70 per square foot restriction for an RDA and clarifies that the value of the land is taken as of January 1 of the year in which the application to the CERB is submitted.

(6) Reinserts the restriction that the boundaries of an RDA cannot be drawn to purposefully exclude parcels where economic growth is unlikely to occur.

(7) Requires that the local government meet the 80-20 requirement for the local funds by the fifth year of allocating local excise tax revenues.

**Appropriation:** None.

**Fiscal Note:** Requested on March 9, 2007.

**Committee/Commission/Task Force Created:** No.

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

**Staff Summary of Public Testimony (Economic Development, Trade & Management):** PRO: This increases LIFT funds $2.5 million above the existing law of $5 million. We are in support of this bill. The 80/20 rule would take effect five years from now.

OTHER: The funding level should be increased to $10 million total. The one county limitation should be removed.

**Persons Testifying (Economic Development, Trade & Management):** PRO: Representative Kelley, prime sponsor; Ashley Probart, Association of Washington Cities; Julie Murray, Washington State Association of Counties.

OTHER: Ashley Probart, Association of Washington Cities; Julie Murray, Washington State Association of Counties.

**Staff Summary of Public Testimony (Ways & Means):** None.

**Persons Testifying (Ways & Means):** No one.