

HOUSE BILL REPORT

E2SHB 2451

As Passed Legislature

Title: An act relating to local tax increment financing.

Brief Description: Concerning local tax increment financing.

Sponsors: House Committee on Finance (originally sponsored by Representatives Duerr, Berg and Parshley).

Brief History:

Committee Activity:

Local Government: 1/27/26, 1/30/26 [DPS];
Finance: 2/6/26, 2/9/26 [DP2S(w/o sub LG)].

Floor Activity:

Passed House: 2/13/26, 93-1.
Passed Senate: 3/5/26, 48-1.
Passed Legislature.

Brief Summary of Engrossed Second Substitute Bill

- Makes various changes to the requirements and provisions for establishing a tax increment financing area.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Duerr, Chair; Zahn, Vice Chair; Klicker, Ranking Minority Member; Stuebe, Assistant Ranking Minority Member; Griffey, Hall and Parshley.

Staff: Elizabeth Rehn (786-7129).

HOUSE COMMITTEE ON FINANCE

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

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Local Government. Signed by 13 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell, Chase, Mena, Penner, Ramel, Scott, Springer, Wylie and Zahn.

Minority Report: Without recommendation. Signed by 1 member: Representative Santos.

Staff: Serena Dolly (786-7150).

Background:

Property Tax.

All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue is limited by the levy growth limit as follows:

- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent.

In addition to the revenue growth limit, levy capacity may increase by additional amounts equal to the increase in assessed value in a taxing district resulting from:

- new construction;
- construction of wind turbine, solar, biomass, and geothermal facilities;
- improvement to property;
- increased value of state-assessed property; and
- increased value within a local tax increment financing area.

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 can 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.

Local governments are authorized to designate a TIF and use tax allocation revenues to pay public improvement costs if certain conditions are met:

- the local government adopts an ordinance designating an increment area within its boundaries and describing the proposed public improvements;
- the increment area does not cover the entirety of the local government's boundaries;
- the increment area does not have an assessed valuation of \$200 million or more than 20 percent of the sponsoring jurisdiction's total assessed value, whichever is less, with certain exceptions;
- the local government only creates two nonoverlapping increment areas at a time, with certain exceptions;
- the increment area sunsets 25 years after the first-year tax allocation revenues are collected from the increment area;
- the local government indicates whether it intends to issue bonds or obligations from tax allocation revenues and estimates the maximum amount of obligations contemplated;
- the increment area takes effect on June 1 following the adoption of the ordinance establishing the increment area;
- the sponsoring jurisdiction does not add additional public improvements or change the boundaries of the increment area;
- the ordinance imposes a deadline by which construction of the public improvements must begin. The deadline must be at least five years into the future with extensions available for good cause; and
- the local government must make a finding that:
 - the proposed public improvements are expected to encourage private development and increase the assessed value of real property within the increment area;
 - the private development that is anticipated to occur within the increment area will be consistent with zoning and development standards;
 - the private development would not reasonably be expected to occur solely through private investment within the foreseeable future without the proposed public improvements; and
 - the increased assessed value within the increment area that would be expected to occur without the public improvements would be less than the increase in assessed value estimated to result from the proposed development with the proposed public improvements.

In considering whether to designate an increment area, the local government must prepare a project analysis that includes:

- a statement of objectives of the local government for the designated increment area;
- a statement as to the property within the increment area that the local government intends to acquire;
- the duration of the increment area;

- identification of parcels to be included in the area;
- a description of the expected private development within the increment area;
- a description of the public improvements, estimated costs, and the estimated amount of bonds or obligations expected to be issued;
- the assessed value of real property listed on the tax roll within the increment area and an estimate of the increment value and tax allocation revenues expected to be generated;
- an estimate of the job creation expected to result;
- an assessment of impacts on:
 - affordable and low-income housing;
 - the local business community;
 - the local school districts; and
 - the local fire service, public hospital service, and emergency medical services;
- the assessment of impacts, including necessary mitigation to local fire service, public hospital service, and emergency medical services; and
- an assessment of any impacts to junior taxing districts.

The project analysis must be submitted to the treasurer. Local governments must also submit the project analysis to affected local governments and taxing districts at least 90 days prior to the adoption of the authorizing ordinance. The local government may reimburse the treasurer for its costs.

