

MEMORANDUM

Date: August 7, 2008
To: CODAC Board Members
Subject: Tax Incremental Financing in Washington State

Definition and Background

Tax Increment Financing (TIF) is a tool to redistribute incremental changes in property taxes to subsidize infrastructure projects within a specific jurisdiction.

Tax Increment Financing is defined in the Revised Code Washington (RCW) under chapter 39.88 RCW, the Community Redevelopment Financing Act (CRFA). Under chapter 39.88 RCW, the City of Seattle could target a specific area for infrastructure improvements that would be paid for using bonds. The development, implementation, and consequences of these infrastructure improvements would increase the assessed value of properties in the area. TIF could then used to apply the incremental increase in taxes garnered from existing property as well as property taxes garnered from newly developed property toward the principle and interest of the bonds used to finance the project.

Leonard v. Spokane

In 1995 the Washington State Supreme Court struck down the CRFA because it violated Article IX, § 2 of the Washington State Constitution. The Court ruled the TIF was being used to redirect funds that were supposed to be used for schools. Article IX, § 2 holds that “the entire revenue derived from the common school fund and the state tax for common schools shall be exclusively applied to the support of the common schools.” The voters denied attempts in 1973, 1984 and 1985 to change the state constitution in order to allow tax incremental financing.

Engrossed Substitute House Bill 1418 (TIF Act)¹

In 2001, Governor Gary Locke signed the TIF Act into existence. The TIF Act allows cities, counties and port districts to designate a specific area as an “increment areas” and use a portion of the increment increase in general property taxes to pay back general obligation bonds used to finance local improvement projects. The act was originally designed to expire in 2010 but this provision was repealed the following year.

"Public improvements" as defined under [the TIF Act] (i) street and road construction and maintenance, (ii) water and sewer system construction and improvements, (iii) sidewalks and streetlights, (iv) parking, terminal, and dock facilities, (v) park and ride facilities of a transit authority, (vi) park facilities and recreational areas, and (vii) storm water and drainage management systems. "Public Improvements" also includes expenditures for (i) providing environmental analysis, professional management, planning, and promotion within the increment area, including the management and promotion of retail trade activities in the increment area, (ii) providing maintenance and security for common or public areas in the increment area, or (iii) historic preservation activities authorized under RCW 35.21.395.

¹ Attachment 1 explains TIF financing in greater detail

The TIF Act (codified as RCW chapter 39.89) differs from RCW chapter 39.88 because the TIF Act only allows 75 percent of the increment increase in regular property taxes to be used and exempts property taxes that are designated for common schools and other constitutionally mandated purposes.

Limitations

Application of the TIF Act is limited because:

- Only 75 percent of the incremental increase can be used to repay general obligation bonds
- The City would need to conduct a feasibility study. Estimates indicate that a TIF financing is only viable if \$1 million in bond yield at least \$35 million in increase in assessed value²

Local Infrastructure Financing Tool (LIFT)

In 2006, the legislature passed RCW 39.102. This chapter created LIFT in order to spur private investment in a Revenue Development Area (RDA) and increase the fair market value of property within an RDA. LIFT allows local governments including cities, counties, towns, port districts, or federally recognized Indian Reservations to apply incremental increases in revenue generated within the RDA to general obligation bonds issued to finance public improvements. The incremental increases can be credited against state sales and use taxes in an amount of up to \$1 million per year for up to 25 years.

Limitations

LIFT is unfeasible and unavailable to the City of Seattle until, at the earliest, 2033.

- *Unfeasible*: the RCW stipulates that the total assessed value of the RDA cannot exceed \$1 billion dollars
- *Unavailable*: because the RCW stipulates only one RDA per county. In 2007 the City of Bothell was allowed to create an RDA in order to further develop transportation infrastructure from 2008 until 2033

² *TIF Update*. Jeffrey C. Nave. Municipal & Public Finance News. October 2001.