HOUSE BILL REPORT
ESHB 1189

As Passed House:
March 3, 2021

Title: An act relating to tax increment financing.

Brief Description: Concerning tax increment financing.

Sponsors: House Committee on Finance (originally sponsored by Representatives Duerr, Boehnke, Bateman, Sullivan, Fitzgibbon, Walen, Ramel, Springer, Wicks, Slatter, Pollet, Callan and Harris-Talley).

Brief History:
Committee Activity:
Finance: 1/26/21, 2/18/21 [DPS].
Floor Activity:
Passed House: 3/3/21, 64-33.

Brief Summary of Engrossed Substitute Bill

- Authorizes local governments to designate tax increment financing areas and to use increased local property tax collections to fund public improvements.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Frame, Chair; Berg, Vice Chair; Walen, Vice Chair; Chopp, Harris-Talley, Morgan, Orwall, Ramel, Springer, Stokesbary, Thai, Vick and Wylie.

Minority Report: Do not pass. Signed by 1 member: Representative Orcutt, Ranking Minority Member.

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

Minority Report: Without recommendation. Signed by 2 members: Representatives Dufault, Assistant Ranking Minority Member; Chase.

Staff: Rachelle Harris (786-7137).

Background:

Property Tax.
All real and personal property in the state is subject to property tax each year based on its value, unless specific exemption is provided by law. Property taxes are levied by the state and many local jurisdictions, including counties, cities, and local school, fire, park, and library districts. Property taxes are collected by the county and distributed to the levying jurisdiction. The county assessor determines the value of real and personal property for tax purposes, and calculates and certifies levy rates for most taxing districts. The Washington Constitution (Constitution) requires that taxes be uniform within a class of property. The annual growth of all regular property tax levy revenue is limited as follows:

- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent plus the value of new construction.

The Constitution also provides for a levy rate limit of $10 per $1,000 of assessed value, referred to as the constitutional $10 limit.

Tax Increment Financing.
Tax increment financing (TIF) is a method of allocating a portion of property taxes to finance public improvements in designated areas. Typically, under a TIF program, 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 from increases in assessed value inside a special district surrounding the site of the public improvements.

Summary of Engrossed Substitute Bill:

Creation of a Tax Increment Financing Area.
A local government may designate TIF areas and use resulting tax allocation revenues to pay for public improvement costs. To do so, the local government must adopt an ordinance designating a specific increment area within its boundaries. Public improvements that are to be financed with the use of TIF must be specified. The increment area cannot include the area of the entire jurisdiction of the local government. A local government can create no more than three active increment areas at any given time and they may not physically overlap. An increment area must be retired after no more than 25 years.

Prior to establishing an increment area the local government must consider a project analysis that includes objectives for the increment area, identification of properties within the financing area, assessments of likely job creation and private development expected from the project, potential impacts and mitigation measures needed, et cetera. If a project analysis indicates that an increment area will impact at least 20 percent of assessed value in a fire district, they must negotiate mitigation strategies. Prior to adoption of an ordinance authorizing an increment area, the project analysis must be submitted to the Office of the State Treasurer for review. The local government must hold at least two public briefings for the community regarding the tax increment project.

A local government designating a TIF area may issue general obligation bonds to finance the public improvements within an increment area. Any increased in assessed value within an area is included in the add-ons for purposes of the 1 percent revenue growth limit calculation.

Apportionment of Taxes.
Beginning in the calendar year following the passage of the ordinance, the county treasurer shall distribute receipts from regular taxes on real property located in the increment area. Property taxes to be apportioned under TIF include property tax levies subject to the $10 and $5.90 limits. Taxes levied by port districts or public utility districts specifically for the purpose of making payment on bonds, and taxes levied by the state for the support of the common schools are excluded from TIF apportionment.

Each taxing district shall receive that portion of its regular property taxes produced by the rate of tax levied by the taxing district on the tax allocation base value for that TIF project in the taxing district.

The local government that created the increment area shall receive an additional portion of the regular property taxes levied by each taxing district upon the increment value within the increment area. The local government that created the increment area may agree to receive less than the full amount of this portion as long as bond debt service, reserve, and other bond covenant requirements are satisfied. The portion of the tax receipts distributed to the local government may only be expended to finance public improvement costs financed by TIF.

The apportionment of increases in assessed valuation in an increment area cease when the taxing district certifies to the county assessor that allocation revenues are no longer needed to pay the public improvement costs. Any excess tax allocation revenues must be returned to the county treasurer and distributed to the taxing districts that imposed regular property taxes.

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:

(In support) Local government really need tools to support economic recovery. Excluding the state portion of property tax is a way to alleviate a lot of concerns about using TIF. A TIF is a proven economic development tool that has worked elsewhere across the United States. Proper funding of public infrastructure development is critical. The process is envisioned as cooperative process between districts, and the bill contains mitigation measures for impacts on local communities. The TIF allows opportunity for new commercial development that would not otherwise happen and allows that development to give more to local communities. There is some interest in expanding the affordable housing portions of the bill. This bill is targeted at areas where there are structural issues preventing development. There is pent up demand for local infrastructure.

(Opposed) Assessors already struggle with current funding, and this bill may increase costs for administration needs. Assessors have to be transparent about how taxes break down on a given parcel, and under the system created by this bill, the approaches available to do that will not function well. There are potential mapping requirements for specific TIF areas that may be costly. This bill will have the effect of keeping property tax rates higher over time. The bill takes regular funds that are intended for other districts by freezing existing valuation. This could be a large administrative and financial burden for assessors, especially where large cities become involved. Local improvement districts may be a better option in Washington.

Persons Testifying: (In support) Representative Duerr, prime sponsor; Tommy Gantz, Association of Washington Business; Briahna Murray, Cities of Kent, Tacoma, Bellevue, Pasco, and Spokane Valley; Bill Ellis, City of Kent; Suzanne Dale Estey, Washington Economic Development Association; Candice Bock, Association of Washington Cities; Greg Hanon, Commercial Real Estate Development Association; Mike Bomar, Port of Vancouver; Victoria Lincoln, Washington Public Ports Association; Jim Hedrick, Greater Spokane Incorporated; and Nick Federici, City of Spokane, Washington Community Land Trust Coalition.

(Opposed) Mike Lonergan; and Steven Drew, Washington State Association of County Assessors and Thurston County.

Persons Signed In To Testify But Not Testifying: None.