

# HOUSE BILL REPORT

## HB 2778

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

**Title:** An act relating to community redevelopment financing in apportionment districts.

**Brief Description:** Concerning community redevelopment financing in apportionment districts.

**Sponsors:** Representatives Sullivan, Springer, Stokesbary, Senn, Slatter, Boehnke and Goehner.

**Brief History:**

**Committee Activity:**

Finance: 2/6/20, 2/7/20 [DP].

**Brief Summary of Bill**

- Allows a county, city, or port district to create an apportionment district for the purposes of financing public improvements within the district.
- Authorizes a county, city, or port district to impose a property tax within the apportionment district on the incremental property value increase within the district to finance public improvements within the district.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 9 members: Representatives Tarleton, Chair; Walen, Vice Chair; Chapman, Frame, Macri, Orwall, Springer, Stokesbary and Wylie.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Vick.

**Staff:** Nick Tucker (786-7383).

**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

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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 that taxes be uniform within a class of property.

Tax Increment Financing.

Tax increment financing (TIF) is a method of allocating a portion of property taxes to finance economic development in urban areas. Typically, under TIF, 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 collected from property owners inside a special district surrounding the site of the public improvements.

Construction of public improvements tends to increase the market values of nearby properties. Increases in value can result in increased property taxes for each taxing district that includes property near the public improvement. Under TIF, the local government making the improvement gets all of the resulting tax revenue increase. For example, if a city makes an improvement that raises nearby property values, the city gets all of the resulting increase in property taxes, rather than sharing that increase with the state, county, and other local districts under the normal property tax allocation system.

Community Redevelopment Financing Act.

The Community Redevelopment Financing Act of 1982 (CRFA) allows a portion of regular property taxes to be allocated, for limited periods of time, to assist in the financing of public facilities.

Before the financing of public improvements is approved, the following criteria must be met:

1. The public improvement must be located within an urban area.
2. The public improvement will encourage private development.
3. The public improvement will increase the fair market value of property.
4. Private development will be consistent with existing comprehensive land use plans.
5. The public improvement has been approved by the legislative authority of the city, town, or county where the improvement will be located.

Apportionment of regular property tax revenues may not occur in a previously established apportionment district unless the financing agent of the public improvement concurs. Bonds which are payable in whole or in part from tax allocation revenues may not exceed 2 percent of the value of taxable property within the city or town where the public improvement will be constructed. Only regular property taxes may be apportioned.

In order to obtain an allocation of regular property taxes to finance a public improvement, information explaining the project, (its cost, location, and geographic tax base) must be included in a proposed ordinance. Provision must also be made for three public hearings. Notice of the hearings and of any subsequently enacted ordinance is required.

Regular property taxes will be apportioned annually. The county assessor determines the value of taxable property within the apportionment district at the time the district is established. This value is referred to as the "tax allocation base value." Each year, all regular property taxes on the value of property within the district above the tax allocation base value

are allocated to the sponsor for public improvements within the district. These allocations are referred to as "tax allocation revenues." Apportionment of tax allocation revenues stops when the principal and interest on bonds issued to finance public improvements are paid off. Tax allocation revenues may be applied to pay public improvement costs, principal and interest on bonds, bond funds, or any combination thereof.

Tax allocation bonds may be issued at the discretion of the sponsor financing the public improvement. These bonds will not be the general obligation of or guaranteed by the full faith and credit of the sponsor or any other state or local government. General obligation bonds, which are issued to finance public improvements, and for which all or part of the principal and interest will be paid by tax increment financing, are subject to notice and hearing provisions and potential referendum by the voters on the ordinance authorizing the issuance of the bonds.

The increase in value of taxable property will not be included in the increase in assessed value for purposes of determining any limitation upon regular property taxes until the termination of the apportionment.

No legal action may be commenced after 30 days from the date of publication of notice of the enactment of a public improvement ordinance.