Public improvements financed through a TIF may be undertaken and coordinated with other programs or efforts undertaken by the local government and other taxing districts. Public improvements that are constructed by a private developer must meet all applicable state and local laws.

Prior to designating an increment area, a local government must provide written notice to each taxing district at least 90 days before submitting the project analysis. Notice must be published in a legal newspaper of general circulation at least two weeks before the authorizing ordinance is adopted. The local government must also deliver a certified copy of the adopted ordinance to the county treasurer, county assessor, and each taxing district within 10 days of the adoption of the ordinance.

The apportionment of taxes within the increment area are distributed as follows:

- Each taxing district must receive the 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.
- The local government that designated the increment area will receive an additional amount equal to the amount derived from the regular property taxes levied for each taxing district upon the increment within the increment area.

A local government must negotiate a mitigation plan with a public hospital district, fire protection district, or regional fire protection service authority if a project analysis indicates

that an increment area will impact at least 20 percent of the assessed value of the district or authority, or the fire service agency's annual report demonstrates an increase in the level of service in an increment area. If parties cannot agree, they must proceed to arbitration.

Multifamily Property Tax Exemption.

The multifamily property tax exemption (MFTE) exempts real property associated with the construction, conversion, or rehabilitation of qualified, multiple-unit residential structures. A city must approve a 20-year MFTE for multifamily housing within a station area that meets the transit-oriented development affordability requirements unless the city authorizes the current 20-year MFTE program for multifamily rental housing.

Summary of Engrossed Second Substitute Bill:

An additional condition for designating an increment area providing that the ordinance may not include areas within an increment area that already have the necessary public improvements that are required for the private development expected to be made possible by the adoption of the increment area or where a private building or structure is under construction or is undergoing a project-level environmental review process under the State Environmental Policy Act is established. A jurisdiction may include such areas if the jurisdiction can demonstrate that the public improvements developed within the increment area are necessary for the private development of projects which are seeking permit applications or under construction at the time the increment area is improved.

The limit on assessed valuation of \$200 million for an increment area is adjusted annually by the consumer price index.

The increment area sunsets the earlier of 25 years after the first-year tax allocation revenues are collected from the increment area or the date the tax allocation revenues equal a maximum amount of public improvements obligations, including any debt service obligations identified by the authorizing ordinance.

The deadline by which construction of the public improvements must begin no more than five years into the future with extensions for good cause not exceeding two years.

A local government must make a finding that proposed public improvements are necessary, rather than expected, to encourage private development and increase the assessed value of real property within the increment area.

The list of public improvements in the project analysis must include individual improvements in priority order with each improvement's nexus to encouraging private development, estimated completion date, and proposed funding sources that can reasonably be expected to be completed within the first seven years of the project. The list should also reflect the capital plans and related provisions.

The assessment of impacts in the project analysis must be done in consultation with any impacted taxing district and include an estimate of the revenue impacts to each taxing district in the increment area and any necessary mitigation to taxing districts, rather than to specified local fire service, public hospital service, and any affected junior taxing districts.

For increment areas that take effect after June 1, 2026, the local government designating the increment area and any impacted taxing district must begin negotiations to develop an agreement if a taxing district indicates within 30 days of receiving the project analysis that:

- the increment area will create an increase in residential development of at least 50 units or impact at least 10 percent of the assessed value within the impacted taxing district;
- the impacted taxing district can demonstrate an increase in the service demands directly related to the increased development;
- the project analysis forecasts a loss of property tax revenue over the term of the increment area; or
- a taxing district is subject to more than one tax increment area and the proposed increment area will result in more than 20 percent of the taxing district's assessed value being subject to tax increment areas.

If the parties cannot agree they must participate in mediation within 30 days of the end of the notice and comment period. If mediation does not result in agreement, the parties must proceed to arbitration to determine a mitigation plan. The board of arbitrators must consist of three arbitrators appointed in a specified manner. The arbitrators must take various specified considerations when making a decision. The mitigation may include reductions or suspensions in tax allocation revenues, the use of such allocations, and other mitigation provisions.

The project analysis must be submitted to affected local governments and junior taxing districts at the same time it is submitted to the assessor and treasurer. A local government must reimburse the assessor and treasurer for their costs. The treasurer may receive comments from taxing districts.

