HOUSE BILL REPORT
EHB 1513

As Passed House:
March 10, 2015

Title: An act relating to local infrastructure project areas.

Brief Description: Concerning local infrastructure project areas.

Sponsors: Representatives Springer, Fitzgibbon, Gregerson and McBride.

Brief History:
Committee Activity:
Community Development, Housing & Tribal Affairs: 2/5/15, 2/10/15 [DP];
Finance: 2/17/15, 2/23/15 [DP].
Floor Activity:
Passed House: 3/10/15, 57-41.

Brief Summary of Engrossed Bill

- Changes the calculation of property taxes for the purpose of Local Infrastructure Project Areas (LIPA) funding.
- Establishes new processes and requirements for a sponsoring city to create a LIPA.
- Specifies when property taxes for the purpose of LIPA funding must be allocated.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

Majority Report: Do pass. Signed by 6 members: Representatives Appleton, Chair; Robinson, Vice Chair; Johnson, Ranking Minority Member; Zeiger, Assistant Ranking Minority Member; Sawyer and Van De Wege.

Minority Report: Do not pass. Signed by 1 member: Representative Hawkins.

Staff: Kirsten Lee (786-7133).

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.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 13 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Nealey, Ranking Minority Member; Fitzgibbon, Manweller, Pollet, Reykdal, Robinson, Ryu, Springer, Stokesbary, Wilcox and Wylie.

Minority Report: Do not pass. Signed by 2 members: Representatives Orcutt, Assistant Ranking Minority Member; Vick.

Minority Report: Without recommendation. Signed by 1 member: Representative Condotta.

Staff: Dominique Meyers (786-7150).

Background:

Traditional Tax Increment Financing.
Traditional tax increment financing is a method of allocating a portion of property taxes to finance economic development in urban areas. Typically, under tax increment financing, a local government issues bonds to finance public improvements. To repay its bondholders, the local government is 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 receives all of the resulting tax revenue increase. For example, if a city makes an improvement that raises nearby property values, the city gets all of the resulting increase in property taxes, rather than sharing that increase with the state, county, and other local districts under the normal property tax allocation system.

Transfer of Development Rights.
A transfer of development rights (TDRs) occurs when a qualifying landowner, through a permanent deed restriction, severs potential development rights from a property and transfers them to a recipient for use on a different property. In a TDR transaction, transferred rights are generally shifted from sending areas with lower population densities to receiving areas with higher population densities. The monetary values associated with transferred rights constitute compensation to a landowner for development that may have otherwise occurred on the transferring property.

Local Infrastructure Project Areas.
In 2011 certain cities were authorized to establish Local Infrastructure Project Areas (LIPAs). A LIPA allows certain increases in local property tax revenues generated from within the LIPA to be used for payment of bonds issued for financing local public improvements within the LIPA. The LIPA program provides for the TDRs from rural farm and forest lands to cities being used within the LIPA.

Cities are eligible for the LIPA program if they are located within an eligible county. An eligible county means any county that: borders the Puget Sound; has a population of 600,000 or more people; has an established program for TDRs; and has designated all agricultural and forest land of long-term commercial significance within its jurisdiction as sending areas under its TDR program.

Each eligible county was required to report to the Puget Sound Regional Council (PSRC) the total number of TDRs from agricultural and forest land of long-term commercial significance and designated rural lands that may be available for allocation to receiving cities. For purposes of LIPA provisions, a "receiving city" is a city within an eligible county that has a population plus employment of 22,500 or more people. Following the receipt of development rights information from eligible counties, the PSRC must allocate these development rights among receiving cities.

A city that accepts all or a portion of its allocated share of rights is eligible to become a sponsoring city. A "sponsoring city" is a city that meets specified allocation requirements, adopts a plan for the development of infrastructure within one or more LIPAs, and creates one or more LIPAs.

Preliminary Actions by a Sponsoring City.
The creation of a LIPA must be accomplished through an ordinance or resolution of the sponsoring city that describes the area boundaries and the proposed public improvements to be financed in the LIPA, specifies the date when LIPA-related property tax distributions will begin, and delineates participating taxing districts.

