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**SECOND SUBSTITUTE HOUSE BILL 2354**

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**State of Washington 68th Legislature 2024 Regular Session**

**By** House Finance (originally sponsored by Representatives Street, Orcutt, Bronoske, Robertson, Chambers, Callan, Bateman, Doglio, and Reed)

AN ACT Relating to creating an option for impacted taxing districts to provide a portion of their new revenue to support any tax increment area proposed within their jurisdiction and clarifying that a tax increment area must be dissolved when all bond obligations are paid; amending RCW 39.114.010, 39.114.020, 39.114.040, and 39.114.050; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

**Sec.**  RCW 39.114.010 and 2023 c 354 s 1 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Assessed value of real property" means the valuation of taxable real property as placed on the last completed assessment roll prepared pursuant to Title 84 RCW.

(2) "Increment area" means the geographic area within which regular property tax revenues are to be apportioned to pay public improvement costs, as authorized under this chapter.

(3) "Increment value" means 100 percent of any increase in the true and fair value of real property in an increment area that is placed on the tax rolls after the increment area takes effect. The increment value shall not be less than zero.

(4) "Local government" means any city, town, county, port district, or any combination thereof.

(5) "Ordinance" means any appropriate method of taking legislative action by a local government, including a resolution adopted by a port district organized under Title 53 RCW.

(6) "Public improvement costs" means the costs of:

(a) Design, planning, acquisition, required permitting, required environmental studies and mitigation, seismic studies or surveys, archaeological studies or surveys, land surveying, site acquisition, including appurtenant rights and site preparation, construction, reconstruction, rehabilitation, improvement, expansion, and installation of public improvements, and other directly related costs;

(b) Relocating, maintaining, and operating property pending construction of public improvements;

(c) Relocating utilities as a result of public improvements;

(d) Financing public improvements, including capitalized interest for up to six months following completion of construction, legal and other professional services, taxes, insurance, principal and interest costs on general indebtedness issued to finance public improvements, and any necessary debt service reserves;

(e) Expenses incurred in revaluing real property for the purpose of determining the tax allocation base value by a county assessor under chapter 84.41 RCW and expenses incurred by a county treasurer under chapter 84.56 RCW in apportioning the taxes and complying with this chapter and other applicable law. For purposes of this subsection (6)(e), "expenses incurred" means actual staff and software costs directly related to the implementation and ongoing administration of increment areas under this chapter; ((~~and~~))

(f) Administrative expenses and feasibility studies reasonably necessary and related to these costs, including related costs that may have been incurred before adoption of the ordinance authorizing the public improvements and the use of tax increment financing to fund the costs of the public improvements; and

(g) Funding for mitigation to impacted taxing districts as allowed in RCW 39.114.020.

(7) "Public improvements" means:

(a) Infrastructure improvements owned by a state or local government within or outside of and serving the increment area and real property owned or acquired by a local government within the increment area including:

(i) Street and road construction;

(ii) Water and sewer system construction, expansion, and improvements;

(iii) Sidewalks and other nonmotorized transportation improvements and streetlights;

(iv) Parking, terminal, and dock facilities;

(v) Park and ride facilities or other transit facilities;

(vi) Park and community facilities and recreational areas;

(vii) Stormwater and drainage management systems;

(viii) Electric, broadband, or rail service;

(ix) Mitigation of brownfields; or

(b) Expenditures for any of the following purposes:

(i) Purchasing, rehabilitating, retrofitting for energy efficiency, and constructing housing for the purpose of creating or preserving long-term affordable housing;

(ii) Purchasing, rehabilitating, retrofitting for energy efficiency, and constructing child care facilities serving children and youth that are low-income, homeless, or in foster care;

(iii) Providing maintenance and security for the public improvements;

(iv) Historic preservation activities authorized under RCW 35.21.395; or

(v) Relocation and construction of a government-owned facility, with written permission from the agency owning the facility and the office of financial management.

(8) "Real property" means:

(a) Real property as defined in RCW 84.04.090; and

(b) Privately owned or used improvements located on publicly owned land that are subject to property taxation or leasehold excise tax.

