
ENGROSSED SECOND SUBSTITUTE HOUSE BILL 2451

State of Washington

69th Legislature

2026 Regular Session

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

READ FIRST TIME 02/09/26.

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 most recently published by the
15 United States 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
34 that may have been incurred before adoption of the ordinance
35 authorizing the public improvements and the use of tax increment
36 financing to 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; and

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

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

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

24 (iii) Providing maintenance and security for the public
25 improvements;

26 (iv) Historic preservation activities authorized under RCW
27 35.21.395; or

28 (v) Relocation (~~and~~), renovation, or construction of a
29 government-owned facility(~~(, with written permission from the agency~~
30 ~~owning the facility and the office of financial management)).~~

31 (~~(+8)~~) (9) "Real property" means:

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

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

36 (~~(+9)~~) (10) "Regular property taxes" means regular property
37 taxes as defined in RCW 84.04.140, except: (a) Regular property taxes
38 levied by port districts or public utility districts to the extent
39 necessary for the payments of principal and interest on general
40 obligation debt; and (b) regular property taxes levied by the state

1 for the support of the common schools under RCW 84.52.065. Regular
2 property taxes do not include excess property tax levies that are
3 exempt from the aggregate limits for junior and senior taxing
4 districts as provided in RCW 84.52.043. "Regular property taxes" does
5 not include excess property taxes levied by local school districts or
6 emergency medical care and service taxes levied under RCW 84.52.069.

7 ~~((10))~~ (11) "Tax allocation base value" means the assessed
8 value of real property located within an increment area for taxes
9 imposed in the year in which the increment area takes effect.

10 ~~((11))~~ (12) "Tax allocation revenues" means those revenues
11 derived from the imposition of regular property taxes on the
12 increment value.

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

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

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

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

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

28 (c)(i) Except as provided in (c)(ii) of this subsection, the
29 increment area may not have an assessed valuation of more than
30 \$200,000,000 as adjusted annually by the consumer price index,
31 beginning on June 1, 2027, or more than 20 percent of the sponsoring
32 jurisdiction's total assessed valuation, whichever is less, when the
33 ordinance is passed. If a sponsoring jurisdiction creates two
34 increment areas, the total combined assessed valuation in both of the
35 two increment areas may not equal more than \$200,000,000 as adjusted
36 annually by the consumer price index, beginning on June 1, 2027, or
37 more than 20 percent of the sponsoring jurisdiction's total assessed
38 valuation, whichever is less, when the ordinances are passed creating
39 the increment areas.

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

4 (A) The sponsoring jurisdiction is a city with a population over
5 150,000 but less than 170,000 and is located in a county with a
6 population of over 1,500,000;

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

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

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

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

26 (e) The ordinance must set a sunset date for the increment area,
27 which (~~may~~) must be the earlier of no more than 25 years after the
28 first year in which tax allocation revenues are collected from the
29 increment area or the date on which the obligations issued in
30 reliance on the tax allocation revenues to finance the public
31 improvements are no longer outstanding;

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

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

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

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

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

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

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

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

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

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

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

5 (a) A statement of objectives of the local government for the
6 designated increment area;

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

9 (c) The duration of the increment area;

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

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

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

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

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

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

37 (i) Affordable and low-income housing;

38 (ii) The local business community;

39 (iii) The local school districts; and

1 (iv) ~~The ((local fire service, public hospital service, and~~
2 ~~emergency medical services)) taxing districts; and~~

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

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

11 (ii) Any necessary mitigation to the ((local fire service, public
12 hospital service, and emergency medical services; and

13 ~~(k) An assessment of any impacts of any other junior taxing~~
14 ~~districts not referenced in (i) of this subsection (2)) taxing~~
15 ~~districts.~~

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

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

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

37 (b) If the parties cannot agree pursuant to (a) of this
38 subsection (5), the parties must proceed to arbitration to determine
39 the appropriate mitigation plan. The board of arbitrators must
40 consist of three persons: One appointed by the local government

1 seeking to designate the increment area and one appointed by the
2 junior taxing district, both of whom must be appointed within 60 days
3 of the date when arbitration is requested, and a third arbitrator who
4 must be appointed by agreement of the other two arbitrators within 90
5 days of the date when arbitration is requested. If the two are unable
6 to agree on the appointment of the third arbitrator within this 90-
7 day period, then the third arbitrator must be appointed by a judge in
8 the superior court of the county within which the largest portion of
9 the increment area is located. The determination by the board of
10 arbitrators is binding on both the local government seeking to impose
11 the increment area and the junior taxing district.

