Community Development, Housing & Tribal Affairs Committee

HJR 4202

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

Sponsors: Representatives Springer, Haler, Young, McBride, Clibborn, Fey and Zeiger.

Brief Summary of Bill

- Proposes an amendment to the state constitution allowing local governments to apportion property taxes within a designated area to finance public improvements.

Hearing Date: 1/27/15

Staff: Sean Flynn (786-7124).

Background:

State Constitution and Property Taxes.
Uniformity (Article VII, section 1).
The state Constitution requires all taxes to be applied uniformly on property within each taxing district. However, the Legislature may exempt certain property from taxation. All real and personal property in the state is subject to the state property tax, unless specifically exempted under law. Property taxes are based on the assessed fair market value of the property.

Limits (Article VII, section 2).
The state Constitution also limits regular property tax levies to a maximum of 1 percent of a property's assessed value. This applies collectively to the total taxes levied by the state, local governments, and any other agencies with taxing authority. However, the Constitution specifically exempts port and utility districts from this limitation.

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.

To keep the total tax rate within the 1 percent limit, the Legislature has established individual and aggregate limits for the various tax districts. The tax levy maximum assessed by the state is set at $3.60 per $1,000 of assessed value. The state levy takes precedence over all other levies. Most of the remaining local tax districts must share an overall maximum rate of $5.90 per $1,000 of assessed value.

Excess Levies (Article VII, section 2).
Any taxing district may levy a tax exceeding the 1 percent constitutional limit if approved by at-least a three-fifths vote, based on a certain percentage of voters within the district. A school district is authorized to impose an excess levy with simple majority vote.

Indebtedness (Article VIII).
The state may contract debt up to a limit based on a certain percentage of general state revenues. Local governments generally may incur debt up to 1.5 percent of the total value of taxable property without voter authorization.

Apportionment (Article VII, section 6; Article VIII, section 4).
All taxes collected for state purposes must be paid to the state treasury. Money paid out of the treasury must be appropriated by law.

Community Redevelopment Financing Act.
The Community Redevelopment Financing Act (Act) was passed in 1982 to provide a mechanism, known as tax increment financing, for local governments to allocate a portion of regular property taxes to finance specific public improvement projects that promote private development within urban areas. The Act authorizes a city or county to issues bonds to pay for certain public improvements. The bonds may be financed by a portion of the regular property taxes levied within a specified apportionment district surrounding the public improvement. The tax is assessed on increased value of property within the apportionment district that is created by the public improvement.

At the time the Act was created, the Legislature also adopted Senate Joint Resolution 143, proposing a state constitutional amendment that would expressly authorize the tax financing mechanism created in the Act. The voters rejected that amendment, and did so again when the Legislature proposed a similar amendment (House Joint Resolution 23) three years later.

In 1993, the City of Spokane enacted an ordinance under authority of the Community Redevelopment Financing Act. The ordinance was challenged and struck down by the state supreme court in *Leonard v. City of Spokane* (1995). In that case, the court held that the tax structure under the Act violated Article IX, section 2 of the state constitution, which provides that state taxes levied for common schools must be exclusively applied for funding public education. The tax apportionment mechanism under the Act essentially allowed the city to divert a portion of regular property taxes away from school funding, in violation of Article IX, section 2. The court declined to examine the constitutionality of the Act under other constitutional provisions.

Summary of Bill:

The Legislature submits a proposed amendment to Article VII of the state constitution for approval by the voters.

<u>Authorization</u>.
A new section is added to Article VII (Revenue and Taxation) permitting the Legislature to authorize counties and cities to designate apportionment districts and use all or a portion of regular or special property taxes levied on property within such districts to pay for public improvements and community benefit activities for those districts.

<u>Exemptions</u>.
The tax authority authorized is exempt from the uniformity requirements for property taxes under Article VII. However, any special property tax authorized under this new section must be applied uniformly within the designated apportionment district.

A special property tax authorized by the Legislature is not subject to the 1 percent property tax limit (Article VII section 2). Obligations secured by revenues collected from taxes within an apportionment district are not considered debt under Article VIII.

Appropriation: None.

Fiscal Note: Not requested.