Department of Revenue
Washington State

Frequently Asked Questions

Local Infrastructure Project Area Financing: Property Tax Component Q & A's

Q. Are all taxing districts within a local infrastructure project area (LIPA) required to participate in the sharing of their property tax allocation revenues?

A. No. Only counties that border Puget Sound having a population of 600,000 or more and have an established program for the transfer of development rights and cities that are incorporated with a population plus employment equal to 22,500 or greater within an eligible county can participate.

Only qualified cities meeting the above criteria can sponsor a LIPA.

Q. May a county partially participate in the sharing of their increased property tax allocation revenues?

A. Yes. If a county wants to partially participate by allowing one or more, but not all of its regular property tax levies to be used, it may exclude levies through an interlocal agreement with the sponsoring city.

Q. Are all property taxes eligible to be used for Local Infrastructure Project Area Financing?

A. No. Only regular property taxes, as defined in RCW 84.04.140, which are levied by a county or city, can be used for Local Infrastructure Project Area Financing. The following property taxes cannot be used for Local Infrastructure Project Area Financing:

- Regular property taxes levied by port districts and Public Utility Districts for the purpose of making required payments of principal and interest on general indebtedness;
- State School Levy;
- All property taxes levied by school districts;
- Regular property taxes authorized by RCW 84.55.050 (lid lifts) that are limited to a specific purpose;
- Excess property tax levies that are exempt from the aggregate limits for junior and senior taxing districts as provided in RCW 84.52.043 ($5.90 limit).
- Property tax levies that are specifically excluded through an interlocal agreement between the sponsoring local government and a participating taxing district as set forth in RCW 39.104.060(3).

Q. Is there a limit on the percentage of total assessed value a LIPA can encompass?

A. Yes. A LIPA cannot encompass more than 25% of the total assessed value of the taxable real property within the boundaries of the sponsoring city at the time the LIPA is created.

Q. What is a property tax allocation revenue base value?

A. A property tax allocation revenue base value is the total of the assessed value of real property located within a LIPA, less the property tax allocation revenue value.

Q. What is a property tax allocation revenue value?

A. A property tax allocation revenue value is an amount equal to the sponsoring city ratio multiplied by 75% of any increase in the assessed value of real property in a LIPA resulting from:

- The placement of new construction, improvements to property, or both, on the assessment roll, when the new construction and improvements are initiated after the LIPA is created by the sponsoring city;
- The cost of new housing construction, conversion, and rehabilitation improvements, when the cost is treated as new construction for purposes of chapter 84.55 RCW as provided in RCW 84.14.020, and the new housing construction, conversion, and rehabilitation improvements are initiated after the LIPA is created by the sponsoring city;
- The cost of rehabilitation of historic property, when the cost is treated as new construction for purposes of chapter 84.55 RCW as provided in RCW 84.26.070, and the rehabilitation is initiated after the LIPA is created by the sponsoring city;
- The increase in value of new construction consisting of an entire building in the years following the initial year, unless the building becomes exempt from property taxation.

The above increases in assessed value are included in the property tax allocation revenue value in the initial year (unless otherwise noted). The same amounts (initially included in the property tax allocation revenue value) are also included in subsequent years as part of the property tax allocation revenue value unless the property becomes exempt from property taxation.

Q. What is a sponsoring city ratio?

A. The sponsoring city ratio is the number of transferable development rights (TDRs) the city will use within a LIPA compared to the number of TDRs that the sponsoring city has available for use under the program. For example, if the sponsoring city will use 5 TDRs within a LIPA but has 20 TDRs available for use under the program, then the ratio would be 5/20 or 25%. If the city used all 20 TDRs within the LIPA, then the ratio would be equal to one or 100%.

Q. Who calculates the sponsoring city ratio?

A. The sponsoring city will calculate the ratio and notify the assessor.

Q. Who calculates the property tax allocation revenue base value and the property tax allocation revenue value?

A. The assessor; however, the distributions will be done by the treasurer.

Q. Are all increases in assessed value of real property within the LIPA included in the property tax allocation revenue value each year?

A. Generally, increases in assessed value of real property after the initial year are not included in the property tax allocation revenue value. The only exception to this are increases in assessed value based on the new construction of entire buildings that are initiated after the LIPA is created.

Q. What portion of the county's regular property taxes will the county still receive?

A. The county will receive that portion of its regular property taxes produced by the rate of tax levied on the property tax allocation revenue base value.

Q. What portion of the regular property taxes will the sponsoring city receive?

A. Besides the portion of its regular property taxes produced by the rate of tax levied on the property tax allocation revenue base value, the sponsoring city will also receive an additional portion of the regular property taxes levied by it and by the county upon the property tax allocation revenue value. However, if there is no property tax allocation revenue value, the sponsoring city will not receive any property tax allocation revenue.

