

# FINAL BILL REPORT

## 2SSB 5045

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**C 270 L 09**  
Synopsis as Enacted

**Brief Description:** Regarding community revitalization financing.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Zarelli, Brown, Kauffman, Shin, Marr, King, Regala, Rockefeller, Haugen, Berkey, Eide, Kastama, Jarrett, Pridemore, McAuliffe and Ranker).

**Senate Committee on Economic Development, Trade & Innovation**  
**Senate Committee on Ways & Means**  
**House Committee on Community & Economic Development & Trade**  
**House Committee on Finance**

**Background:** Tax increment financing is a method of redistributing increased tax revenues within a geographic area resulting from a public investment to pay for the bonds required to construct the project.

Local Infrastructure Financing Tool. In 2006 the Legislature created a new form of tax increment financing, the Local Infrastructure Financing Tool (LIFT) program, to encourage private investment in community revitalization areas. The LIFT program provides a financing mechanism for local governments to make public infrastructure improvements, such as streets, sidewalks, traffic controls, and parking. Public improvement projects in revenue development areas are financed through a local sales and use tax that is credited against the state sales and use tax and matched with local resources, such as excess receipts from local sales/use and property taxes. The state contribution limit is \$7.5 million per year. The new sales and use tax must be used for the purpose of principal and interest payments on bonds issued for a project, but may also be used to pay the public improvement costs on a pay-as-you-go basis for the first five years.

Community Revitalization Financing. In 2001 the Legislature created the Community Revitalization Financing (CRF) program. The CRF program was established to finance community revitalization projects by diverting a portion of the regular property taxes imposed by local governments within a "tax increment area" within counties, cities, towns, port districts, or any combination thereof. Additional property tax revenues generated from increases in assessed value within the increment area are divided: 75 percent is allocated for CRF projects and 25 percent allocated as normal. The state property tax levy is not affected.

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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 a part of the legislation nor does it constitute a statement of legislative intent.*

Projects financed by property tax increment financing must be expected to encourage private development and increase the fair market value of real property within the tax increment area. CRF revenues may be used for a variety of projects and programs within the tax increment area, including traditional infrastructure improvements; providing environmental analysis, professional management, planning, maintenance, security for common areas, and promotion of retail trade activities within the increment area; and historic preservation.

**Summary:** Participating local governments, such as cities, counties, and port districts may create “revitalization areas” and may use certain tax revenues which increase within the area to finance local public improvements. The following sources of revenues are used for the payment of bonds which are issued to finance improvements: increased local sales/use tax revenues and property tax revenues generated from within the revitalization area, as well as additional funds from other local public sources; and a local sales/use tax that is credited against the state tax. Funds from local public sources may pay for public improvement costs on a pay-as-you-go basis.

Public improvements or projects which may be financed through this tax increment program include infrastructure projects (streets, roads, bridges, and rail; water and sewer system construction and improvement); sidewalks, streetlights, landscaping, and streetscaping; parking, terminal, and dock facilities; park and ride facilities of a transit authority; park facilities, recreational areas, and environmental remediation; storm water and drainage management systems; electric, gas, fiber, and other utility infrastructures; providing environmental analysis, professional management, planning, and promotion within the revitalization area, including the management and promotion of retail trade activities in the revitalization area; providing maintenance and security for common or public areas in the revitalization area; or historic preservation activities.

To use local revitalization financing, local governments must adopt an ordinance designating a revitalization area and specifying the proposed public improvements. No revitalization area may overlap with Hospital Benefit Zones, LIFT revenue development areas, CRF increment areas, or other local revitalization areas under this act. Local governments proposing a local revitalization area must provide notice to all taxing districts and local governments within the proposed area and hold public hearings. If taxing districts do not want to participate in the allocation of their property or certain local sales and use tax allocation revenues, they must take action through the adoption of an ordinance/resolution to opt out.

The local government must enter into a contract with a private developer relating to the development of private improvements within the revitalization area or have received a letter of intent. Public improvements are expected to encourage private development and increase property value within the revitalization area. Private development must be consistent with the county's growth management plans. The governing body of the local government must also make a finding that revitalization financing will not be used to relocate an in-state business to the area and that the public improvements are likely to increase private investment and employment.

The Department of Revenue (DOR) must approve demonstration projects in 2009 for Whitman County, University Place, Tacoma, Bremerton, Auburn, Vancouver, and Spokane. For non-demonstration projects, DOR must begin accepting applications September 1, 2009. DOR will administer the application and approval process on a first-come basis for the state contribution. DOR is required to retain in date order those local revitalization finance applications that are not approved due to lack of available state contribution and, if the state contribution is increased, to reconsider these applications before new ones are considered.

The state contribution is in the form of a local sales/use tax credited against the state tax. The rate for the local sales/use tax is 6.5 percent, less existing local sales/use taxes that are credited against the state sales/use tax, anticipated rates of taxes previously approved through the LIFT program and the Hospital Benefit Zone program, and distributions of state sales/use tax revenues diverted to performance audits. The rate must also be no greater than what is reasonably necessary for the sponsoring local government to receive the full amount of state contribution over 10 months. No new local sales/use tax credited against the state tax may be imposed before July 1, 2011, except for demonstration projects, for which such taxes may be imposed beginning July 1, 2010.

The maximum state contribution for the seven demonstration projects to begin in 2009 is \$2.25 million per fiscal year and the maximum state contribution for all other revitalization areas is \$2.5 million per fiscal year. The maximum state contribution per project is \$500,000 per fiscal year. The state contribution awarded to a sponsoring local government is limited each year to the amount of local matching funds dedicated by the sponsoring local government in the preceding calendar year for revitalization financing. The state contribution must be used to pay for general obligation bonds issued to finance the public improvements in the revitalization area. Bonds issued for local revitalization financing do not constitute an obligation of the state.

Sponsoring local governments which have been approved for a state contribution must provide annual accountability reports to DOR. DOR will report summary information to the public and the Legislature annually.

**Votes on Final Passage:**

Senate	48	0	
House	92	5	(House amended)
Senate	47	0	(Senate concurred)

**Effective:** July 26, 2009