Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1189

Brief Description: Authorizing tax increment financing for local governments.

Sponsors: Representatives Duerr, Boehnke, Bateman, Sullivan, Fitzgibbon, Walen, Ramel, Springer, Wicks, Slatter, Pollet, Callan and Harris-Talley.

Brief Summary of Bill

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

Hearing Date: 1/26/21

Staff: Rachelle Harris (786-7137).

Background:

Property Tax.
All real and personal property in the state is subject to property tax each year based on its value, unless specific exemption is provided by law. Property taxes are levied by the state and many local jurisdictions, including counties, cities, and local school, fire, park, and library districts. Property taxes are collected by the county and distributed to the levying jurisdiction. The county assessor determines the value of real and personal property for tax purposes, and calculates and certifies levy rates for most taxing districts. The Washington Constitution (Constitution) requires that taxes be uniform within a class of property. The annual growth of all regular property tax levy revenue is limited as follows:

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

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lesser of inflation or 1 percent plus the value of new construction.

The Constitution also provides for a levy rate limit of $10 per $1,000 of assessed value, referred to as the constitutional $10 limit.

Tax Increment Financing.
Tax increment financing (TIF) is a method of allocating a portion of property taxes to finance public improvements in designated areas. Typically, under a TIF program, a local government issues bonds to finance public improvements. To repay its bondholders, the local government is permitted to draw upon regular property tax revenue from increases in assessed value inside a special district surrounding the site of the public improvements.

Summary of Bill:

Creation of a Tax Increment Financing area.
A local government may finance public improvements using tax increment financing. To do so, the local government must adopt an ordinance designating a specific increment area within its boundaries. Public improvements that are to be financed with the use of TIF must be specified. The increment area cannot include the area of the entire jurisdiction of the local government. A local government can have no more than three active increment areas at any given time and they may not physically overlap. An increment area must be retired after no more than 25 years.

Prior to establishing an increment area the local government must complete a project analysis that includes objectives for the public improvement projects, identification of properties within the financing area, assessments of likely job creation and private development expected from the project, potential impacts and mitigation measures needed, etc.

A local government designating a tax increment financing area may issue general obligation bonds to finance the public improvements within an increment area. Any increased in assessed value within a tax increment area is included in the add-ons for purposes of the revenue growth limit calculation.

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

Each taxing district shall receive that portion of its regular property taxes produced by the rate of tax levied by the taxing district on the tax allocation base value for that tax increment financing project in the taxing district.

The local government that created the increment area shall receive an additional portion of the regular property taxes levied by each taxing district upon the increment value within the increment area. The local government that created the increment area may agree to receive less than the full amount of this portion as long as bond debt service, reserve, and other bond covenant requirements are satisfied. The portion of the tax receipts distributed to the local government may only be expended to finance public improvement costs associated financed by TIF.

The apportionment of increases in assessed valuation in an increment area cease when tax allocation revenues are no longer necessary to pay the costs of the public improvements. Any excess tax allocation revenues must be returned to the county treasurer and distributed to the taxing districts that imposed regular property taxes.

Appropriation: None.

Fiscal Note: Requested on January 18, 2021.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.