FINAL BILL REPORT
ESHB 1189

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Synopsis as Enacted

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).

House Committee on Finance
Senate Committee on Business, Financial Services & Trade

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

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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:

Creation of a Tax Increment Financing Area.
A local government may designate up to two 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 two 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. There is an assessed value limit within an increment area of $200 million. If a jurisdiction sponsors two increment areas, the two areas may not equal more than $200 million or more than 20 percent of the sponsoring jurisdiction's total assessed value, whichever is less.

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 increment 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 protection district or regional fire protection service authority, 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 increase 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 the state for the support of schools, local school district excess levies, and 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.

Votes on Final Passage:

House	64	33	
Senate	45	2	(Senate amended)
House	68	30	(House concurred)

Effective: July 25, 2021