
SUBSTITUTE HOUSE BILL 2451

State of Washington

69th Legislature

2026 Regular Session

By House Local Government (originally sponsored by Representatives Duerr, Berg, and Parshley)

READ FIRST TIME 02/03/26.

1 AN ACT Relating to local tax increment financing; amending RCW
2 39.114.010, 39.114.020, 39.114.030, 39.114.040, 39.114.050, and
3 39.89.020; reenacting and amending RCW 84.14.020; and providing an
4 effective date.

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

6 **Sec. 1.** RCW 39.114.010 and 2024 c 236 s 1 are each amended to
7 read as follows:

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

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

13 (2) "Consumer price index" means the consumer price index for all
14 urban consumers in the west region as published by the United States
15 bureau of labor statistics.

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

19 ((+3)) (4) "Increment value" means 100 percent of any increase
20 in the true and fair value of real property in an increment area that

1 is placed on the tax rolls after the increment area takes effect. The
2 increment value shall not be less than zero.

3 ~~((4))~~ (5) "Local government" means any city, town, county, port
4 district, or any combination thereof.

5 ~~((5))~~ (6) "Ordinance" means any appropriate method of taking
6 legislative action by a local government, including a resolution
7 adopted by a port district organized under Title 53 RCW.

8 ~~((6))~~ (7) "Public improvement costs" means the costs of:

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

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

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

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

24 (e) Expenses incurred in revaluing real property for the purpose
25 of determining the tax allocation base value by a county assessor
26 under chapter 84.41 RCW and expenses incurred by a county treasurer
27 under chapter 84.56 RCW in apportioning the taxes and complying with
28 this chapter and other applicable law. For purposes of this
29 subsection ~~((6))~~ (7)(e), "expenses incurred" means actual staff and
30 software costs directly related to the implementation and ongoing
31 administration of increment areas under this chapter;

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

37 (g) Funding for interlocal agreements, revenue sharing
38 agreements, and mitigation to impacted taxing districts as allowed in
39 RCW 39.114.020.

40 ~~((7))~~ (8) "Public improvements" means:

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

5 (i) Street and road construction;

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

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

10 (iv) Parking, terminal, and dock facilities;

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

12 (vi) Park and community facilities and recreational areas;

13 (vii) Stormwater and drainage management systems;

14 (viii) Electric, broadband, or rail service;

15 (ix) Mitigation of brownfields; (~~(x)~~)

16 (x) Fire, life, and public safety facilities and equipment
17 necessary to provide the desired level of service to the increment
18 area; and

19 (b) Expenditures for any of the following purposes:

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

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

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

28 (iv) Historic preservation activities authorized under RCW
29 35.21.395; or

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

33 (~~(8)~~) (9) "Real property" means:

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

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

38 (~~(9)~~) (10) "Regular property taxes" means regular property
39 taxes as defined in RCW 84.04.140, except: (a) Regular property taxes
40 levied by port districts or public utility districts to the extent

1 necessary for the payments of principal and interest on general
2 obligation debt; and (b) regular property taxes levied by the state
3 for the support of the common schools under RCW 84.52.065. Regular
4 property taxes do not include excess property tax levies that are
5 exempt from the aggregate limits for junior and senior taxing
6 districts as provided in RCW 84.52.043. "Regular property taxes" does
7 not include excess property taxes levied by local school districts or
8 emergency medical care and service taxes levied under RCW 84.52.069.

9 ~~((10))~~ (11) "Tax allocation base value" means the assessed
10 value of real property located within an increment area for taxes
11 imposed in the year in which the increment area takes effect.

12 ~~((11))~~ (12) "Tax allocation revenues" means those revenues
13 derived from the imposition of regular property taxes on the
14 increment value.

15 ~~((12))~~ (13) "Taxing district" means a governmental entity that
16 levies or has levied for it regular property taxes upon real property
17 located within a proposed or approved increment area.