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

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

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

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

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

31 (b) If voters in the impacted taxing district elect to authorize
32 an increase in regular property tax levies under RCW 84.55.050, the
33 impacted taxing district and the local government designating an
34 increment area must review the agreement and address impacts related
35 to the levy lid lift. Either party may initiate a review of any
36 agreement no more frequently than every five years. Subsequent
37 revisions of an agreement are not subject to arbitration.

38 (c) If the parties cannot agree to a final agreement pursuant to
39 (a) of this subsection (6), the parties must proceed to mediation

1 within 30 days of the end of the notice and consultation period in
2 RCW 39.114.040 to further attempt to reach an agreement.

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

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

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

27 (iii) How the increment area may impact taxpayers outside of the
28 increment area;

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

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

34 (e) Mitigation may include reductions or suspensions in the
35 percentage or term of tax allocation revenues transferred to the
36 local government designating the increment area, the use of tax
37 allocation revenues to fund public improvements to serve the
38 projected development in the increment area, and other provisions
39 designed to mitigate the impacts on taxing districts. Mitigation may
40 not include allowing a taxing district to opt out or be removed from

1 participation in the tax allocation and increment area. Any decision
2 must be consistent with the uniformity requirement of Article VII,
3 section 1 of the state Constitution.

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

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

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

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

27 (c) Submit the project analysis to the office of the treasurer
28 for review and consider any comments that the treasurer may provide
29 upon completion of their review of the project analysis as provided
30 under this subsection. The treasurer must complete the review within
31 90 days of receipt of the project analysis, may receive comments from
32 taxing districts, and may consult with other agencies and outside
33 experts as necessary. Upon completing their review, the treasurer
34 must promptly provide to the local government, and any taxing
35 district that submitted comments, any comments regarding suggested
36 revisions or enhancements to the project analysis that the treasurer
37 deems appropriate based on the requirements in subsection (2) of this
38 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 may 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 state treasurer as required in RCW 39.114.020 ~~((+7))~~ (8)(c)
22 and offer to consult with the affected taxing district within 30 days
23 for 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) If the voters of a taxing district subsequently approve an
28 increase in regular property tax levies under RCW 84.55.050, the tax
29 allocation base value used to calculate the apportionment applicable
30 to that taxing district must be increased in the year following the
31 voter approval by an amount equal to (A) the incremental increase in
32 the levy rate approved by the voters, multiplied by (B) the total
33 assessed value within the district for that year. For this purpose,
34 the incremental increase in the levy rate means the difference
35 between the maximum voter-approved levy rates set forth in the ballot
36 measure and the maximum levy rate that would have been available for
37 that year but for the voter approval of the ballot measure;

38 (iii) The amount of the increased tax allocation base value
39 calculated in (a) (ii) of this subsection shall remain fixed at that

1 increased level for so long as the voter authorization for the
2 increased levy remains in effect, in accordance with the ballot
3 proposition. Upon expiration of the voter authorization, the tax
4 allocation base value for that district must be recalculated as if
5 the ballot proposition had not been approved;

6 (b) The local government that designated the increment area shall
7 be entitled to receive an additional amount equal to the amount
8 derived from the regular property taxes levied by or for each taxing
9 district upon the increment value within the increment area. The
10 local government that designated the increment area shall receive no
11 more than is needed to pay or repay costs directly associated with
12 the public improvements identified in the approved ordinance and may
13 agree to receive less than the full amount of this portion, as long
14 as bond debt service, reserve, and other bond covenant requirements
15 are satisfied, in which case the balance of these tax receipts shall
16 be allocated to the taxing districts that imposed regular property
17 taxes, or have regular property taxes imposed for them, in the
18 increment area for collection that year in proportion to their
19 regular tax levy rates for collection that year. The local government
20 may request that the treasurer transfer this additional portion of
21 the property taxes to its designated agent. The portion of the tax
22 receipts distributed to the local government or its agent under this
23 subsection (1)(b) may only be expended to finance public improvement
24 costs associated with the public improvements financed in whole or in
25 part by tax increment financing; and

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

28 (i) The state for the support of the common schools under RCW
29 84.52.065;

30 (ii) Local school district excess levies and emergency medical
31 care and service levies under RCW 84.52.069; and

32 (iii) Port districts or public utility districts specifically for
33 the purpose of making required payments of principal and interest or
34 general indebtedness.

