

# HOUSE BILL REPORT

## HB 1527

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to making technical corrections to the local tax increment financing program under chapter 39.114 RCW by applying the definition of real property to ensure private investments made on state and local government-owned land are included in the increment value, ensuring that the relocation and construction of a government-owned facility is included as an eligible project, ensuring that acquisition costs include appurtenant rights, providing clarification to definitions of increment value and tax allocation base value for consistency with current law, clarifying notice requirements for the creation of a tax increment area, and creating consistency with current law for add-on levies codified in RCW 84.55.010.

**Brief Description:** Making technical corrections to the local tax increment financing program.

**Sponsors:** Representatives Wylie, Sandlin, Duerr, Barnard, Connors, Chapman, Waters, Springer, Harris and Gregerson; by request of State Treasurer.

**Brief History:**

**Committee Activity:**

Finance: 2/7/23, 2/9/23 [DP].

**Brief Summary of Bill**

- Defines the term real property for local tax increment financing areas.
- Clarifies notice requirements.
- Provides adjustment of tax allocation base values by a county assessor if a local government has a designated increment area prior to the effective date of this act.
- Provides local taxing districts the authority to increase their property tax levy capacity for increases in assessed value in certain situations.

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*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.*

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 10 members: Representatives Berg, Chair; Street, Vice Chair; Barnard, Chopp, Ramel, Springer, Stokesbary, Thai, Walen and Wylie.

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

**Minority Report:** Without recommendation. Signed by 2 members: Representatives Jacobsen, Assistant Ranking Minority Member; Santos.

**Staff:** Tracey Taylor (786-7152).

### **Background:**

#### Property Tax.

All real and personal property in the state is subject to property tax each year based on its value, unless a specific exemption is provided by law. Property taxes are levied by the state and many local jurisdictions, including counties, cities, local schools, fire stations, parks, 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 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 tax revenue from increases in assessed value inside a special district surrounding the site of the public improvements.

Washington has several TIF programs, including Community Revitalization Financing, Local Infrastructure Financing, and Local Revitalization Financing.

In 2021 Engrossed Substitute House Bill 1189 was enacted that authorized a new TIF option for local government. Under the local tax increment financing (LTIF) program, a local government may designate up to two LTIF areas and use resulting real property tax allocation revenues to pay for public improvement costs. 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. 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 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 an LTIF 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.

The LTIF program requires the county treasurer to distribute receipts from regular taxes on real property located in the increment area. Property taxes to be apportioned under LTIF 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 LTIF apportionment.

Each taxing district must 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 LTIF project in the taxing district.

The local government that created the increment area must 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 LTIF.

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.

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**Summary of Bill:**

"Real property" has the same meaning as in the property tax statutes. It also includes privately owned or used improvements located on publicly owned land subject to property taxation or the leasehold excise tax.

Public improvements that can be financed using LTIF are expanded to include relocation and construction of a government-owned facility, so long as there is written permission from the agency owning the facility and the Office of Financial Management. In addition, public improvement costs can also include site acquisition and the expansion of public improvements.

The definition of "tax allocation base value" is changed from the year in which the increment area is first designated to when the increment area takes effect.

Public Notice Requirement.

The timing for the published notice of the designation of an increment area is specified. It must be published in a legal newspaper at least two weeks prior to the date on which the ordinance creating the increment is adopted. A certified copy of an adopted ordinance must be sent to each taxing district within the increment area within 10 days of when the ordinance was adopted.

To reflect the expansion of the definition of real property, the county assessor is directed to adjust the tax allocation base value for the increment area to reflect the assessed value of any privately owned improvements located on publicly owned land. This change does not impact any apportionment or distributions occurring in calendar years before 2024.

Local Tax Increment Financing and Limitations on Levies.

Local taxing districts are provided the authority to increase their property tax levy capacity for increases in assessed value within the LTIF area in certain situations. Specifically, a local taxing district may increase their levy capacity when:

- restoring a regular levy not levied since 1985;
- levying after the consolidation of taxing districts; and
- levying after annexing another property into the taxing district.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) Tax Increment Financing mechanisms are incredibly complicated in Washington and important to local economic development efforts. The Office of the State Treasurer (OST) is tasked with processing the application for LTIF and discovered some technical issues with the LTIF program as enacted in 2021. As a result, the OST is offering this technical fix bill.

One of the main issues is that it appears that ports are unable to participate due to the lack of clarity. Port districts, the economic development engines in many of our communities, cannot participate as they retain ownership of the land and either lease out buildings or have private development on the public lands. Many of these technical fixes are really only appreciated by bond counsel and the Department of Revenue staff, but the fixes will provide clarity for the OST and the communities developing LTIF areas.

(Opposed) None.

**Persons Testifying:** Representative Sharon Wylie, prime sponsor; Candice Bock, Association of Washington Cities; Mike Bomar, Port of Vancouver USA; Matt Zuvich, Office of State Treasurer; and Chris Herman, Washington Public Ports Association.

**Persons Signed In To Testify But Not Testifying:** None.