18 **Sec. 2.** RCW 39.114.020 and 2025 c 417 s 1310 are each amended to
19 read as follows:

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

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

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

30 (c) (i) Except as provided in (c) (ii) of this subsection, the
31 increment area may not have an assessed valuation of more than
32 \$200,000,000 as adjusted annually by the consumer price index or more
33 than 20 percent of the sponsoring jurisdiction's total assessed
34 valuation, whichever is less, when the ordinance is passed. If a
35 sponsoring jurisdiction creates two increment areas, the total
36 combined assessed valuation in both of the two increment areas may
37 not equal more than \$200,000,000 as adjusted annually by the consumer
38 price index or more than 20 percent of the sponsoring jurisdiction's

1 total assessed valuation, whichever is less, when the ordinances are
2 passed creating the increment areas.

3 (ii) During the 2026 fiscal year, a sponsoring jurisdiction may
4 enact a tax increment area or areas with a combined assessed
5 valuation greater than \$200,000,000 but no more than \$500,000,000 if:

6 (A) The sponsoring jurisdiction is a city with a population over
7 150,000 but less than 170,000 and is located in a county with a
8 population of over 1,500,000;

9 (B) The tax increment area is connected to Interstate 405 and the
10 transportation-related public improvements that will be funded
11 enhance the integration and connection of neighborhoods within and
12 adjacent to the increment area;

13 (C) The sponsoring jurisdiction enacted an ordinance designating
14 the increment area no later than June 30, 2026; and

15 (D) A governing body of any taxing district within the increment
16 area approves by a majority vote, and according to the governing
17 body's ordinance and publication procedures, the taxing district's
18 partial or full participation in the tax increment project. If the
19 governing body does not approve its participation, the taxing
20 district's property taxes are not subject to apportionment under this
21 chapter and the taxing district is excluded from the provisions of
22 this section;

23 (d) Except as otherwise provided in (c)(ii) of this subsection, a
24 local government can create no more than two active increment areas
25 at any given time and they may not physically overlap by including
26 the same land in more than one increment area created by any local
27 government at any time;

28 (e) The ordinance must set a sunset date for the increment area,
29 which (~~may~~) must be the earlier of no more than 25 years after the
30 first year in which tax allocation revenues are collected from the
31 increment area or the date that the tax allocation revenues equal the
32 maximum amount of public improvements obligations, including any debt
33 service obligations identified in the ordinance;

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

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

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

10 (i) The ordinance must impose a deadline by which commencement of
11 construction of the public improvements shall begin, which deadline
12 must be ~~((at least))~~ no more than five years into the future and for
13 which extensions not to exceed two years shall be made available for
14 good cause; ~~((and))~~

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

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

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

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

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

32 (k) The ordinance may not include areas within an increment area
33 that already have the necessary public improvements that are required
34 for the private development expected to be made possible by the
35 adoption of the increment area and may not include areas within an
36 increment area where a private building or structure is under
37 construction, has an active application for construction, has a valid
38 permit for construction, or is undergoing a project-level
39 environmental review process under chapter 43.21C RCW, unless the
40 sponsoring jurisdiction can demonstrate that the public improvements

1 developed in the increment area are necessary for the private
2 development of projects that are seeking permit applications or under
3 construction at the time the increment area is approved, before the
4 formation of an increment area.

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

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

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

13 (c) The duration of the increment area;

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

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

18 (f) A ~~((description))~~ list of the public improvements, including
19 individual improvements in priority order with each improvement's
20 nexus to encouraging private development, estimated completion date,
21 estimated public improvement costs, proposed funding sources, and the
22 estimated amount of bonds or other obligations expected to be issued
23 to finance the public improvement costs and repaid with tax
24 allocation revenues that can reasonably be expected to be completed
25 within the first seven years of the project. The list should reflect
26 the capital plans of the sponsoring jurisdiction and the reliance of
27 those plans on investments by partners. When capital plans change,
28 the sponsoring jurisdiction may reprioritize the list of public
29 improvements. When the list is not reflected in the capital plans of
30 the sponsoring jurisdiction, those public improvements shall be
31 allowable only if the governing body makes a finding that the public
32 improvements serve the goals and objectives of the capital plans;

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

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

40 (i) An assessment of any impacts on the following:

1 (i) Affordable and low-income housing;
2 (ii) The local business community;
3 (iii) The local school districts; and
4 (iv) The ~~((local fire service, public hospital service, and~~
5 ~~emergency medical services))~~ taxing districts; and

