



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

P.O. Box 47454 • Olympia, Washington 98504-7454 • (360) 534-1600 • FAX (360) 534-1606

June 1, 2016

TO: Hunter Goodman, Secretary
Washington State Senate

Barbara Baker, Chief Clerk
Washington State House of Representatives

FROM: Vikki Smith, Director 

SUBJECT: Local Revitalization Financing Program Report

RCW 82.32.765 requires that the Department of Revenue issue an annual report on the activity to date for the Local Revitalization Financing (LRF) program adopted by the Legislature in 2009. This program provides state support for local jurisdictions in conjunction with financing of public improvements in revitalization areas in order to encourage the location and expansion of businesses within the areas.

As noted in the report, there are 18 revitalization areas sponsored by 17 different local governments. Out of the 18 revitalization areas, seven were eligible to impose the local sales and use tax on July 1, 2010, and the rest were eligible to impose the local sales and use tax on July 1, 2011. Two sponsoring local governments chose to impose the tax on July 1, 2010; four additional jurisdictions imposed the tax on July 1, 2011; and three more jurisdictions imposed the tax on July 1, 2013.

This report was prepared by Diana Tibbetts, Tax Policy Specialist, under the direction of Kathy Oline, Assistant Director of the Research and Fiscal Analysis Division. The report is available on our website at: <http://www.dor.wa.gov/Content/AboutUs/StatisticsAndReports/Default.aspx>.

If you have questions about this report, please contact Kathy at (360) 534-1534.

Attachment

cc: Members, Senate Ways and Means Committee
Members, House Finance Committee
Members, House Appropriations Committee
David Schumacher, Director, Office of Financial Management

Local Revitalization Financing Program

2016 Report to the Legislature

Covering Calendar Year 2015 Activity

Pursuant to RCW 82.32.765



Program Overview

During the 2009 legislative session, the Legislature adopted 2SSB 5045 Chapter 270 creating the Local Revitalization Financing (LRF) program. The program helps local governments finance public improvement projects that encourage private development within a revitalization area. The program requires the Department of Revenue (Department) to make a report available to the public and the Legislature by June 1 of each year. The report summarizes information provided by sponsoring local governments. This report covers Calendar Year 2015 activity for the LRF program, as required by RCW 82.32.765.

During the 2016 legislative session, the Legislature passed ESSB 5109 which amended the statutes authorizing the current program. Local governments approved for a project award prior to January 1, 2011, but not imposing the LRF sales and use tax by December 1, 2016, must forfeit their project award. Local governments can avoid forfeiting their award by sending the Department a letter by July 1, 2016, stating their intent to impose the tax by July 1, 2022. Any funds forfeited under these circumstances will be available for new LRF applications. Any new LRF applications must now be submitted to the Department of Commerce for approval. The amount of any forfeited funds will not be known until after July 1, 2016.

Program Use

The original statute outlines the LRF award amounts for seven demonstration projects totaling \$2.25 million. Jurisdictions applied for additional funds on a competitive, first-come basis. The Department granted six competitive LRF awards in 2009 totaling \$2.5 million.

In 2010, the Legislature amended the LRF statutes (E2SSB 6609, Chapter 164, Laws of 2010) to increase the maximum state contribution for demonstration projects from \$2.25 million to \$4.2 million. The legislation allowed six jurisdictions to resubmit applications for approval in 2010. Five jurisdictions resubmitted applications. The city of Newcastle chose not to resubmit the application for its possible \$40,000 award. This brought the total LRF award amounts for demonstration projects up to \$4.16 million.

In 2015, the Legislature amended the LRF statutes (SB 5249, Chapter 112, Laws of 2015) by eliminating the requirement to issue bonds for demonstration projects authorized by RCW 82.14.505(1)(a)(iii), or any city receiving a project award under RCW 39.104.100 of less than \$150,000.

Overall, the state granted 18 revitalization areas LRF awards totaling \$6.66 million statewide.