A private developer may construct public improvements and receive payment from tax allocation revenues received by the local government as part of a reimbursement agreement between parties. Any reimbursement paid to the developer must only be secured by tax allocation revenues received by the local government.

Prior to designating an increment area, a local government must provide written notice to each taxing district at least 180 days, rather than 90 days, before submitting the project analysis. The local government must also offer to consult with affected taxing districts within 30 days and prepare an annual report on the status of the increments area and make it available to residents of the impacted district.

If voters in the impacted taxing district approve a property tax levy lid lift, the impacted

taxing district and the local government designating the increment area must review the agreement and address impacts related to the levy lid lift. Either party may initiate a review of any agreement no more frequently than every five years. Subject revisions are not subject to arbitration.

Apportionment of taxing receipts must not interfere with the calculation and implementation of a taxing district's highest allowable levy limit. If a taxing district subsequently passes a voter approved levy lid lift, the tax allocation base value must be recalculated to proportionally increase by the percentage amount of the tax rate increase from the current rate in the first year due to the levy lid lift.

The 20-year MFTE for residential and mixed-use buildings constructed within a station area does not apply to tax increment financing areas in effect prior to June 2, 2026.

Tax increment areas established prior to June 2, 2026, are not impacted by the new provisions related to tax increment areas.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on June 2, 2026.

Staff Summary of Public Testimony (Local Government):

(In support) The Legislature passed tax increment financing (TIF) in 2021. Tax increment financing allows local governments to bond against future development. This bill is the work of many hours of negotiation between many interested parties over the interim. Most of the changes were agreed upon and some additional amendments are coming. It is a very difficult issue because special purpose districts also have an interest in the property taxes that fund their operations. Not every party is happy with the changes and not every party is getting what they want, but this bill is a good compromise. It strengthens the communication requirement, requires negotiations, and calls for arbitration. It also addresses funding impacts from levy lid lifts. It also strengthens the "but for" test moving forward. Tax increment financing is a powerful tool that can lead to a more robust economy. It improves the TIF process to ensure that it functions. The impact to service providers has been attended to. There are two items that are critical to fire services: the negotiation framework that brings parties together at the outset of the process and the "but for" test. The counties should be able to opt out of TIF under certain circumstances. There should be an amendment to clarify that the new provisions do not impact existing TIF areas.

(Opposed) The tool needs to be used in a way with the most impact. The changes in this bill would eliminate areas that are underdeveloped from TIF improvements.

(Other) There is concern about how the statute impacts taxing authority. There needs to be an amendment that adds public safety facilities as a public improvement for TIF areas established under a different statute than the one addressed by the bill.

Staff Summary of Public Testimony (Finance):

(In support) The TIF gives local governments the ability to bond against future development to pay for infrastructure that is needed for that development to go forward. This bill is the product of many meetings and negotiations. The state's property tax system is complicated, and some other local taxing districts are feeling impacts from TIF. A number of provisions in the bill will improve the process for fire districts, public hospital districts, library districts, and other impacted jurisdictions. It makes sure that those districts that are impacted by TIF have the opportunity to engage and negotiate the impacts up front while providing an arbitration option as a backstop.

(Opposed) None.

Persons Testifying (Local Government): (In support) Representative Davina Duerr, prime sponsor; Candice Bock, Association of Washington Cities; Dylan Doty, Washington Fire Chiefs Association; John Sheller, King County Library System; Travis Dutton, Washington State Association of Counties and Policy Coordinator; Sean Eagan, The Port of Tacoma; Briahna Murray, Cities of Lynnwood and Moses Lake; Matthew Ellsworth, Association of Washington Public Hospital Districts; and John Flanagan, Port of Seattle.

(Opposed) Patrick Quinton, City of Vancouver.

(Other) Eric ffitich, Washington Public Ports Association; and Al French, Spokane County.

Persons Testifying (Finance): Representative Davina Duerr, prime sponsor; John Flanagan, Port of Seattle; Candice Bock, Association of Washington Cities; and Dylan Doty, Washington Fire Chiefs Association.

Persons Signed In To Testify But Not Testifying (Local Government): None.

Persons Signed In To Testify But Not Testifying (Finance): None.