6 (j) The assessment of impacts under (i) of this subsection (2)
7 must be done in consultation with any impacted taxing district
8 consistent with RCW 39.114.040 and include ((any)):

9 (i) An estimate of the revenue impacts to each taxing district in
10 the area, including tax allocation revenues, levy rate adjustments,
11 and other revenues including, but not limited to, impact fees, fire
12 benefit charges, sales tax, and utility tax, over the term of the
13 increment area; and

14 (ii) Any necessary mitigation to the ~~((local fire service, public~~
15 hospital service, and emergency medical services; and

16 ~~(k) An assessment of any impacts of any other junior taxing~~
17 ~~districts not referenced in (i) of this subsection (2))~~ taxing
18 districts.

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

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

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

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

16 (6)(a) For increment areas that take effect after June 1, 2026,
17 the local government designating the increment area and any impacted
18 taxing district must begin negotiations to develop an agreement if a
19 taxing district, within 30 days of receiving the project analysis as
20 required in subsection (8) of this section, indicates any of the
21 following conditions:

22 (i) The increment area will create an increase in residential
23 development of at least 50 units or impact at least 10 percent of the
24 assessed value in the impacted taxing district;

25 (ii) The impacted taxing district can demonstrate or has
26 forecasted an increase in the service demands directly related to the
27 increased development in the increment area;

28 (iii) The project analysis forecasts a loss of property tax
29 revenue over the term of the increment area; or

30 (iv) A taxing district is subject to more than one tax increment
31 area and the proposed increment area will result in more than 20
32 percent of the taxing district's assessed value being subject to tax
33 increment areas.

34 (b) If voters in the impacted taxing district approve a property
35 tax levy lid lift, the impacted taxing district and the local
36 government designating an increment area must review the agreement
37 and address impacts related to the levy lid lift. Either party may
38 initiate a review of any agreement no more frequently than every five
39 years. Subsequent revisions of an agreement are not subject to
40 arbitration.

1 (c) If the parties cannot agree pursuant to (a) of this
2 subsection (6), the parties must proceed to mediation within 30 days
3 of the end of the notice and consultation period in RCW 39.114.040 to
4 further attempt to reach an agreement.

5 (d) If, after 30 days, the parties cannot agree in mediation, the
6 parties must proceed to arbitration within 90 days of the end of the
7 notice and consultation period in RCW 39.114.040 to determine the
8 appropriate mitigation plan. The board of arbitrators must consist of
9 three persons: One appointed by the local government seeking to
10 designate the increment area and one appointed by the impacted taxing
11 district, both of whom must be appointed within 30 days of the date
12 when arbitration is requested, and a third arbitrator who must be
13 appointed by agreement of the other two arbitrators within 30 days of
14 the date when arbitration is requested. If the two are unable to
15 agree on the appointment of the third arbitrator within this 60-day
16 period, then the third arbitrator must be appointed by a judge in the
17 superior court of the county within which the largest portion of the
18 increment area is located. The determination by the board of
19 arbitrators is binding on both the local government seeking to impose
20 the increment area and the impacted taxing district. In making a
21 determination, the board of arbitrators must consider:

22 (i) Whether new service demands will be created directly by the
23 new development in the increment area that are not funded by the
24 corresponding revenue generated by the new development;

25 (ii) Whether the impacted taxing district will experience a loss
26 of property tax revenue beyond the base level and has taken steps to
27 address impacts to property tax revenues as allowed under RCW
28 84.55.010;

29 (iii) How the increment area may impact taxpayers outside of the
30 increment area;

31 (iv) Other revenues generated for the impacted taxing district in
32 the increment area; and

33 (v) The overall 25-year impact of the increment area on the
34 impacted taxing district, including the broader economic impacts of
35 the development.

36 (e) Mitigation may include reductions or suspensions in the
37 percentage or term of tax allocation revenues transferred to the
38 local government designating the increment area, the use of tax
39 allocation revenues to fund public improvements to serve the
40 projected development in the increment area, and other provisions

1 designed to mitigate the impacts on taxing districts. Mitigation may
2 not include allowing a taxing district to opt out or be removed from
3 participation in the tax allocation and increment area. Any decision
4 must be consistent with the uniformity requirement of Article VII,
5 section 1 of the state Constitution.

