SENATE BILL REPORT
E2SHB 2451

As of February 18, 2026

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: Passed House: 2/13/26, 93-1.
Committee Activity: Local Government: 2/19/26.

Brief Summary of Bill

- Makes changes to the requirements and provisions for establishing a local tax increment financing area.
- Requires the increment area ordinance set a certain sunset date and impose certain deadlines by which construction must begin.
- Modifies the project analysis, including changes to the assessment of impacts, that a local government must prepare and submit to the state treasurer prior to establishing an increment area.
- Establishes a negotiation, mediation, and arbitration process that a local government designating an increment area and any impacted taxing district must engage when certain conditions are met.

SENATE COMMITTEE ON LOCAL GOVERNMENT

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Background: Tax Increment Financing. Tax increment financing (TIF) is a method of allocating a portion of taxes to finance public improvements in designated areas. Typically,

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under a TIF Program, a local government, such as a city, town, county, or port district, issues bonds to finance public improvements. To repay its bondholders, the local government is permitted to draw upon tax revenue from increases in assessed value inside a special district surrounding the site of the public improvements. Allowable TIF investments include infrastructure improvements such as infrastructure including roads, sidewalks, water, and sewer, port and dock facilities, park and ride facilities or other transit facilities, parks and community facilities, and electric, broadband, or rail services. Washington has several TIF programs, including Community Revitalization Financing, Local Infrastructure Financing, Local Revitalization Financing, and Local Tax Increment Financing.

Local Tax Increment Financing. Local governments are authorized to designate an increment area and use tax allocation revenues to pay public improvement costs if certain conditions are met, including for example:

- the local government adopts an increment area ordinance designating an increment area, describing the proposed public improvements, and imposing a deadline by which construction of the public improvements must begin of at least five years into the future with good cause extensions available;
- 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; and
- the local government must make certain findings related to public improvements and private development.

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

- a statement of objectives, estimate of expected job creation, and duration of the designated increment area;
- identification of parcels, including property within the increment area that the local government intends to acquire;
- a description of the expected private development, public improvements, estimated costs, and the estimated amount of bonds or obligations expected to be issued;
- the assessed value of real property within the increment area and an estimate of the increment value and tax allocation revenues expected to be generated;
- 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;
- an 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.

Prior to adoption of an increment area ordinance, 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. The local government may reimburse the county assessor and the county treasurer for its costs.

Public improvements financed through 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 increment area 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 ten days of 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; and
- 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.

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.

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. One of the tax exemptions includes a 20-year exemption if the applicant commits to renting at least 20 percent of the dwelling units to

low-income households for a term of 99 years, subject to certain population, high capacity transit, and zoning requirements. A city must approve a 20-year MFTE for multifamily residential housing within a station area that meets transit-oriented development (TOD) affordability requirements, unless the city authorizes the current 20-year MFTE program for rental multifamily residential housing. A county may approve a 20-year MFTE for multifamily residential housing within a station area that meets the TOD development and affordability requirements.

Community Revitalization Financing. Counties, cities, towns, and port districts may create tax increment areas where community revitalization projects and programs are financed by diverting a portion of the regular property taxes imposed by local governments within the tax increment area. Public improvements include:

- infrastructure improvements such as:
    1. street and road construction and maintenance, sidewalks, and streetlights;
    2. park facilities and recreational areas; and
    3. permanently affordable housing; and
- expenditures for providing environmental analysis, maintenance and security, and historic preservation activities.

Summary of Bill: Local Tax Increment Financing. The increment area ordinance may not include areas within an increment area that already have the necessary public improvements required for the private development expected to be made in the increment area and may not include areas within an increment area where a private building or structure is under construction, that has an active application for construction, that has a valid permit for construction, or is undergoing a project-level environmental review process under the State Environmental Policy Act, unless the sponsoring jurisdiction can demonstrate that the public improvements developed in the increment area are necessary for the private development of projects that are seeking permit applications or under construction at the time the increment area is approved. The limit on assessed valuation of $200 million for an increment area is adjusted annually by the consumer price index.

The ordinance must set a sunset date of the earlier of 25 years after the first-year tax allocation revenues are collected from the increment area or the date on which the obligations issued in reliance on the tax allocation revenues to finance the public improvements are no longer outstanding. The ordinance must impose a deadline by which construction of the public improvements must begin which must be no more than five years into the future with extensions for good cause not exceeding two years. The 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, an estimated completion date, proposed funding sources, and the estimated

amount of bonds or other obligations 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, rather than to local fire service, public hospital service, emergency medical services, and any other junior taxing districts. The assessment must include an estimate of the revenue impacts to each taxing district in the area, including tax allocation revenues, levy rate adjustments, and other revenues including, but not limited to, impact fees, fire benefit charges, sales tax, and utility tax, over the term of the increment area. The assessment must also include any necessary mitigation to the taxing districts, rather than to local fire service, public hospital service, emergency medical services.

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 consultation 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 determination by the board of arbitrators is binding on both the local government seeking to impose the increment area and the impacted taxing district. The mitigation may include reductions or suspensions in tax allocation revenues, the use of such allocations, and other mitigation provisions. Mitigation may not include allowing a taxing district to opt out or be removed from participation in the tax allocation and increment area.

Prior to adopting an increment area ordinance, the local government must submit the project analysis to affected local governments and taxing districts at the same time it is submitted to the state treasurer. A local government must reimburse the county assessor and county treasurer for their costs. The state treasurer may receive comments from taxing districts. The local government must hold at least two public hearings, rather than briefings, for the community regarding the tax increment project.

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 to discuss the proposed increment area and the development of the project analysis. The local government must prepare an annual report on the status of the increment area and make it available to residents of the impacted taxing jurisdictions.

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. Subsequent 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 increased the following year by an amount equal to the incremental increase in the levy rate approved by the voters, multiplied by the total assessed value within the district for that year.

The provisions of this act do not modify or impact tax increment areas established prior to June 2, 2026.

Multi-Family Property Tax Exemption. The 20-year MFTE for residential and mixed-use buildings constructed within one mile of certain high capacity transit or station areas does not apply to tax increment financing areas in effect prior to June 2, 2026.

Community Revitalization Financing. Infrastructure improvements for community revitalization financing projects include public safety facilities.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 17, 2026.

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

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