35 (2) The apportionment of tax allocation revenues must cease when
36 the taxing district certifies to the county assessor in writing that
37 tax allocation revenues are no longer necessary or obligated to pay
38 public improvement costs, but in no event shall the apportionment of
39 tax allocation revenues continue beyond the sunset date established
40 pursuant to RCW 39.114.020(1)(e). Any excess tax allocation revenues

1 and earnings on the tax allocation revenues remaining at the time the
2 apportionment of tax receipts terminates must be returned to the
3 county treasurer and distributed to the taxing districts that imposed
4 regular property taxes, or had regular property taxes imposed for it,
5 in the increment area for collection that year, in proportion to the
6 rates of their regular property tax levies for collection that year.

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

12 (4) The apportionment and distribution of portions of the regular
13 property taxes levied by or for each taxing district upon the
14 increment value within the increment area pursuant to this section
15 shall not affect or be deemed to affect the rate of taxes levied by
16 or within any such taxing district or the consistency of any such
17 levies with the uniformity requirement of Article VII, section 1 of
18 the state Constitution.

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

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

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

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

36 (i) For properties for which applications for certificates of tax
37 exemption eligibility are submitted under this chapter before July
38 22, 2007, the value is exempt for 10 successive years beginning

1 January 1st of the year immediately following the calendar year of
2 issuance of the certificate;

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

6 (A) For eight successive years beginning January 1st of the year
7 immediately following the calendar year of issuance of the
8 certificate;

9 (B) For 12 successive years beginning January 1st of the year
10 immediately following the calendar year of issuance of the
11 certificate, if the property otherwise qualifies for the exemption
12 under this chapter and meets the conditions in this subsection
13 (1)(a)(ii)(B). For the property to qualify for the 12-year exemption
14 under this subsection, the applicant must commit to renting or
15 selling at least 20 percent of the multifamily housing units as
16 affordable housing units to either low-income or moderate-income
17 households, or both, and the property must satisfy that commitment
18 and any additional affordability and income eligibility conditions
19 adopted by the local government under this chapter. In the case of
20 projects intended exclusively for owner occupancy, the local
21 government must require the applicant to record a covenant or deed
22 restriction that ensures the affordability requirements and other
23 conditions of the exemption are met, and the minimum requirement of
24 this subsection (1)(a)(ii)(B) may be satisfied solely through housing
25 affordable to moderate-income households;

26 (C) For 20 successive years beginning January 1st of the year
27 immediately following the calendar year of issuance of the
28 certificate, if the property otherwise qualifies for the exemption
29 under this chapter and meets the conditions in this subsection
30 (1)(a)(ii)(C). For the property to qualify for the 20-year exemption
31 under this subsection, the project must be located within one mile of
32 high capacity transit of at least 15 minute scheduled frequency, in a
33 city that has implemented a mandatory inclusionary zoning requirement
34 for affordable housing that ensures affordability of housing units
35 for a period of at least 99 years and that has a population of at
36 least 15,000. To qualify for the exemption provided in this
37 subsection (1)(a)(ii)(C), the applicant must commit to renting at
38 least 20 percent of the dwelling units as affordable to low-income
39 households for a term of at least 99 years, and the property must
40 satisfy that commitment and all required affordability and income

1 eligibility conditions adopted by the local government under this
2 chapter. A city must require the applicant to record a covenant or
3 deed restriction that ensures the continuing rental of units subject
4 to these affordability requirements consistent with the conditions in
5 this subsection (1)(a)(ii)(C) for a period of no less than 99 years.
6 The covenant or deed restriction must also address criteria and
7 policies to maintain public benefit if the property is converted to a
8 use other than which continues to provide for permanently affordable
9 low-income housing consistent with this subsection (1)(a)(ii)(C).
10 This exemption does not apply in tax increment financing areas in
11 effect prior to June 2, 2026; or

12 (D) For 20 successive years beginning January 1st of the year
13 immediately following the calendar year of issuance of the
14 certificate, if the property is located fully or partially with
15 [within] a station area of a city and meets the affordability
16 requirements in RCW 36.70A.840(7)(a). A county may approve an
17 exemption under this subsection for multifamily residential housing
18 within a station area if the property otherwise qualifies for the
19 exemption under this chapter and meets the density requirements in
20 RCW 36.70A.840(2)(a) and affordability requirements in RCW
21 36.70A.840(7)(a). A city or county must require the applicant to
22 record a covenant or deed restriction that ensures the continuing
23 rental or ownership of units subject to the affordability
24 requirements in RCW 36.70A.840(7)(a) for a period of no less than 50
25 years. The covenant or deed restriction must also address criteria
26 and policies to maintain public benefit if the property is converted
27 to a use other than one which continues to provide for permanently
28 affordable low-income housing consistent with RCW 36.70A.840(7)(a).
29 This exemption does not apply in tax increment financing areas in
30 effect prior to June 2, 2026; and