Q. Does the method in which the assessor calculates levies change?

A. No. Participation in LIPA does not change the levy calculation process.

Q. The law does not define "entire building." For a single purpose structure, it seems fairly clear; however, for construction of condominiums that are less than an entire building, this could be an issue. The concept of condominiums is used not only for residential structures, but also for parking garages, and hotel/office building combinations. When a condominium is complete, does that constitute an "entire building" for allocation purposes?

A. For LIPA purposes, an entire building is the entire physical structure. For example, if a new building containing 10 separate condominium units is constructed, the overall structure is considered an "entire building" regardless of whether the condominiums are used for residential purposes, parking garages, or other uses.

Q. What is the impact on the property tax allocation revenue value if a newly constructed residential condominium unit becomes exempt under the senior and disabled persons program?

A. The property tax allocation revenue value specifically excludes value associated with property that becomes exempt. Generally, property owners that qualify for the senior and disabled persons exemption program are exempt from a portion of their property tax, but are still subject to some tax. Unless the condominium unit becomes totally exempt, the portion of the assessed value of that unit remains in the property tax allocation revenue value. If the unit becomes entirely exempt for any reason, the assessed value of that unit would need to be excluded from the property tax allocation revenue value.

Q. If a LIPA was created in 2011 and a building located within the LIPA is demolished in 2013, what would be the effect on the assessed value of the LIPA and the property tax allocation revenue value?

A. As a result of the demolition of a building within the LIPA, the total assessed value of the LIPA would be reduced. If improvements were made to the building after the LIPA was created but before the building was demolished, the value of the improvements would still be included in the property tax allocation revenue value. If no improvements were made to the building after the LIPA was created and the building was demolished, there would be no effect on the property tax allocation revenue value because it is based on increases in assessed value due to new construction and improvements to property. If a new building is later constructed, the assessed value of the LIPA would increase and the property tax allocation revenue value would also increase.

Q. What is the impact, if any, on the property tax allocation revenue value if an exempt organization purchases land within the LIPA and builds a building which will be exempt from property taxes?

A. The property tax allocation revenue value is based on increases in assessed value of real property within the LIPA due to new construction and improvements to property. Assessed value is the valuation of taxable real property so because the building would not be taxable, there would be no new construction value associated with the building, and therefore no impact to the property tax allocation revenue value.

Q. How do the values of taxable personal property within the LIPA impact the property tax allocation revenue value?

A. Only the assessed value of real property is included when calculating the assessed value of the LIPA, so personal property is not included unless it is privately owned improvements located on publicly owned land.

Q. A LIPA was created in 2011. In what year will the Treasurer initiate the distribution of property tax allocation revenues to the sponsoring city?

A. Distributions begin in the second calendar year following approval of the LIPA. Because the LIPA was created in 2011, the first distributions will be made in 2013 if property tax allocation revenues are available.

Q. At what point in time during the year are the property tax allocation revenue base value and the property tax allocation revenue value calculated and officially adopted as the values that will be used in the distribution formula?

A. The assessor will determine the property tax allocation revenue base value and the property tax allocation revenue value after the assessment roll is closed. Existing property and improvements to property will be assessed with reference to their value on January 1. New construction may be added to the assessment roll through August 31 and is assessed with reference to its value on July 31. Once the assessor has finished all of the valuation work, the assessment roll is closed. At that point, the assessor can calculate the property tax allocation revenue base value and the property tax allocation revenue value.

Q. Is revenue from all voter approved lid lifts excluded from the property tax allocation revenue value?

A. No. Specifically excluded from the definition of regular property taxes are regular property taxes authorized by RCW 84.55.050 that are limited to a specific purpose. RCW 84.55.050 authorizes lid lifts for taxing districts. Therefore, lid lifts that are limited to a specific purpose are excluded from the definition of regular property taxes and are not distributed to the sponsoring city. If the lid lift does not have a specific purpose, it can be included in the distribution.

Q. If the property tax allocation revenue value includes an amount equal to the sponsoring city ratio multiplied by 75% of any increase in the assessed value of new construction consisting of an entire building in the years following the initial year, does the property tax allocation revenue value decrease by that amount if that building becomes exempt after it is constructed?

A. Yes. When property becomes exempt, the assessed value associated with that property is no longer included in the total assessed value of the LIPA and the amounts that were attributable to the increases in assessed value of that entire building would also no longer be included in the property tax allocation revenue value. The definition of this value specifically excludes value associated with property that becomes exempt.

Q. What if the value of new or rehabilitated housing, as described under Chapter 84.14. RCW, is exempt at the time the LIPA is created but later becomes taxable?

A. If the value of this type of housing is exempt at the time the LIPA is created, it is not included in the assessed value of the LIPA or the property tax allocation revenue value. If the housing later becomes taxable, it will be considered new construction for the purposes of Chapter 84.55 RCW and the assessor will list it as new construction on the assessment roll and include it in the property tax allocation revenue value.

For more information. . .
If you have questions or need additional information about this topic, contact the Department of Revenue, Property Tax Division at (360) 534-1400.♦