LRF Projects and Award Amounts

Sponsoring Local Government	Revitalization Area	Date LRF imposed or estimated year to impose tax	LRF Award Amount
2009 Demonstration Projects			
Auburn	Auburn Revitalization Area	7/01/2010	\$250,000
Bremerton	Park Plaza Revitalization Area	7/01/2010	\$330,000
Spokane	Spokane University Revitalization Area	7/01/2011	\$250,000
Tacoma	The Link Revitalization Area	7/01/2016	\$500,000
University Place	Towne Center Revitalization Area	7/01/2011	\$500,000
Vancouver	Columbia Waterfront Revitalization Area	7/01/2011	\$220,000
Whitman County*	Paradise Creek Revitalization Area	2017 or 2018	\$200,000
2009 Competitive, First-Come Projects			
Bellevue	Bellevue Revitalization Area #1	7/01/2013	\$500,000
Clark County*	179 th Street Revitalization Area	2019	\$500,000
Federal Way*	Federal Way Village LRA	Unknown	\$100,000
Kennewick	Southridge Revitalization Area	7/01/2011	\$500,000
Renton*	Port Quendall	2017	\$400,000
Wenatchee	Wenatchee Waterfront Revitalization Area	7/01/2013	\$500,000
2010 Demonstration Projects			
Lacey*	Lacey Gateway Towne Center	2020	\$500,000
Mill Creek*	East Gateway Planned Urban Village Revitalization Area	2017	\$330,000
Puyallup*	River Road Revitalization Area, Phase 1	Unknown	\$250,000
Renton*	South Lake Washington	2017	\$500,000
Richland	Richland Revitalization Area for Industry, Science and Education	7/01/2013	\$330,000

*Jurisdiction must send a letter to the Department by July 1, 2016 to avoid forfeiting the LRF award.

Program Summary

LRF allows cities and counties to create “revitalization areas.” The Department administers the LRF program. The program allows the following to pay bonds issued for financing local public improvements within the revitalization area (RA):

- Increases in local sales and use tax revenues generated within the area;
- Increases in property tax revenues generated within the area;
- Additional funds from other local public sources; and
- A state contribution.

The state provides money to the local government sponsoring the LRF area through a local sales and use tax under RCW 82.14.510 (commonly referred to as the “LRF tax”). This local sales and use tax is credited against the state sales and use tax, so it does not increase the sales and use tax rate for the consumer. Instead, the LRF tax shifts revenue from the state general fund to the sponsoring local government.

To impose the LRF tax, a local government submitted an application to the Department. The Department then approved the state contribution known as the LRF award. The sponsoring local government was also required to issue bonds to finance public improvements in the revitalization area. Except for the demonstration projects approved in 2009, the sponsoring local government must show that the combined state sales and use tax and property tax increments in the preceding calendar year are greater than or equal to the LRF award approved by the Department.

The rate for the LRF tax may be as high as 6.5 percent less any existing rates credited against the state sales and use tax and any tax revenues for performance audits. However, the rate must be no higher than the rate needed for the local government to receive its entire annual state contribution of money in ten months.

The amount of local matching funds dedicated by the sponsoring local government in the preceding calendar year for LRF limits the amount of the LRF tax revenue distributed each fiscal year.

The tax must pay off bonds that finance the public improvements. The state contribution must match funds from local public sources dedicated to either:

- Paying the bonds, or
- Paying for public improvements in the revitalization area on a pay-as-you-go basis.

The state contribution continues for 25 years or until the bonds are paid off, whichever is sooner.

Demonstration projects awarded in 2009 allowed local governments to impose the LRF tax as early as July 1, 2010. The first-come projects awarded in 2009 and the demonstration projects approved in 2010 allowed local governments to impose the LRF tax as early as July 1, 2011. The LRF program limits the annual state contribution to \$4.16 million for demonstration projects and \$2.5 million for competitive projects. Each project receives up to the approved award amount each fiscal year.

Local governments estimate and report annually to the Department the increase in state and local sales and use taxes in the revitalization area. At least every three years, local governments must review and update these estimates. After award approval, local jurisdictions must estimate the state benefit from revitalization areas. The state benefit includes the increase in state property tax and the increase in state excise tax received since approval of the revitalization area.

Program Results

The law (RCW 82.32.765) requires the Department to annually summarize and report the information provided by local governments. The following lists the local jurisdiction reporting requirements:

- The local property tax allocation revenues received in the preceding calendar year broken down by sponsoring local government and participating taxing districts (Local jurisdictions don't receive the local property tax increments until the second calendar year after award approval);
- The estimated state property tax allocation revenues received by the state in the preceding calendar year (Local jurisdictions don't receive the state property tax increments until the second calendar year after award approval);
- The local sales and use tax and other revenue from local public sources dedicated by any participating local government and used for the payment of bonds and public improvements within the revitalization area on a pay-as-you-go basis in the preceding calendar year;
- The local sales and use tax dedicated by the sponsoring local government, as it relates to the sponsoring local government's local sales and use tax increment, used for the payment of bonds and public improvements within the revitalization area on a pay-as-you-go basis in the preceding calendar year;
- All other revenue from local public sources, broken down by type and source, used for payment of bonds and public improvements within the revitalization area on a pay-as-you-go basis in the preceding calendar year;
- The names of businesses locating within the revitalization area as a result of public improvements undertaken by the sponsoring local government and financed in whole or part by LRF;
- An estimate of the cumulative number of permanent jobs created in the revitalization area as a result of public improvements undertaken by the sponsoring local government and financed in whole or part by LRF;
- An estimate of the average wages and benefits received by all employees of businesses locating within the revitalization area as a result of public improvements undertaken by the sponsoring local government and financed in whole or part by LRF;
- A list of public improvements financed by bonds and the anticipated date when bonds retire;
- Proof that the sponsoring local government is in compliance with the conditions of the LRF program;
- At least every three years, updated estimates of the state and local sales and use tax increments received since the approval of the project by the Department; and
- Any other information required to enable the Department to fulfill its duties under the law.

All jurisdictions submitted the 2015 LRF Annual Report to the Department and certified compliance with the requirements of the program.

- Auburn and Bremerton issued bonds and imposed the LRF tax on July 1, 2010.
- Kennewick, Spokane, University Place and Vancouver issued bonds and imposed the LRF tax on July 1, 2011.
- Bellevue, Richland and Wenatchee issued bonds and imposed the LRF tax on July 1, 2013.

All eligible jurisdictions received the approved award amounts prior to June 30, 2015, for Fiscal Year 2015. All projects should receive the approved award amounts for Fiscal Year 2016.

The table below summarizes the reported LRF activity by the nine sponsoring local governments that currently impose the LRF tax.

Project	Rate of LRF Tax	State Benefit Reported*	Other Information Reported	Fiscal Year 2015 Tax Distribution Cap
Auburn	Adjusted from 0.0214% down to 0.0209%	Not Available	<ul style="list-style-type: none"> • Bonds issued on 3/2010 for local infrastructure improvements. • \$250,000 reported for local match. • \$1.68 million expended for bond repayment. • Fourteen new businesses located in the RA creating 32 new jobs. 	\$250,000 cap amount equals the award amount
Bellevue	0.01%	\$242,170,949	<ul style="list-style-type: none"> • Bonds issued in April 2013 to partially fund local infrastructure improvements. • Estimated \$316,192 for local match. • \$17.8 million dedicated to bond repayment and for pay-as-you-go public improvements. • Reported \$128.8 million for state and local property tax allocation revenues in 2015. • Estimated \$173.4 million for the total state and local sales and use tax increment in 2015. • Approximately 2,291 new businesses located in the RA creating 20,991 new jobs since 2009. 	\$500,000 cap amount equals the award amount
Bremerton	0.05%	\$444,960	<ul style="list-style-type: none"> • Bonds issued in 2010 for Park Plaza parking structure. • \$451,676 reported for local match. • Reported \$34,009 for state and local property tax allocation revenues in 2015. • Estimated \$6.4 million for the total state and local sales and use tax increment in 2015. • Eighteen new businesses located in the RA creating 151 jobs overall. 	\$330,000 cap amount equals the award amount

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Project	Rate of LRF Tax	State Benefit Reported*	Other Information Reported	Fiscal Year 2015 Tax Distribution Cap
Kennewick	0.04%	\$12,038,461	<ul style="list-style-type: none"> • Bonds issued in 2010 for Division Street Gateway Corridor project. • \$2.69 million reported for local match. • Reported \$197,514 for state and local property tax allocation revenues in 2015. • Estimated \$15.83 million for the total state and local sales and use tax increment. • Twenty-nine new businesses located in the RA creating 313 new jobs. • \$7.69 million carried over for bond repayment and for pay-as-you-go public improvements. 	\$500,000 cap amount equals the award amount
Richland	0.05%	\$5,203,858	<ul style="list-style-type: none"> • Bonds issued on March 20, 2013 for local infrastructure improvements. • \$102,655 reported for local match. • Reported \$387,065 for state and local property tax allocation revenues in 2015. • Estimated \$5.04 million for total state and local sales and use tax increment in 2015. • Five new businesses located in the RA creating a total of 159 new jobs. • \$3.39 million carried over for bond repayment and pay-as-you-go public improvements. 	\$330,000 cap amount equals the award amount
Spokane	0.01%	\$906,211	<ul style="list-style-type: none"> • Bonds issued in 2011 for Division Street Gateway Corridor project. • Reported \$66,704 for state and local property tax allocation revenues in 2015. • Estimated state and local sales and use tax increment amount of \$1.174 million in 2015. • \$6.5 million carried over for bond repayment and for pay-as-you-go public improvements. 	\$250,000 cap amount equals the award amount
University Place	0.24%	\$50,797	<ul style="list-style-type: none"> • Bond issued in 2011 for Market Place Street improvements. • Reported \$52,303 for state and local property tax allocation revenues in 2015. • Estimated a state and local sales and use tax increment amount of \$25,092 in 2015. • \$11.0 million carried over for bond repayment and pay-as-you-go public improvements. 	\$500,000 cap amount equals the award amount
Vancouver	0.01%	\$1,763,626	<ul style="list-style-type: none"> • Bond issued in 2011 for Waterfront Access project. • \$5.18 million reported for local match. • Reported a state and local sales and use tax increment of \$1.99 million in 2015. 	\$220,000 cap amount equals the award amount