6 (7) The local government ((may)) must reimburse the assessor and
7 treasurer for their costs as provided in RCW 39.114.010((+6)) (7)
8 (e).

9 ((+7)) (8) Prior to the adoption of an ordinance authorizing
10 creation of an increment area, the local government must:

11 (a) Hold at least two public ((briefings)) hearings for the
12 community solely on the tax increment project that include the
13 description of the increment area, the public improvements proposed
14 to be financed with the tax allocation revenues, and a detailed
15 estimate of tax revenues for the participating local governments and
16 taxing districts, including the amounts allocated to the increment
17 public improvements. The ((briefings)) hearings must be announced at
18 least two weeks prior to the date being held, including publishing in
19 a legal newspaper of general circulation and posting information on
20 the local government website and all local government social media
21 sites, and must occur no earlier than 90 days after submitting the
22 project analysis to the office of the treasurer and all local
23 governments and taxing districts impacted by the increment area;

24 (b) Submit the project analysis to all local governments and
25 taxing districts impacted by the increment ((area no less than 90
26 days prior to the adoption of the ordinance)) at the same time as
27 submitting the analysis to the office of the treasurer; and

28 (c) Submit the project analysis to the office of the treasurer
29 for review and consider any comments that the treasurer may provide
30 upon completion of their review of the project analysis as provided
31 under this subsection. The treasurer must complete the review within
32 90 days of receipt of the project analysis, must accept and consider
33 comments from taxing districts, and may consult with other agencies
34 and outside experts as necessary. Upon completing their review, the
35 treasurer must promptly provide to the local government, and any
36 taxing district that submitted comments, any comments regarding
37 suggested revisions or enhancements to the project analysis that the
38 treasurer deems appropriate based on the requirements in subsection
39 (2) of this section.

1 **Sec. 3.** RCW 39.114.030 and 2021 c 207 s 3 are each amended to
2 read as follows:

3 (1) Public improvements that are financed under this chapter may
4 be undertaken and coordinated with other programs or efforts
5 undertaken by the local government and other taxing districts and may
6 be funded in part from revenue sources other than tax allocation
7 revenues.

8 (2) Public improvements that are constructed by a private
9 developer must meet all applicable state and local laws.

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

15 **Sec. 4.** RCW 39.114.040 and 2024 c 236 s 3 are each amended to
16 read as follows:

17 The local government designating the increment area must:

18 (1) Provide written notice to the governing body of each taxing
19 district within which the increment area is located a minimum of
20 ~~((90))~~ 180 days before submitting the project analysis to the office
21 of the treasurer as required in RCW 39.114.020~~((+7))~~ (8)(c) and
22 offer to consult with the affected taxing district within 30 days for
23 the purpose of discussing the proposed increment area and the
24 development of the project analysis, including revenue and mitigation
25 impacts;

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

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

1 (4) (a) Prepare and make available to the residents of all
2 impacted taxing jurisdictions an annual report on the status of the
3 increment area, including:

4 (i) Progress on construction of public improvements funded by the
5 increment value;

6 (ii) The economic benefits created in the increment area;

7 (iii) The status of mitigation to impacted taxing districts;

8 (iv) How the increment area has impacted tax revenues and rates
9 in the impacted taxing districts; and

10 (b) Request and include in its annual report any statements
11 provided by impacted taxing districts.

12 **Sec. 5.** RCW 39.114.050 and 2023 c 354 s 4 are each amended to
13 read as follows:

14 Apportionment of taxes shall be as follows:

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

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

24 (i) This apportionment does not interfere with the calculation
25 and implementation of a taxing district's highest allowable levy per
26 RCW 84.55.010 subject to action by its governing body;

27 (ii) Should a taxing district subsequently pass a voter approved
28 levy lid lift, the tax allocation base value must be recalculated to
29 proportionally increase by the percentage amount of the tax rate
30 increase from the current rate in the first year due to the levy lid
31 lift;

