HOUSE BILL REPORT
HB 2985

As Reported by House Committee On:
Community & Economic Development & Trade

Title: An act relating to infrastructure financing for local governments.

Brief Description: Concerning infrastructure financing for local governments.

Sponsors: Representatives Maxwell, Kenney, Sullivan, Clibborn, Kelley, Dammeier, Anderson, Morrell, Simpson and Ormsby.

Brief History:
Committee Activity:
Community & Economic Development & Trade: 1/25/10, 2/1/10 [DPS].

Brief Summary of Substitute Bill

- Increases the total "state contribution" for the Local Revitalization Financing (LRF) program by $1.95 million, and dedicates the increase to six named demonstration projects for 2010.
- Provides two ways for a taxing district to participate in a LRF program on a partial basis.
- Authorizes a sponsoring local government to issue revenue bonds payable by revenues deposited into a special fund.
- Authorizes an increment and revitalization area to overlap if three conditions are met, but does not allow increased local property taxes from the revitalization area to be distributed to the sponsoring local government to pay the costs of the public improvements.

HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Kenney, Chair; Maxwell, Vice Chair; Smith, Ranking Minority Member; Liias, Moeller, Orcutt and Probst.

Minority Report: Do not pass. Signed by 1 member: Representative Chase.

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

Staff: Meg Van Schoorl (786-7105).

Background:

Traditional Tax Increment Financing and Washington State Programs.

Traditional "tax increment financing" is a method of allocating a portion of property taxes to finance economic development in urban areas. A local government establishes a special district and issues bonds to finance the costs of making public improvements within the district. Because construction of public improvements tends to increase the market values of nearby properties, increases in such value can result in increased property taxes for each taxing district that includes property near the public improvement. Under tax increment financing, the local government making the improvement receives all of the resulting tax revenue increase and is permitted to draw upon it to repay its bondholders.

The Washington Legislature has authorized creation of several programs based upon the concept of tax increment financing: the 1982 Tax Increment Financing Act (found to be an unconstitutional diversion of state property taxes away from the common schools); the 2001 Community Revitalization Financing Act (in use by five areas within Spokane County); the 2006 Local Infrastructure Financing Tool, or LIFT (in use by eight cities and one county); and the 2009 Local Revitalization Financing (LRF) program.

The 2009 Local Revitalization Financing Program.

Creation process. The LRF program authorizes a city, town, county, or combination, to create a "revitalization area" and to make infrastructure and other public improvements within it. The sponsoring local government must: provide notice of intent to create such an area to all taxing districts and local governments with boundaries within the area; provide public notice, hold a public hearing, and adopt a revitalization area ordinance that describes the boundaries, the public improvements, the costs, the portion to be financed, and other information.

Special conditions. A taxing district that does not wish to participate must "opt out" by adopting an ordinance to remove itself before the sponsoring local government adopts the revitalization area ordinance. A revitalization area may not have within its boundaries a hospital benefit zone, a community revitalization financing increment area, a local infrastructure financing tool revenue development area, or another revitalization area.

Financing mechanisms. The sponsoring local government may issue general obligation bonds to finance the public improvements in the revitalization area and may retire the debt through increased local sales/use tax and local property tax revenues generated from within the revitalization area. The debt may also be paid from non-tax moneys available to the local government such as income, revenue, fees, grants, and contributions. The debt may also be repaid through a "state contribution" in the form of a new local sales and use tax that is credited against the state sales and use tax. Imposition of the new tax does not increase the combined sales and use tax rates paid by consumers.

Demonstration and competitive projects. The 2009 legislation designated seven LRF demonstration projects, provided a total "state contribution" of $2.25 million per fiscal year, and set a specific "state contribution" amount for each project ranging from $200,000 to $500,000. The legislation also provided for a "first come" competitive process to be administered by the Department of Revenue (DOR) in order to enable additional sponsoring local governments to seek a "state contribution." The total "state contribution" provided under the competitive process was $2.5 million per fiscal year, and the maximum "state contribution" per project was $500,000 per fiscal year. The DOR began accepting applications on September 1, 2009. Thirteen applications were received. Six projects were allocated "state contributions" before the $2.5 million cap was reached. Seven additional applications received no "state contribution."

