Washington State
House of Representatives
Office of Program Research

# BILL ANALYSIS

# Finance Committee

# SB 5823

**Brief Description:** Addressing local infrastructure project areas.

**Sponsors:** Senators Das, Robinson, Keiser, Kuderer, Nguyen and Nobles.

**Brief Summary of Bill**

- Specifies that any increase in assessed value within a local infrastructure project area is an add-on to the revenue growth limit, if not already included elsewhere as an add-on.
- Adds affordable housing as an eligible public improvement for purposes of local infrastructure project area revenues.
- Specifies that regular property taxes do not include regular property tax levies made for any specific statutory purpose other than use in a county's current expense fund, for purposes of a local infrastructure project area.
- Requires a newly formed local infrastructure project area formed to adopt Department of Commerce transfer of development rights interlocal terms and conditions.

**Hearing Date:** 2/21/22

**Staff:** Rachelle Harris (786-7137).

**Background:**

Property Tax.
All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax

*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.*

levy revenue is limited by the levy growth limit as follows:

- for jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent; and
- for jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent.

In addition to the revenue growth limit, levy capacity may increase by additional amounts equal to the increase in assessed value in a taxing district resulting from:

- new construction;
- construction of wind turbine, solar, biomass, and geothermal facilities;
- improvement to property;
- increased value of state-assessed property; and
- increased value within a local tax increment financing area.

These additional amounts are referred to as add-ons to the revenue growth limit.

Local Infrastructure Project Areas.
Certain cities are authorized to establish local infrastructure project areas (LIPAs). A LIPA allows increases in local property tax revenues within the LIPA to be used for payment of bonds that are issued for financing local public improvements 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 Puget Sound; has a population of 600,000 or more people; has an established a transfer of development rights program; and has designated all agricultural and forest land of long-term commercial significance within its jurisdiction as sending areas under its transfer of development rights program.

Each eligible county was required in 2011 to report to the Puget Sound Regional Council (PSRC) the total number of transfers of development rights from agricultural and forest land of long-term commercial significance and designated rural lands that may be available for allocation to receiving cities. Following the receipt of development rights information from eligible counties, the PSRC allocated these development rights among receiving cities. The transfer of development rights is a method to protect land from development by removing development rights from a sending area and transferring them to one or more receiving areas for the purpose of increasing development density or intensity.

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.

Local Infrastructure Project Area Financing.
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.

A LIPA cannot encompass more than 25 percent of the total assessed value of the taxable real property within the boundaries of the sponsoring city at the time the LIPA is created. The incremental local property taxes used for LIPA financing are limited to 75 percent of the increases in assessed value as a result of new construction and improvements to property within the LIPA.

Public improvements that may be financed using LIPA financing include:
- street, road, bridge, and rail construction and maintenance;
- water and sewer system construction and improvements;
- sidewalks, streetlights, landscaping, and streetscaping;
- parking, terminal, and dock facilities;
- park and ride facilities of a transit authority and other facilities that support transportation efficient development;
- park facilities, recreational areas, bicycle paths, and environmental remediation;
- stormwater and drainage management systems;
- electric, gas, fiber, and other utility infrastructures;
- expenditures for facilities and improvements that support affordable housing
- providing maintenance and security for common or public areas in the local infrastructure project area; or
- historic preservation activities.

**Summary of Bill:**

A LIPA-sponsoring city must adopt Department of Commerce transfer of development rights interlocal terms and conditions if the city chooses to form a LIPA after the effective date of the act.

Any increase in assessed value within a LIPA is included as an add-on to the levy growth limit, if not already included as an add-on.

The regular property taxes from which a LIPA-participating taxing district may receive a portion of revenues may only include a county general expense fund.

Public improvements that may be made using LIPA funding is expanded to include affordable housing infrastructure. "Affordable housing" means residential housing whose monthly costs, including utilities other than telephone, do not exceed 30 percent of the monthly income of a household whose income is:
- For rental housing, 60 percent of the median household income adjusted for household size, for the county where the household is located; or
- For owner-occupied housing, 80 percent of the median household income adjusted for household size, for the county where the household is located.

**Appropriation:** None.

**Fiscal Note:** Available.

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