32 (b) The local government that designated the increment area shall
33 be entitled to receive an additional amount equal to the amount
34 derived from the regular property taxes levied by or for each taxing
35 district upon the increment value within the increment area. The
36 local government that designated the increment area shall receive no
37 more than is needed to pay or repay costs directly associated with
38 the public improvements identified in the approved ordinance and may
39 agree to receive less than the full amount of this portion, as long

1 as bond debt service, reserve, and other bond covenant requirements
2 are satisfied, in which case the balance of these tax receipts shall
3 be allocated to the taxing districts that imposed regular property
4 taxes, or have regular property taxes imposed for them, in the
5 increment area for collection that year in proportion to their
6 regular tax levy rates for collection that year. The local government
7 may request that the treasurer transfer this additional portion of
8 the property taxes to its designated agent. The portion of the tax
9 receipts distributed to the local government or its agent under this
10 subsection (1)(b) may only be expended to finance public improvement
11 costs associated with the public improvements financed in whole or in
12 part by tax increment financing; and

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

15 (i) The state for the support of the common schools under RCW
16 84.52.065;

17 (ii) Local school district excess levies; and

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

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

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

38 (4) The apportionment and distribution of portions of the regular
39 property taxes levied by or for each taxing district upon the
40 increment value within the increment area pursuant to this section

1 shall not affect or be deemed to affect the rate of taxes levied by
2 or within any such taxing district or the consistency of any such
3 levies with the uniformity requirement of Article VII, section 1 of
4 the state Constitution.

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

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

17 **Sec. 6.** RCW 84.14.020 and 2025 c 267 s 13 and 2025 c 164 s 2 are
18 each reenacted and amended to read as follows:

19 (1) (a) The value of new housing construction, conversion, and
20 rehabilitation improvements qualifying under this chapter is exempt
21 from ad valorem property taxation, as follows:

22 (i) For properties for which applications for certificates of tax
23 exemption eligibility are submitted under this chapter before July
24 22, 2007, the value is exempt for 10 successive years beginning
25 January 1st of the year immediately following the calendar year of
26 issuance of the certificate;

27 (ii) For properties for which applications for certificates of
28 tax exemption eligibility are submitted under this chapter on or
29 after July 22, 2007, the value is exempt:

30 (A) For eight successive years beginning January 1st of the year
31 immediately following the calendar year of issuance of the
32 certificate;

33 (B) For 12 successive years beginning January 1st of the year
34 immediately following the calendar year of issuance of the
35 certificate, if the property otherwise qualifies for the exemption
36 under this chapter and meets the conditions in this subsection
37 (1) (a) (ii) (B). For the property to qualify for the 12-year exemption
38 under this subsection, the applicant must commit to renting or
39 selling at least 20 percent of the multifamily housing units as

1 affordable housing units to either low-income or moderate-income
2 households, or both, and the property must satisfy that commitment
3 and any additional affordability and income eligibility conditions
4 adopted by the local government under this chapter. In the case of
5 projects intended exclusively for owner occupancy, the local
6 government must require the applicant to record a covenant or deed
7 restriction that ensures the affordability requirements and other
8 conditions of the exemption are met, and the minimum requirement of
9 this subsection (1)(a)(ii)(B) may be satisfied solely through housing
10 affordable to moderate-income households;

11 (C) For 20 successive years beginning January 1st of the year
12 immediately following the calendar year of issuance of the
13 certificate, if the property otherwise qualifies for the exemption
14 under this chapter and meets the conditions in this subsection
15 (1)(a)(ii)(C). For the property to qualify for the 20-year exemption
16 under this subsection, the project must be located within one mile of
17 high capacity transit of at least 15 minute scheduled frequency, in a
18 city that has implemented a mandatory inclusionary zoning requirement
19 for affordable housing that ensures affordability of housing units
20 for a period of at least 99 years and that has a population of at
21 least 15,000. To qualify for the exemption provided in this
22 subsection (1)(a)(ii)(C), the applicant must commit to renting at
23 least 20 percent of the dwelling units as affordable to low-income
24 households for a term of at least 99 years, and the property must
25 satisfy that commitment and all required affordability and income
26 eligibility conditions adopted by the local government under this
27 chapter. A city must require the applicant to record a covenant or
28 deed restriction that ensures the continuing rental of units subject
29 to these affordability requirements consistent with the conditions in
30 this subsection (1)(a)(ii)(C) for a period of no less than 99 years.
31 The covenant or deed restriction must also address criteria and
32 policies to maintain public benefit if the property is converted to a
33 use other than which continues to provide for permanently affordable
34 low-income housing consistent with this subsection (1)(a)(ii)(C); or