(9) "Regular property taxes" means regular property taxes as defined in RCW 84.04.140, except: (a) Regular property taxes levied by port districts or public utility districts to the extent necessary for the payments of principal and interest on general obligation debt; and (b) regular property taxes levied by the state for the support of the common schools under RCW 84.52.065. Regular property taxes do not include excess property tax levies that are exempt from the aggregate limits for junior and senior taxing districts as provided in RCW 84.52.043. "Regular property taxes" does not include excess property taxes levied by local school districts.

(10) "Tax allocation base value" means the assessed value of real property located within an increment area for taxes imposed in the year in which the increment area takes effect.

(11) "Tax allocation revenues" means those revenues derived from the imposition of regular property taxes on the increment value.

(12) "Taxing district" means a governmental entity that levies or has levied for it regular property taxes upon real property located within a proposed or approved increment area.

**Sec.**  RCW 39.114.020 and 2023 c 354 s 2 are each amended to read as follows:

(1) A local government may designate an increment area under this chapter and use the tax allocation revenues to pay public improvement costs, subject to the following conditions:

(a) The local government must adopt an ordinance designating an increment area within its boundaries and describing the public improvements proposed to be paid for, or financed with, tax allocation revenues;

(b) The local government may not designate increment area boundaries such that the entirety of its territory falls within an increment area;

(c) The increment area may not have an assessed valuation of more than $200,000,000 or more than 20 percent of the sponsoring jurisdiction's total assessed valuation, whichever is less, when the ordinance is passed. If a sponsoring jurisdiction creates two increment areas, the total combined assessed valuation in both of the two increment areas may not equal more than $200,000,000 or more than 20 percent of the sponsoring jurisdiction's total assessed valuation, whichever is less, when the ordinances are passed creating the increment areas;

(d) A local government can create no more than two active increment areas at any given time and they may not physically overlap by including the same land in more than one increment area at any time;

(e) The ordinance must set a sunset date for the increment area, which may be no more than 25 years after the first year in which tax allocation revenues are collected from the increment area, except that the increment area expires prior to the sunset date if tax allocation revenues are no longer necessary or obligated to pay any bonded indebtedness issued solely to fund the public improvement costs pursuant to RCW 39.114.050;

(f) The ordinance must identify the public improvements to be financed and indicate whether the local government intends to issue bonds or other obligations, payable in whole or in part, from tax allocation revenues to finance the public improvement costs, and must estimate the maximum amount of obligations contemplated;

(g) The ordinance must provide that the increment area takes effect on June 1st following the adoption of the ordinance in (a) of this subsection;

(h) The sponsoring jurisdiction may not add additional public improvements to the project after adoption of the ordinance creating the increment area or change the boundaries of the increment area. The sponsoring jurisdiction may expand, alter, or add to the original public improvements when doing so is necessary to assure the originally approved improvements can be constructed or operated;

(i) The ordinance must impose a deadline by which commencement of construction of the public improvements shall begin, which deadline must be at least five years into the future and for which extensions shall be made available for good cause; and

(j) The local government must make a finding that:

(i) The public improvements proposed to be paid or financed with tax allocation revenues are expected to encourage private development within the increment area and to increase the assessed value of real property within the increment area;

(ii) Private development that is anticipated to occur within the increment area as a result of the proposed public improvements will be permitted consistent with the permitting jurisdiction's applicable zoning and development standards;

(iii) The private development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future without the proposed public improvements; and

(iv) The increased assessed value within the increment area that could reasonably be expected to occur without the proposed public improvements would be less than the increase in the assessed value estimated to result from the proposed development with the proposed public improvements.

(2) In considering whether to designate an increment area, the legislative body of the local government must prepare a project analysis that shall include, but need not be limited to, the following:

(a) A statement of objectives of the local government for the designated increment area;

(b) A statement as to the property within the increment area, if any, that the local government may intend to acquire;

(c) The duration of the increment area;

(d) Identification of all parcels to be included in the area;

(e) A description of the expected private development within the increment area, including a comparison of scenarios with the proposed public improvements and without the proposed public improvements;

(f) A description of the public improvements, estimated public improvement costs, and the estimated amount of bonds or other obligations expected to be issued to finance the public improvement costs and repaid with tax allocation revenues;

(g) The assessed value of real property listed on the tax roll as certified by the county assessor under RCW 84.52.080 from within the increment area and an estimate of the increment value and tax allocation revenues expected to be generated;

(h) An estimate of the job creation reasonably expected to result from the public improvements and the private development expected to occur in the increment area; and

(i) An assessment of any impacts and any necessary mitigation to address the impacts identified on the following:

(i) Affordable and low-income housing;

(ii) The local business community;

(iii) The local school districts; and

(iv) The local fire service, public hospital service, and emergency medical services.