#### Constitutionality of the Community Redevelopment Financing Act of 1982.

The CRFA followed the general contours of traditional tax increment financing, as described above. At the same time the original tax increment financing legislation was adopted, the Legislature also adopted Senate Joint Resolution 143 (SJR 143), a proposed constitutional amendment that expressly authorized the financing methods described in the CRFA. The voters rejected SJR 143 in the November 1982 state general election. However, the legislation authorizing tax increment financing was not contingent on the proposed constitutional amendment and remained on the books. In 1985 the Legislature passed House Joint Resolution 23, another proposed constitutional amendment authorizing tax increment financing, and placed it on the ballot. It was also defeated at the polls.

The City of Spokane attempted to use the CRFA to finance redevelopment of the area surrounding Bernard Street in downtown Spokane. A lawsuit challenging the use of tax increment financing to fund these improvements was filed by a property owner in the apportionment district. In 1995 the Washington Supreme Court invalidated Spokane's use of the 1982 act, ruling that the CRFA violated Article IX, section 2, of the state Constitution, in that it allowed diversion of property tax revenues away from the common schools. That section of the Constitution requires that the state tax for common schools be applied exclusively to the support of the common schools.

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#### **Summary of Bill:**

The CRFA is amended in several substantive ways.

Port districts, in addition to cities and counties, are authorized to create an apportionment district for the purpose of financing public improvements within or serving the apportionment district.

Generally, an apportionment district must be located within an urban growth area, which includes a city and any area outside of a city only if such territory is already characterized by urban growth. However, a port district may create an apportionment district anywhere within its boundaries.

A county, city, or port district creating an apportionment district is authorized to levy a special property tax within the apportionment district. This special property tax is applied to the incremental property value growth in the district after the district has been established. Special property taxes cannot be levied in an amount in excess of what is necessary to pay for the public improvements within the apportionment district. The maximum special property tax is 1 percent of the incremental property value growth. Special property taxes are not subject to the 1 percent property tax revenue limit, the 1 percent constitutional limit, and the \$5.90 limit. Special property taxes are subject to reduction or deferral under the retired person property tax exemption program and several property tax deferral programs. A special property tax may not be imposed for more than 30 years.

The requirement to hold three public hearings before imposing a special property tax within an apportionment district is reduced to one. Owners of all lots, tracts, and parcels of land within the proposed apportionment district must receive notice of the hearing. Notice of the hearing must include the estimated cost to be paid for public improvements within the district from special property taxes or tax allocation bonds. A county, city, town, or port district may not proceed with imposing a special property tax, if the tax is protested by property owners within the district representing more than 50 percent of the value of taxable property in the district.

A county, city, town, or port district may pledge its full faith and credit in the payment of tax allocation bonds thereby making such bonds a general debt obligation of the jurisdiction.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) Tax increment financing will allow local government to capture the value that is created when they make public investments in an area. Tax increment financing is used in all other states except for the state of Washington, which puts us at a competitive disadvantage. Tax increment financing will allow for more investment in economic development and will

allow for more equitable economic growth and development. There are many large capital projects that could utilize this type of program.

Cities across the state need tax increment financing programs because they allow for financial stability and independence. Local jurisdictions need many different tools to finance projects. Different problems require different solutions; this is another tool to be used for development. This is also a uniquely measurable tool in terms of both output and efficiency.

Tax increment financing represents an opportunity for cities to meet their needs to update infrastructure and will make these projects less expensive. Infrastructure funding is an area that cities often struggle with. Tax increment financing would provide the option for local municipalities to bond for public infrastructure.

(Opposed) None.

**Persons Testifying:** Amber Carter, Identity Clark County and Port of Vancouver; Tommy Gantz, Association of Washington Business; John Caulfield, City of Lakewood; Greg Hannon, National Association for Industrial and Office Parks; Candice Bock, Association of Washington Cities; John Spencer, Port of Camas-Washougal; Brian Enslow, City of Vancouver; and Gary Ballew, Port of Pasco.

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