

SENATE BILL REPORT

SJR 8213

As Reported by Senate Committee On:
Economic Development, Trade & Innovation, February 17, 2011

Brief Description: Providing for community redevelopment financing in apportionment districts.

Sponsors: Senators Kilmer, Delvin, Kastama and Litzow.

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 2/14/11, 2/16/11, 2/17/11 [DPS, w/oRec].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Majority Report: That Substitute Senate Joint Resolution No. 8213 be substituted therefor, and the substitute joint resolution do pass.

Signed by Senators Kastama, Chair; Chase, Vice Chair; Hatfield, Kilmer and Shin.

Minority Report: That it be referred without recommendation.

Signed by Senator Baumgartner, Ranking Minority Member.

Staff: Edward Redmond (786-7471)

Background: Traditional tax increment financing is a method of allocating a portion of property taxes to finance economic development in urban areas. Local governments that use tax increment financing generally issue bonds to finance public improvements. To repay bondholders, the local governments are permitted to draw upon regular property tax revenue collected from property owners inside a special district surrounding the site of the public improvements. Construction of public improvements tends to increase the market values of nearby properties. Increases in value can result in increased property taxes for each taxing district that includes property near the public improvement. Under tax increment financing, the local government making the improvement gets all of the resulting tax revenue increase.

In 1995 the Washington State Supreme Court ruled that the City of Spokane's use of tax increment financing to fund a redevelopment project violated Article IX, section 2 of the Constitution. The Court held that it allowed property tax revenues to be diverted away from the common schools, which was in violation of the constitutional requirement that state tax for common schools be applied exclusively to support common schools. By ruling narrowly

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under the school funding clause of the Constitution, the Supreme Court did not reach other tax uniformity issues. Therefore, the constitutionality of tax increment financing under the uniformity clause is still an open question.

Summary of Bill (Recommended Substitute): The Secretary of State will submit a proposed constitutional amendment to the voters at the next general election. The amendment authorizes local governments, subject to legislative approval, to use all or a portion of regular or special ad valorem taxes levied within designated boundaries to pay for specified public improvements or obligations issued to fund such improvements. The designated boundaries must be within the local government's jurisdiction and contain only property that the local government determines will increase in value due to the public improvements.

The use of this taxing mechanism within the designated boundaries is exempt from uniformity requirements and the 1 percent limit on real and personal property. The amendment provides that this taxing mechanism is not subject to the state's limit on general obligation bonds.

EFFECT OF CHANGES MADE BY ECONOMIC DEVELOPMENT, TRADE & INNOVATION COMMITTEE (Recommended Substitute): Removes language regarding Article IX, section 2 of the Constitution.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on Original Bill: PRO: If the economy is going to start growing again, new development projects are going to have to move forward. Local governments need tools to make investments in order to see development move forward. The tool created in this bill currently exists in 48 states; it allows growth to pay for growth by allowing local governments to impose a tax on willing property owners to capture increase in assessed values created by new development and infrastructure. In regards to general obligation pledges, if anyone were to use the taxing mechanism right now, they would probably have to use general obligation bonds. The legislation does not require it, but based on the economy and bond market over the last couple of years, the sponsoring entity would probably have to put their full faith and credit behind the bond. This is not the full faith and credit of the state; rather, it is that of the sponsoring entity, for example, the city of Seattle. Local government entities are limited on the amount of general obligation bonds they can issue; when issuing these bonds, entities will have to make sure they are backing projects that are feasible, sound, and are likely to succeed. When putting this bill together stakeholders wanted a robust economic development tool comparable to what is available in other states. Special effort was taken to make sure that this taxing mechanism did not negatively impact other special districts.

OTHER: There is some concern with the constitutional amendment, particularly with the language that says this is not a violation of Article IX, section 2. That statement is an assertion that is being placed in the bill. If the intention is to not have this taxing method impact schools then either the bill should include this intent or the language referencing Article IX, section 2 should be removed.

Persons Testifying: PRO: Senator Kilmer, prime sponsor; Douglas Howe, Touchstone Corporation; Lindsey Soude, Seattle Northwest Securities; Greg Hannon, Joe Tortorelli, Economic Development Northwest; Ashley Probart, Association of Washington Cities; Bob Sternoff, Council Member, City of Kirkland.

OTHER: Marie Sullivan, Washington State School Directors Association.