31 (iii) Until December 31, 2026, for a city as defined in RCW
32 84.14.010(3)(d), for 12 successive years beginning January 1st of the
33 year immediately following the calendar year of issuance of the
34 certificate, if the property otherwise qualifies for the exemption
35 under this chapter and meets the conditions in this subsection
36 (1)(a)(iii). For the property to qualify for the 12-year exemption
37 under this subsection, the applicant must commit to renting or
38 selling at least 20 percent of the multifamily housing units as
39 affordable housing units to either low-income or moderate-income
40 households, or both, the property must satisfy that commitment and

1 any additional affordability and income eligibility conditions
2 adopted by the local government under this chapter, and the area must
3 be zoned to have an average minimum density equivalent to 15 dwelling
4 units or more per gross acre. In the case of projects intended
5 exclusively for owner occupancy, the minimum requirement of this
6 subsection (1)(a)(iii) may be satisfied solely through housing
7 affordable to either low-income or moderate-income households, or
8 both.

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

12 (c) For properties receiving an exemption as provided in
13 (a)(ii)(B) of this subsection that are in compliance with existing
14 contracts and where the certificate of tax exemption is set to expire
15 after June 11, 2020, but before December 31, 2021, the exemption is
16 extended until December 31, 2021, provided that the property must
17 satisfy any eligibility criteria or limitations provided in this
18 chapter as a condition to the existing exemption for a given property
19 continue to be met. For all properties eligible to receive an
20 extension pursuant to this subsection (1)(c), the city or county that
21 issued the initial certificate of tax exemption, as required in RCW
22 84.14.090, must notify the county assessor and the applicant of the
23 extension of the certificate of tax exemption.

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

28 (2) When a local government adopts guidelines pursuant to RCW
29 84.14.030(2) and includes conditions that must be satisfied with
30 respect to individual dwelling units, rather than with respect to the
31 multiple-unit housing as a whole or some minimum portion thereof, the
32 exemption may, at the local government's discretion, be limited to
33 the value of the qualifying improvements allocable to those dwelling
34 units that meet the local guidelines.

35 (3) In the case of rehabilitation of existing buildings, the
36 exemption does not include the value of improvements constructed
37 prior to the submission of the application required under this
38 chapter. The incentive provided by this chapter is in addition to any
39 other incentives, tax credits, grants, or other incentives provided
40 by law.

1 (4) This chapter does not apply to increases in assessed
2 valuation made by the assessor on nonqualifying portions of building
3 and value of land nor to increases made by lawful order of a county
4 board of equalization, the department of revenue, or a county, to a
5 class of property throughout the county or specific area of the
6 county to achieve the uniformity of assessment or appraisal required
7 by law.

8 (5) At the conclusion of the exemption period, the value of the
9 new housing construction, conversion, or rehabilitation improvements
10 must be considered as new construction for the purposes of chapters
11 84.55 and 36.21 RCW as though the property was not exempt under this
12 chapter.

13 (6) For properties that qualified for, satisfied the conditions
14 of, and utilized the exemption under subsection (1)(a)(ii)(A) or (B)
15 of this section, following the initial exemption period or the
16 extension period authorized in subsection (1)(c) of this section, the
17 exemption period may be extended for an additional 12 years for
18 projects that are within 18 months of expiration contingent on city
19 or county approval. For the property to qualify for an extension
20 under this subsection (6), the applicant must meet at a minimum the
21 locally adopted requirements for the property to qualify for an
22 exemption under subsection (1)(a)(ii)(B) of this section as
23 applicable at the time of the extension application, and the
24 applicant commits to renting or selling at least 20 percent of the
25 multifamily housing units as affordable housing units for low-income
26 households.

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

32 (8)(a) Except as provided in (b) of this subsection, for any 12-
33 year exemption authorized under subsection (1)(a)(ii)(B) or (iii) of
34 this section after July 25, 2021, or for any 12-year exemption
35 extension authorized under subsection (6) of this section, at the
36 expiration of the exemption the applicant must provide tenant
37 relocation assistance in an amount equal to one month's rent to a
38 qualified tenant within the final month of the qualified tenant's
39 lease. To be eligible for tenant relocation assistance under this
40 subsection, the tenant must occupy an income-restricted unit at the

1 time the exemption expires and must qualify as a low-income household
2 under this chapter at the time relocation assistance is sought.

