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**Community Development, Housing &  
Tribal Affairs Committee**

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**HB 2048**

**Brief Description:** Concerning state-shared taxes for the purpose of designated disaster area financing.

**Sponsors:** Representatives Steele, Springer and Condotta.

**Brief Summary of Bill**

- Allows local governments to use local sales and use tax increment financing to pay for public improvements within areas affected by natural disasters.
- Authorizes a state contribution in the form of a state-shared sales and use tax, up to \$500,000 annually per project (\$5 million statewide) for public improvements within areas affected by natural disasters.

**Hearing Date:** 2/16/17

**Staff:** Sean Flynn (786-7124).

**Background:**

Tax Increment Financing.

Tax increment financing was first adopted in this state in 1982. This taxing mechanism allows local governments to issue bonds to pay for public improvement projects while using a portion of its regular property taxes to finance the bonds. The property taxes levied within a specified district surrounding the public improvement are apportioned by the increased value of property that is generated by the public improvement. The local government keeps the apportioned share of the property tax within the district to pay off the bonds.

The original tax increment financing mechanism was struck down by the state supreme court in violation of Article IX, section 2 of the state Constitution, because it diverts a portion of regular property taxes away from public school funding. Since that time, several other methods of tax

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increment financing have been authorized to finance public improvements through different tax revenues, including regular local property taxes and local sales and use taxes. Specifically, the Local Infrastructure Financing Tool (LIFT), the Local Revitalization Financing program (LRF), and the Hospital Benefit Zone (HBZ) programs use revenue from the local sales and use tax, credited against the state sales and use tax, within a designated area. The tax revenue can be used to pay off bonds used to finance public improvement projects within that district.

#### Sales and Use Tax.

The state levies a tax on the retail sale of tangible personal property, digital goods, and certain services within the state. A taxable retail sale also includes the installation, repair, alteration, or improvement made to a consumer's personal property. If a retail sales tax is not collected on the property or services at the time of sale to the consumer, then a separate tax is imposed on the value of the property or services used within the state. The state sales and use tax rate is 6.5 percent. Counties and cities are authorized to impose an additional sales and use tax at a lesser rate than the state rate.

#### **Summary of Bill:**

Local governments are authorized to create a designated disaster area (DDA) and may use local sales and use tax increment financing to pay for bonds used to finance public improvements within the DDA. The tax increment financing may come from up to \$500,000 from the state sales and use tax revenue in the DDA, as well as the local sales and use tax increment amount collected within the DDA.

The DDA may be located within the boundaries of more than one participating local government, but may not comprise more than 25 percent of assessed value in any one jurisdiction. The boundaries may not be changed for the time period that the sales tax authorized under the act is in effect.

There are certain conditions necessary to qualify for the use of DDA financing:

- The disaster must be declared a state of emergency and have caused damage of at least \$10 million;
- The DDA financing may not be used to relocate a business from elsewhere in the state unless convincing evidence is provided that the business would have left the state;
- The local government must provide a contract or letter of intent from a developer planning to provide private development in the area;
- The development must conform with the countywide planning policy under the Growth Management Act; and
- The DDA financing may not be used by a public facilities district for a regional center.

The sponsoring local government must adopt an ordinance to establish a DDA financing mechanism after public notice and hearing, including notice to all local governments within the proposed DDA. The ordinance must specify the public improvement projects, the cost, the DDA boundaries, and the length of time the DDA financing will be in place. Local governments within the DDA wishing to participate in the financing must enter into an interlocal agreement, or pass an ordinance to decline participation.

After adopting a DDA, the sponsoring local government may apply to the state for a contribution in the form of state-shared revenues credited against the state sales and use tax rate within the DDA. The amount of state contribution is limited to the lesser of: 1) a project award amount approved by the Department of Commerce (DOC), based on the cost of the public improvements and the estimated sales and use taxes generated in the DDA, 2) local revenues dedicated in the previous calendar year, or 3) \$500,000. The total state contribution is capped statewide at \$5 million annually. The state-shared sales and use tax rate is based on the estimated rate necessary to receive the project award approved by the DOC. The state-shared sales and use tax must expire within 30 years when any bonds issued for the public improvements are retired.

The sponsoring local government may use some or all of its local sales and use tax increments, as well as the state-shared sales and use taxes to finance public improvements in the DDA, subject to any start and end dates specified in an interlocal agreement. The sponsoring local government may issue general obligation bonds to finance the public improvements that are paid with DDA financing as well as other revenue.

Sponsoring local governments must report to the DOC, which must make publicly available, certain information about the state-shared sales and use tax revenues, the increment in local sales and use tax, economic development in the area, and information about any debt undertaken to finance the public improvements.

**Appropriation:** None.

**Fiscal Note:** Requested on 2/16/17.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.