(3) The local government may charge a private developer, who agrees to participate in creating the increment area, a fee sufficient to cover the cost of the project analysis and establishing the increment area, including staff time, professionals and consultants, and other administrative costs related to establishing the increment area.

(4) Nothing in this section prohibits a local government from entering into an agreement under chapter 39.34 RCW with another local government for the administration or other activities related to tax increment financing authorized under this section.

(5)(a) If the project analysis indicates that an increment area will impact at least 20 percent of the assessed value in a public hospital district, fire protection district, or regional fire protection service authority, or if the public hospital district's or the fire service agency's annual report, or other governing board-adopted capital facilities plan, demonstrates an increase in the level of service directly related to the increased development in the increment area, the local government must ((~~negotiate~~)) enter into negotiations for a mitigation plan with the impacted public hospital district, fire protection district, or regional fire protection service authority to address level of service issues in the increment area.

(b) If the parties cannot agree pursuant to (a) of this subsection (5), the parties must proceed to arbitration to determine the appropriate mitigation plan. The board of arbitrators must consist of three persons: One appointed by the local government seeking to designate the increment area and one appointed by the junior taxing district, both of whom must be appointed within 60 days of the date when arbitration is requested, and a third arbitrator who must be appointed by agreement of the other two arbitrators within 90 days of the date when arbitration is requested. If the two are unable to agree on the appointment of the third arbitrator within this 90-day period, then the third arbitrator must be appointed by a judge in the superior court of the county within which the largest portion of the increment area is located. The determination by the board of arbitrators is binding on both the local government seeking to impose the increment area and the junior taxing district.

(6) The local government may reimburse the assessor and treasurer for their costs as provided in RCW 39.114.010(6)(e).

(7) Prior to the adoption of an ordinance authorizing creation of an increment area, the local government must:

(a) Hold at least two public briefings for the community solely on the tax increment project that include the description of the increment area, the public improvements proposed to be financed with the tax allocation revenues, and a detailed estimate of tax revenues for the participating local governments and taxing districts, including the amounts allocated to the increment public improvements. The briefings must be announced at least two weeks prior to the date being held, including publishing in a legal newspaper of general circulation and posting information on the local government website and all local government social media sites; and

(b) Submit the project analysis to the office of the treasurer for review and consider any comments that the treasurer may provide upon completion of their review of the project analysis as provided under this subsection. The treasurer must complete the review within 90 days of receipt of the project analysis and may consult with other agencies and outside experts as necessary. Upon completing their review, the treasurer must promptly provide to the local government any comments regarding suggested revisions or enhancements to the project analysis that the treasurer deems appropriate based on the requirements in subsection (2) of this section.

**Sec.**  RCW 39.114.040 and 2023 c 354 s 3 are each amended to read as follows:

The local government designating the increment area must:

(1) Provide written notice to the governing body of each taxing district within which the increment area is located a minimum of 90 days before submitting the project analysis to the office of the treasurer as required in RCW 39.114.020(7)(b).

(2) Publish notice in a legal newspaper of general circulation within the jurisdiction of the local government at least two weeks before the date on which the ordinance authorizing creation of an increment area is adopted that describes the public improvements, describes the boundaries of the increment area, and identifies the location and times where the ordinance and other public information concerning the public improvement may be inspected; and

((~~(2)~~)) (3) Deliver a certified copy of the adopted ordinance to the county treasurer, the county assessor, and the governing body of each taxing district within which the increment area is located at the respective addresses specified pursuant to RCW 42.56.040 within 10 days of the date on which the ordinance was adopted.