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Project	Rate of LRF Tax	State Benefit Reported*	Other Information Reported	Fiscal Year 2015 Tax Distribution Cap
Wenatchee	0.071%	1,023,649	<ul style="list-style-type: none"> • Bonds issued in 2011 and 2012. • \$598,412 reported for local match. • Reported \$95,779 for state and local property tax allocation revenues in 2015. • Estimated a state and local sales and use tax increment amount of \$1.25 million in 2015. • So far nineteen businesses have located in the RA creating 85 new jobs. • \$5.04 million carried over for bond repayment and pay-as-you-go public improvements. 	\$500,000 cap amount equals the award amount

*The LRF program requires that projects report the state sales and use tax increments at least once every three years. Local jurisdictions don't receive the state and local property tax increments until the second calendar year after award approval.

The table below summarizes the LRF activity reported to the Department by the eight sponsoring local governments (note Renton has two revitalization areas) that have not yet imposed the LRF tax. The anticipated dates to impose the LRF tax come from the original application or updated information submitted on the 2015 report.

Project	Anticipated Rate of LRF Tax	State Benefit Reported*	Other Information Reported
Tacoma	0.00014%	\$1,847,450	<ul style="list-style-type: none"> • Reported \$5.52 million for local match. • Estimated \$4,573,560 for state and local property tax allocation revenues in 2015.
Whitman County	0.0051%	Not available	<ul style="list-style-type: none"> • Project has not started.
Clark County	0.015%	\$783,974	<ul style="list-style-type: none"> • Reported \$29,988 for total local match. • Estimated \$9,357 for state and local property tax allocation revenues in 2015. • Reported local and state sales and use tax increment amounts of over \$1 million.
Federal Way	0.0094%	Not available	<ul style="list-style-type: none"> • Development is in the initial stages.
Renton Port Quendall	0.030%	Not available	<ul style="list-style-type: none"> • Development is in the initial stages.
Lacey	0.062%	\$36,627	<ul style="list-style-type: none"> • Reported \$56,557 for state and local property tax allocation revenues in 2015. • Bond sales anticipated on or near 6/01/2018. • Development has not started.
Mill Creek	0.0015%	Not available	<ul style="list-style-type: none"> • Reported \$14,658 for state and local property tax allocation revenues in 2015.
Puyallup	0.03125%	Not available	<ul style="list-style-type: none"> • Development is in the initial stages.

Project	Anticipated Rate of LRF Tax	State Benefit Reported*	Other Information Reported
Renton South Lake Washington	0.030%	3,235,148	<ul style="list-style-type: none"> • Estimated \$8,377 for state and local property tax allocation revenues in 2015. • Reported \$2.6 million for local match. • Reported local and state sales and use tax increment amounts of \$3,853,773.

*2009 Demonstration projects are required to report the state sales and use tax increments at least once every three years. State and local property tax increments don't begin to be received until the second calendar year after award approval.

As the previous table shows, the majority of development is in initial stages. Half of the jurisdictions have not imposed the LRF tax. With the 2016 legislative changes to the LRF program we anticipate that most, if not all, local jurisdictions that have not imposed the LRF tax will send the Department a letter by July 1, 2016 stating their intent to impose the tax by July 1, 2022.

In Calendar Year 2015, LRF jurisdictions reported a state benefit of \$269.5 million and local governments received \$3,686,339 in LRF tax revenue.

Sponsoring local governments cannot fulfill the reporting requirements until imposing the LRF tax for a year. Revitalization projects in the initial planning and construction phases have limited information to report. More information will become available as local governments impose the LRF tax.