35 (D) For 20 successive years beginning January 1st of the year
36 immediately following the calendar year of issuance of the
37 certificate, if the property is located fully or partially with
38 [within] a station area of a city and meets the affordability
39 requirements in RCW 36.70A.840(7)(a). A county may approve an
40 exemption under this subsection for multifamily residential housing

1 within a station area if the property otherwise qualifies for the
2 exemption under this chapter and meets the density requirements in
3 RCW 36.70A.840(2)(a) and affordability requirements in RCW
4 36.70A.840(7)(a). A city or county must require the applicant to
5 record a covenant or deed restriction that ensures the continuing
6 rental or ownership of units subject to the affordability
7 requirements in RCW 36.70A.840(7)(a) for a period of no less than 50
8 years. The covenant or deed restriction must also address criteria
9 and policies to maintain public benefit if the property is converted
10 to a use other than one which continues to provide for permanently
11 affordable low-income housing consistent with RCW 36.70A.840(7)(a).
12 This exemption does not apply in tax increment financing areas in
13 effect prior to June 2, 2026; and

14 (iii) Until December 31, 2026, for a city as defined in RCW
15 84.14.010(3)(d), for 12 successive years beginning January 1st of the
16 year immediately following the calendar year of issuance of the
17 certificate, if the property otherwise qualifies for the exemption
18 under this chapter and meets the conditions in this subsection
19 (1)(a)(iii). For the property to qualify for the 12-year exemption
20 under this subsection, the applicant must commit to renting or
21 selling at least 20 percent of the multifamily housing units as
22 affordable housing units to either low-income or moderate-income
23 households, or both, the property must satisfy that commitment and
24 any additional affordability and income eligibility conditions
25 adopted by the local government under this chapter, and the area must
26 be zoned to have an average minimum density equivalent to 15 dwelling
27 units or more per gross acre. In the case of projects intended
28 exclusively for owner occupancy, the minimum requirement of this
29 subsection (1)(a)(iii) may be satisfied solely through housing
30 affordable to either low-income or moderate-income households, or
31 both.

32 (b) The exemptions provided in (a)(i) through (iii) of this
33 subsection do not include the value of land or nonhousing-related
34 improvements not qualifying under this chapter.

35 (c) For properties receiving an exemption as provided in
36 (a)(ii)(B) of this subsection that are in compliance with existing
37 contracts and where the certificate of tax exemption is set to expire
38 after June 11, 2020, but before December 31, 2021, the exemption is
39 extended until December 31, 2021, provided that the property must
40 satisfy any eligibility criteria or limitations provided in this

1 chapter as a condition to the existing exemption for a given property
2 continue to be met. For all properties eligible to receive an
3 extension pursuant to this subsection (1)(c), the city or county that
4 issued the initial certificate of tax exemption, as required in RCW
5 84.14.090, must notify the county assessor and the applicant of the
6 extension of the certificate of tax exemption.

7 (d) A county subject to the criteria for a residential targeted
8 area in RCW 84.14.040(1)(d)(ii) may not approve a certificate of tax
9 exemption eligibility for the eight-year exemption authorized under
10 (a)(ii)(A) of this subsection (1).

11 (2) When a local government adopts guidelines pursuant to RCW
12 84.14.030(2) and includes conditions that must be satisfied with
13 respect to individual dwelling units, rather than with respect to the
14 multiple-unit housing as a whole or some minimum portion thereof, the
15 exemption may, at the local government's discretion, be limited to
16 the value of the qualifying improvements allocable to those dwelling
17 units that meet the local guidelines.