3 (b) If affordability requirements consistent, at a minimum, with
4 those required under subsection (1)(a)(ii)(B) or (iii) of this
5 section remain in place for the unit after the expiration of the
6 exemption, relocation assistance in an amount equal to one month's
7 rent must be provided to a qualified tenant within the final month of
8 a qualified tenant's lease who occupies an income-restricted unit at
9 the time those additional affordability requirements cease to apply
10 to the unit.

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

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

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

22 The definitions in this section apply throughout this chapter
23 unless the context clearly requires otherwise.

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

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

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

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

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

36 (6) "Permanently affordable housing" means housing, regardless of
37 ownership, for which there is a legally binding, recorded document in
38 effect that limits the price at which the owner may sell or restricts
39 the occupancy of the unit to a qualified, low-income household, for a

1 period of at least 40 years for a property used for shelter or rental
2 housing, or for a period of at least 25 years for a property to be
3 owned by a low-income household. These documents include, but are not
4 limited to, affordability covenants, deed restrictions, and community
5 land trust leases. Resale restrictions exercised by providers of
6 permanently affordable housing can include, but are not limited to:

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

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

13 (7) "Public improvement costs" means the costs of: (a) Design,
14 planning, acquisition, site preparation, construction,
15 reconstruction, rehabilitation, improvement, and installation of
16 public improvements; (b) purchasing, rehabilitating, retrofitting for
17 energy efficiency, and constructing housing for the purpose of
18 creating or preserving permanently affordable housing; (c)
19 relocating, maintaining, and operating property pending construction
20 of public improvements; (d) relocating utilities as a result of
21 public improvements; (e) financing public improvements, including
22 interest during construction, legal and other professional services,
23 taxes, insurance, principal and interest costs on general
24 indebtedness issued to finance public improvements, and any necessary
25 reserves for general indebtedness; (f) assessments incurred in
26 revaluing real property for the purpose of determining the tax
27 allocation base value that are in excess of costs incurred by the
28 assessor in accordance with the revaluation plan under chapter 84.41
29 RCW, and the costs of apportioning the taxes and complying with this
30 chapter and other applicable law; and (g) administrative expenses and
31 feasibility studies reasonably necessary and related to these costs,
32 including related costs that may have been incurred before adoption
33 of the ordinance authorizing the public improvements and the use of
34 community revitalization financing to fund the costs of the public
35 improvements.

36 (8) "Public improvements" means:

37 (a) Infrastructure improvements within the increment area that
38 include:

39 (i) Street and road construction and maintenance;

40 (ii) Water and sewer system construction and improvements;

- 1 (iii) Sidewalks and streetlights;
- 2 (iv) Parking, terminal, and dock facilities;
- 3 (v) Park and ride facilities of a transit authority;
- 4 (vi) Park facilities and recreational areas;
- 5 (vii) Stormwater and drainage management systems; (~~and~~)
- 6 (viii) Permanently affordable housing; and
- 7 (ix) Public safety facilities; and

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

9 (i) Providing environmental analysis, professional management,
10 planning, and promotion within the increment area, including the
11 management and promotion of retail trade activities in the increment
12 area;

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

15 (iii) Historic preservation activities authorized under RCW
16 35.21.395.

17 (9) "Regular property taxes" means regular property taxes as
18 defined in RCW 84.04.140, except: (a) Regular property taxes levied
19 by port districts or public utility districts specifically for the
20 purpose of making required payments of principal and interest on
21 general indebtedness; and (b) regular property taxes levied by the
22 state for the support of the common schools under RCW 84.52.065.
23 Regular property taxes do not include excess property tax levies that
24 are exempt from the aggregate limits for junior and senior taxing
25 districts as provided in RCW 84.52.043.

26 (10) "Tax allocation base value" means the true and fair value of
27 real property located within an increment area for taxes imposed in
28 the year in which the increment area is created, plus 25 percent of
29 any increase in the true and fair value of real property located
30 within an increment area that is placed on the assessment rolls after
31 the increment area is created.

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

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

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

1 NEW SECTION. **Sec. 8.** The provisions of this act do not modify
2 or otherwise impact increment areas in place prior to June 2, 2026.

3 NEW SECTION. **Sec. 9.** This act is necessary for the immediate
4 preservation of the public peace, health, or safety, or support of
5 the state government and its existing public institutions, and takes
6 effect June 2, 2026.

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