

SENATE BILL REPORT

ESHB 1189

As of March 8, 2021

Title: An act relating to tax increment financing.

Brief Description: Concerning tax increment financing.

Sponsors: House Committee on Finance (originally sponsored by Representatives Duerr, Boehnke, Bateman, Sullivan, Fitzgibbon, Walen, Ramel, Springer, Wicks, Slatter, Pollet, Callan and Harris-Talley).

Brief History: Passed House: 3/3/21, 64-33.

Committee Activity: Business, Financial Services & Trade: 3/11/21.

Brief Summary of Bill

- Authorizes local governments to designate tax increment financing areas and to use increased local property tax collections to fund public improvements.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Staff: Clinton McCarthy (786-7319)

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 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 taxes be uniform within a class of property. The annual growth of all regular property tax levy revenue is limited as follows:

- jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent; and

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- 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 property 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 regular property tax revenue from increases in assessed value inside a special district surrounding the site of the public improvements.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Striking Amendment): Creation of a Tax Increment Financing Area. A local government may designate TIF areas and use resulting tax allocation revenues to pay for public improvement costs. To do so, the local government must adopt an ordinance designating a specific increment area within its boundaries. Public improvements to be financed with the use of TIF must be specified. 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.

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, and so on. If a project analysis indicates an increment area will impact at least 20 percent of assessed value in a fire district, mitigation strategies must be negotiated. 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 a TIF 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.

Apportionment of Taxes. Beginning in the calendar year following the passage of the ordinance, the county treasurer must distribute receipts from regular taxes on real property located in the increment area. Property taxes to be apportioned under TIF include property tax levies subject to the \$10 and \$5.90 limits. Taxes levied by port districts or public utility districts specifically for making payment on bonds, and taxes levied by the state for

supporting common schools are excluded from TIF apportionment.

Each taxing district shall 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 TIF project in the taxing district.

The local government that created the increment area shall 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 TIF.

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.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.