18 (3) In the case of rehabilitation of existing buildings, the
19 exemption does not include the value of improvements constructed
20 prior to the submission of the application required under this
21 chapter. The incentive provided by this chapter is in addition to any
22 other incentives, tax credits, grants, or other incentives provided
23 by law.

24 (4) This chapter does not apply to increases in assessed
25 valuation made by the assessor on nonqualifying portions of building
26 and value of land nor to increases made by lawful order of a county
27 board of equalization, the department of revenue, or a county, to a
28 class of property throughout the county or specific area of the
29 county to achieve the uniformity of assessment or appraisal required
30 by law.

31 (5) At the conclusion of the exemption period, the value of the
32 new housing construction, conversion, or rehabilitation improvements
33 must be considered as new construction for the purposes of chapters
34 84.55 and 36.21 RCW as though the property was not exempt under this
35 chapter.

36 (6) For properties that qualified for, satisfied the conditions
37 of, and utilized the exemption under subsection (1)(a)(ii)(A) or (B)
38 of this section, following the initial exemption period or the
39 extension period authorized in subsection (1)(c) of this section, the
40 exemption period may be extended for an additional 12 years for

1 projects that are within 18 months of expiration contingent on city
2 or county approval. For the property to qualify for an extension
3 under this subsection (6), the applicant must meet at a minimum the
4 locally adopted requirements for the property to qualify for an
5 exemption under subsection (1)(a)(ii)(B) of this section as
6 applicable at the time of the extension application, and the
7 applicant commits to renting or selling at least 20 percent of the
8 multifamily housing units as affordable housing units for low-income
9 households.

10 (7) At the end of both the 10th and 11th years of an extension,
11 for 12-year extensions of the exemption, applicants must provide
12 tenants of rent-restricted units with notification of intent to
13 provide the tenant with rental relocation assistance as provided in
14 subsection (8) of this section.

15 (8)(a) Except as provided in (b) of this subsection, for any 12-
16 year exemption authorized under subsection (1)(a)(ii)(B) or (iii) of
17 this section after July 25, 2021, or for any 12-year exemption
18 extension authorized under subsection (6) of this section, at the
19 expiration of the exemption the applicant must provide tenant
20 relocation assistance in an amount equal to one month's rent to a
21 qualified tenant within the final month of the qualified tenant's
22 lease. To be eligible for tenant relocation assistance under this
23 subsection, the tenant must occupy an income-restricted unit at the
24 time the exemption expires and must qualify as a low-income household
25 under this chapter at the time relocation assistance is sought.

26 (b) If affordability requirements consistent, at a minimum, with
27 those required under subsection (1)(a)(ii)(B) or (iii) of this
28 section remain in place for the unit after the expiration of the
29 exemption, relocation assistance in an amount equal to one month's
30 rent must be provided to a qualified tenant within the final month of
31 a qualified tenant's lease who occupies an income-restricted unit at
32 the time those additional affordability requirements cease to apply
33 to the unit.

34 (9) For compliance with the affordability requirements of
35 subsection (1)(a)(ii)(B) or (C) or (a)(iii) of this section, a low-
36 income or moderate-income household that initially qualifies for an
37 income-restricted rental unit may continue to qualify as low-income
38 or moderate-income until their adjusted household income exceeds 150
39 percent of the established income limit.

1 (10) No new exemptions may be provided under this section
2 beginning on or after January 1, 2032. No extensions may be granted
3 under subsection (6) of this section on or after January 1, 2046.

4 **Sec. 7.** RCW 39.89.020 and 2022 c 38 s 1 are each amended to read
5 as follows:

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

8 (1) "Assessed value of real property" means the valuation of real
9 property as placed on the last completed assessment roll.

10 (2) "Increment area" means the geographic area from which taxes
11 are to be appropriated to finance public improvements authorized
12 under this chapter.

13 (3) "Increment value" means 75 percent of any increase in the
14 true and fair value of real property in an increment area that is
15 placed on the tax rolls after the increment area is created.

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

18 (5) "Ordinance" means any appropriate method of taking
19 legislative action by a local government.