Summary of Substitute Bill:

Creation process. Requirements as to which taxing districts must receive notice of intent to create a revitalization area and the timing of such notice in advance of the public hearing are modified. Requirements for additional detail to be included in the ordinance are provided.

Special conditions. A taxing district may, under an interlocal agreement, become a participating taxing district by allowing one or more, but not all, of its regular property tax levies to be used by the sponsoring local government. Alternatively, a taxing district may participate on a partial basis by providing a specified amount of money for a specified amount of time to a sponsoring local government. In that case, the taxing district must first adopt an ordinance "opting out" as a participating taxing district, and then indicate the specifics of its partial participation through an interlocal agreement.

Financing mechanisms. A sponsoring local government that intends to issue general obligation bonds must allow for public comment and then adopt a resolution that indicates the maximum amount of indebtedness intended to be incurred. A sponsoring local government is authorized to issue revenue bonds payable from local property tax allocation revenues and LRF sales and use tax revenues that have been deposited into a special fund.

Demonstration and competitive projects. The "state contribution" limit for demonstration projects is increased by $1.95 million. The DOR is required to approve six demonstration projects, at prescribed funding levels, in 2010. The designated demonstration projects were the six that received no "state contribution" in September 2009, and they include: the Richland Revitalization Area for Industry, Science, and Education; the Lacey Gateway Town Center; the Mill Creek East Gateway Planned Urban Village Revitalization Area; the Puyallup River Road Revitalization Area; the Renton South Lake Washington project; and the New Castle Downtown project. Funding levels range from $40,000 to $500,000. The projects' sponsoring local governments must update and resubmit their applications to the DOR by September 1, 2010 to demonstrate that the projects meet statutory requirements and are substantially the same as the project submitted in 2009. If a demonstration project does not update and resubmit its application by the deadline or if it withdraws its application, the associated dollars are not made available for other projects.

Community Revitalization Financing (CRF) and LRF area overlays. The boundaries of an LRF revitalization area may include all or part of an existing CRF increment area only when three specific conditions are met: (1) the state has loaned Brownfield Cleanup Funding to the area; (2) the environmental clean-up has been completed; and (3) the sponsoring local government determines it must create the revitalization area to protect the state's investment. In this circumstance, the increased local property tax revenues generated within the revitalization area may not be distributed to the sponsoring local government to pay the costs of the public improvements financed under the LRF.

Other. A definition of "bonds" is added to the LRF statute. The definitions of "regular property taxes" and "revenues from local public sources" are changed to reflect the new policies related to partial participation by taxing districts. The definition of a "participating taxing district" is clarified and aligned with the definition in the LIFT statute. Annual reports from sponsoring local governments must include particular information about revenues from public sources that will be used for bond payment. The definition section of the LIFT statute expires in June 30, 2039.

Substitute Bill Compared to Original Bill:

The substitute bill allows an overlap of revitalization and increment area boundaries if three specific conditions are met, but does not allow increased property tax revenues generated within the increment area to be distributed to the sponsoring local government to pay the costs of the public improvements under LRF.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill builds on an existing foundation of local revitalization financing programs and policies to enable local project to start up and create jobs. Infrastructure financing provides a catalyst for job creation. This program requires there be a developer "on the hook." Looking at the applications submitted last fall, an estimated 3,600 construction jobs and 11,000 permanent jobs would be created, and over the 25-year life of the projects, $1 billion in state tax revenues and $237 million in local tax revenues would be generated. The first-come first-served competitive process conducted by the DOR in 2009 resulted in projects being approved or not approved within nanoseconds of each other. Any reductions to the State General Fund will occur outside of the current biennium, because before any state match can be received, the local project must be generating local revenues. Match also is derived from overlapping tax districts and some problems with that aspect of the program are addressed in this bill. The City of Spokane would like to amend this bill in a specific, narrow way to lay the groundwork for a future local revitalization financing application.

(Opposed) None.

Persons Testifying: Rep. Maxwell, Prime Sponsor; Suzanne Dale Estey, Economic Development Director, City of Renton; Doug Levy, City of Puyallup; Sean Eagan, Port of Tacoma; and Jim Hedrick, Greater Spokane, Inc..

Persons Signed In To Testify But Not Testifying: None.