SENATE BILL REPORT
ESHB 1189

As Passed Senate - Amended, April 5, 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: Passed House: 3/3/21, 64-33.
Committee Activity: Business, Financial Services & Trade: 3/11/21, 3/18/21 [DPA].
Floor Activity: Passed Senate - Amended: 4/5/21, 45-2.

Brief Summary of Amended Bill

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

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Majority Report: Do pass as amended.
Signed by Senators Mullet, Chair; Hasegawa, Vice Chair; Dozier, Ranking Member; Brown, Frockt, Hobbs and Wilson, L.

Staff: Clinton McCarthy (786-7319)

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 requires taxes be uniform within a class of property. The annual growth of all regular property tax levy revenue is limited as follows:

- jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent; and
- 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 Amended 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. 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. The assessed value for the increment area is limited to $200,000,000. If a jurisdiction sponsors two increment areas, the two areas may not equal more than $200,000,000 or more than 20 percent of the sponsoring jurisdiction's total assessed value, whichever is less. The local government that designates the increment area is not to receive more than what is necessary to pay or repay costs directly associated with the public improvements.

The adopting ordinance must identify the public improvements to be financed, in addition to indicating whether the local government intends to issue bonds or other obligations. Public improvements to be financed with the use of TIF must be specified. A sponsoring jurisdiction cannot add additional improvements to the project after the creation of the ordinance, but the jurisdiction is allowed to expand, alter, or add to the original public improvement. An increment area must be retired after no more than 25 years after the first year in which tax allocation revenues are collected. The adopting ordinance shall impose a deadline by which commencement of construction of the public improvements shall begin with a deadline of five years into the future, but allows for extensions for good cause.

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, and so on. If a project analysis indicates an increment area will impact at least 20 percent of assessed value in a fire protection district or regional fire authority, mitigation strategies must be negotiated. An increase in the level of service required of a fire service agency to address improvements that result from the increment area will also require the local government to enter into mitigation with a fire protection district or regional fire protection service authority. 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. The local government may charge a private developer a fee to cover the cost of the project analysis if the developer agrees to participate in creating the increment area.

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.

<u>Apportionment of Taxes.</u> Beginning in the calendar year following the passage of the ordinance, the county treasurer must 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 making payment on bonds, and taxes levied by the state for supporting 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.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Engrossed Substitute House Bill: *The committee recommended a different version of the bill than what was heard.* PRO: We are one of only a handful of states that are not using this tool. This is a great tool for local governments in efforts to address the economic recovery. This tool is accountable, and lets local governments have a customizable tool to assist with economic development. There is additional public engagement requirements and the OST has to review any proposed use of the tool. This has been a long term goal of cities. This is an opportunity for local governments to partner with developers to promote jobs. This is a job creator. We need community options to recover from the pandemic. Authorizing a local TIF tool would be a great step forward for the state. Ports are struggling to pay for spiraling costs of infrastructure. This will help attract new business to our state. The state is at a disadvantage without this tool to attract and retain economic development.

CON: Tax Increment Financing can be a promising tool. The bill as currently written captures revenue derived from growth. Section 1(9) of the tax allocation value is problematic so that it risks underlying tax funds that would be otherwise committed. This bill could direct natural appreciation to go to the TIF. There is work between the ports and the members now. This issue was flagged by the Port of Tacoma bond council. There is no limitation on the size of the TIF.

OTHER: We think an agreement is close and we will continue to work with proponents to try to find an agreement.

Persons Testifying: PRO: Representative Davina Duerr, Prime Sponsor; Richard May, City of Blaine; Tommy Gantz, Association of Washington Business; Nicholas Federici, City of Spokane; Suzanne Dale Estey, Washington Economic Development Association; Candice Bock, Association of Washington Cities; Greg Hanon, NAIOP; Bill Ellis, City of Kent; Briahna Murray, Cities of Tacoma, Bellevue, Pasco, and Spokane Valley; John Caulfield, City of Lakewood; Rob Karlinsey, City of Kenmore; Randy Hayden, Port of Pasco; Diahann Howard, Port of Benton; Mike Bomar, Port of Vancouver.

CON: Sean Eagan, Port of Tacoma; Eric Ffitch, Port of Seattle; Bruce Beckett, Port of Moses Lake.

OTHER: Victoria Lincoln, Washington Public Ports Association.

Persons Signed In To Testify But Not Testifying: No one.