**Sec.**  RCW 39.114.050 and 2023 c 354 s 4 are each amended to read as follows:

Apportionment of taxes shall be as follows:

(1) Commencing in the calendar year immediately following the calendar year in which the increment area takes effect in accordance with RCW 39.114.020, the county treasurer shall distribute receipts from regular property taxes imposed on real property located in the increment area as follows:

(a) Each taxing district shall receive that portion of its regular property taxes produced by the rate of tax levied by or for the taxing district on the tax allocation base value for that increment area;

(b) The local government that designated the increment area shall be entitled to receive an additional amount equal to the amount derived from the regular property taxes levied by or for each taxing district upon the increment value within the increment area. The local government that designated the increment area shall receive no more than is needed to pay or repay costs directly associated with the public improvements identified in the approved ordinance and 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, in which case the balance of these tax receipts shall be allocated to the taxing districts that imposed regular property taxes, or have regular property taxes imposed for them, in the increment area for collection that year in proportion to their regular tax levy rates for collection that year. The local government may request that the treasurer transfer this additional portion of the property taxes to its designated agent. The portion of the tax receipts distributed to the local government or its agent under this subsection (1)(b) may only be expended to finance public improvement costs associated with the public improvements financed in whole or in part by tax increment financing; and

(c) This section shall not apply to any receipts from the regular property taxes levied by:

(i) The state for the support of the common schools under RCW 84.52.065;

(ii) Local school district excess levies; and

(iii) Port districts or public utility districts specifically for the purpose of making required payments of principal and interest or general indebtedness.

(2) The apportionment of tax allocation revenues must cease when the taxing district certifies to the county assessor in writing that tax allocation revenues are no longer necessary or obligated to pay any bonded indebtedness issued solely to fund the public improvement costs, but in no event shall the apportionment of tax allocation revenues continue beyond the sunset date established pursuant to RCW 39.114.020(1)(e). Any excess tax allocation revenues and earnings on the tax allocation revenues remaining at the time the apportionment of tax receipts terminates must be returned to the county treasurer and distributed to the taxing districts that imposed regular property taxes, or had regular property taxes imposed for it, in the increment area for collection that year, in proportion to the rates of their regular property tax levies for collection that year.

(3) The apportionment and distribution of portions of the regular property taxes levied by or for each taxing district upon the increment value within the increment area pursuant to and subject to the requirements of this chapter is declared to be a public purpose of and benefit each such taxing district.

(4) The apportionment and distribution of portions of the regular property taxes levied by or for each taxing district upon the increment value within the increment area pursuant to this section shall not affect or be deemed to affect the rate of taxes levied by or within any such taxing district or the consistency of any such levies with the uniformity requirement of Article VII, section 1 of the state Constitution.

(5)(a) For a local government having a designated increment area under this chapter as of May 9, 2023, the county assessor must adjust the tax allocation base value for that increment area to include the assessed value of any privately owned improvements located on publicly owned land for taxes imposed in the year in which the increment area was first designated. However, no adjustment is required if the increment area does not include any privately owned improvements located on publicly owned land subject to property taxation as of the date the increment area became effective.

(b) The adjusted tax allocation base value under this subsection (5) does not impact any apportionment and distribution under this section occurring in calendar years before calendar year 2024.

NEW SECTION. **Sec.**  (1) The office of the treasurer shall compile a report to the legislature pursuant to RCW 43.01.036 by June 30, 2025, on tax increment financing as authorized in chapter 39.114 RCW. The report must include the following:

(a) The number and types of tax increment areas established and proposed and related economic benefits and job growth resulting from the areas;

(b) The number and types of special purpose districts including in tax increment areas;

(c) The number of public hospital districts and agencies providing fire and emergency medical services in tax increment areas;

(d) The frequency of mitigation plans and the mitigation measures and agreement that are used with an emphasis on emergency response demands created within the increment areas; and

(e) The impact of tax collections inside and outside the increment area and service provision in the increment areas, including new construction dollars and fire benefit charges.

(2) The report may include process improvement recommendations to address any impacts on special purpose districts if needed.

(3) By March 31, 2025, any local government that has approved a increment area pursuant to chapter 39.114 RCW must provide the office of the treasurer with any requested information in such format as directed by the office of the treasurer.

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