20 (6) "Permanently affordable housing" means housing, regardless of
21 ownership, for which there is a legally binding, recorded document in
22 effect that limits the price at which the owner may sell or restricts
23 the occupancy of the unit to a qualified, low-income household, for a
24 period of at least 40 years for a property used for shelter or rental
25 housing, or for a period of at least 25 years for a property to be
26 owned by a low-income household. These documents include, but are not
27 limited to, affordability covenants, deed restrictions, and community
28 land trust leases. Resale restrictions exercised by providers of
29 permanently affordable housing can include, but are not limited to:

30 (a) Continuous ownership of land by a public entity or nonprofit
31 housing provider with a lease allowing ownership of the structure by
32 an income-eligible household;

33 (b) A nonpossessory interest or right in real property, such as a
34 deed restriction, restrictive covenant, resale restriction, or other
35 contractual agreement, that ensures affordability.

36 (7) "Public improvement costs" means the costs of: (a) Design,
37 planning, acquisition, site preparation, construction,
38 reconstruction, rehabilitation, improvement, and installation of
39 public improvements; (b) purchasing, rehabilitating, retrofitting for

1 energy efficiency, and constructing housing for the purpose of
2 creating or preserving permanently affordable housing; (c)
3 relocating, maintaining, and operating property pending construction
4 of public improvements; (d) relocating utilities as a result of
5 public improvements; (e) financing public improvements, including
6 interest during construction, legal and other professional services,
7 taxes, insurance, principal and interest costs on general
8 indebtedness issued to finance public improvements, and any necessary
9 reserves for general indebtedness; (f) assessments incurred in
10 revaluing real property for the purpose of determining the tax
11 allocation base value that are in excess of costs incurred by the
12 assessor in accordance with the revaluation plan under chapter 84.41
13 RCW, and the costs of apportioning the taxes and complying with this
14 chapter and other applicable law; and (g) administrative expenses and
15 feasibility studies reasonably necessary and related to these costs,
16 including related costs that may have been incurred before adoption
17 of the ordinance authorizing the public improvements and the use of
18 community revitalization financing to fund the costs of the public
19 improvements.

20 (8) "Public improvements" means:

21 (a) Infrastructure improvements within the increment area that
22 include:

- 23 (i) Street and road construction and maintenance;
- 24 (ii) Water and sewer system construction and improvements;
- 25 (iii) Sidewalks and streetlights;
- 26 (iv) Parking, terminal, and dock facilities;
- 27 (v) Park and ride facilities of a transit authority;
- 28 (vi) Park facilities and recreational areas;
- 29 (vii) Stormwater and drainage management systems; (~~and~~)
- 30 (viii) Permanently affordable housing; and
- 31 (ix) Public safety facilities; and

32 (b) Expenditures for any of the following purposes:

33 (i) Providing environmental analysis, professional management,
34 planning, and promotion within the increment area, including the
35 management and promotion of retail trade activities in the increment
36 area;

37 (ii) Providing maintenance and security for common or public
38 areas in the increment area; or

39 (iii) Historic preservation activities authorized under RCW
40 35.21.395.

1 (9) "Regular property taxes" means regular property taxes as
2 defined in RCW 84.04.140, except: (a) Regular property taxes levied
3 by port districts or public utility districts specifically for the
4 purpose of making required payments of principal and interest on
5 general indebtedness; and (b) regular property taxes levied by the
6 state for the support of the common schools under RCW 84.52.065.
7 Regular property taxes do not include excess property tax levies that
8 are exempt from the aggregate limits for junior and senior taxing
9 districts as provided in RCW 84.52.043.

10 (10) "Tax allocation base value" means the true and fair value of
11 real property located within an increment area for taxes imposed in
12 the year in which the increment area is created, plus 25 percent of
13 any increase in the true and fair value of real property located
14 within an increment area that is placed on the assessment rolls after
15 the increment area is created.

16 (11) "Tax allocation revenues" means those tax revenues derived
17 from the imposition of regular property taxes on the increment value
18 and distributed to finance public improvements.

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

22 (13) "Value of taxable property" means the value of the taxable
23 property as defined in RCW 39.36.015.

24 NEW SECTION. **Sec. 8.** This act takes effect June 2, 2026. The
25 provisions of this act do not modify or otherwise impact increment
26 areas in place prior to June 2, 2026.

--- END ---