Financing Local Infrastructure Project Areas.
Local Infrastructure Project Areas are financed through property taxes. Beginning in the second calendar year following the creation of a LIPA, the county treasurer must distribute receipts from regular taxes imposed on real property within the LIPA to the sponsoring city and participating taxing districts. Under the distribution provisions, each participating taxing district and the sponsoring city must receive a portion of their regular property taxes for the LIPA as determined by specified requirements. In addition, the sponsoring city must receive an additional portion of the regular property taxes levied by it and by participating taxing districts upon property within the LIPA. The sponsoring city may agree to receive less than the full amount of the additional portion if certain conditions are met.

The incremental local property taxes for LIPA financing are calculated based on the sponsoring city ratio multiplied by 75 percent of the increases in assessed value as a result of new construction and improvements to property within the LIPA. The city ratio takes into account several factors related to a city’s TDRs.

Currently, LIPA financing is only available in King, Pierce, and Snohomish counties and no city has created a LIPA.

Summary of Engrossed Bill:

Definitions.
The calculation for incremental local property taxes, the "property tax allocation revenue value," is changed and is now the sponsoring city ratio multiplied by 75 percent of the increase in assessed value as a result of new construction of entire buildings, improvements

to property. These additions or remodels add new square footage to the buildings, or both. The cost of new housing construction, conversion, rehabilitation improvements, and rehabilitation of historic property, when treated as new construction is eliminated from being considered in the assessment of increased value for the purposes of calculating the incremental property tax. A definition for "entire building" is provided.

Preliminary Actions by a Sponsoring City.
Before adopting an ordinance or resolution creating a LIPA, a sponsoring city must adopt Department of Commerce's TDR interlocal local terms and conditions or enter into an agreement with the county or counties where the LIPA is located. A city in a county with a population of 1 million or more, however, must enter into an interlocal agreement with the county in which the LIPA is located. The interlocal agreement must describe the boundaries and size of the LIPA, include exchange rates, identify potential priority sending site areas, if any, and describe and define the roles and responsibilities of the parties with respect to the transfer of development rights and public improvements to be financed with LIPA financing.

Financing Local Infrastructure Project Areas.
A sponsoring city must be a participating taxing district and must use all of its local property tax allocation revenues for LIPA financing. Regular property taxes do not include regular tax levies for road funds and open spaces.

Property tax revenues are allocated on the second calendar year following the date on which the sponsoring city certifies to the county treasurer that the local property tax threshold level one is met. Local property tax threshold level one is met when a sponsoring city issued building permits for development within the local infrastructure project area that, on an aggregate basis, uses at least 25 percent of the sponsoring city specified portion or acquired TDR equal to at least 25 percent of the sponsoring city specified portion for use in the local infrastructure project area or for extinguishment, or entered into an interlocal agreement with the county or counties in which the local infrastructure project area is located and, per the agreement, the local property tax threshold 1 is agreed to have been met.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony (Community Development, Housing & Tribal Affairs):

(In support) The LIPA program is a tool that provides an opportunity to create livable and vibrant communities nestled in a healthy rural landscape. This bill provides technical amendments to the 2011 LIPA legislation. The LIPA program is a local tool to meet existing and future infrastructure needs in exchange for accepting development potential from working farms, forests, and natural lands. The LIPA program is a tool to help jumpstart local economies, create jobs, and maintain a competitive edge in the future. The LIPA program creates no new taxes and is a voluntary program for landowners and participating jurisdictions. The LIPA program applies only to King, Pierce, and Snohomish counties. The proposed legislation reinforces the original intent of the LIPA program and should make the process of using the program easier in the future.

(Opposed) None.

Staff Summary of Public Testimony (Finance):

(In support) Back in 2011, there was an effort to stimulate the use of transfer of development rights to preserve forest and agricultural lands. This bill is an attempt to identify a few issues that need tweaking to the legislation from a few years ago; it does not look to change the underlying policy. This in an opportunity to incentivize the development of livable communities nestled in a rural landscape. This bill addresses some technical changes needed to allow the use of this tool in a meaningful way.

(Opposed) None.

Persons Testifying (Community Development, Housing & Tribal Affairs): Representative Appleton; and Leda Chahim, Forterra.

Persons Testifying (Finance): Representative Springer, prime sponsor; and Leda Chahim, Forterra.

Persons Signed In To Testify But Not Testifying (Community Development, Housing & Tribal Affairs): None.

Persons Signed In To Testify But Not Testifying (Finance): None.