May 23, 2023

TO: Sarah Bannister, Secretary
    Washington State Senate

    Bernard Dean, Chief Clerk
    Washington State House of Representatives

FROM: John Ryser, Acting Director

SUBJECT: Local Revitalization Financing Program Report

RCW 82.32.765 requires that the Department of Revenue issue an annual report on the activity 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 to encourage businesses to locate and/or expand within the areas.

As noted in the report, originally there were 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.
  • Eleven sponsoring local governments imposed the tax.
  • The Department reached out to the local jurisdictions to remind them of the July 1, 2022, deadline but no other local jurisdictions imposed the tax.
  • Two jurisdictions withdrew from the program and five jurisdictions forfeited their award amounts totaling $2.28 million.

The report is available on our website at: LRF Report

If you have questions about this report, please contact Kathy Oline, Assistant Director of Research and Fiscal Analysis, at (360) 534-1534.

Attachment

c: Members, Senate Ways and Means Committee
   Members, House Finance Committee
   Members, House Appropriations Committee
   David Schumacher, Director, Office of Financial Management
   Drew Shirk, Executive Director, Legislative Affairs, Office of the Governor
Program Overview

In 2009, the Legislature adopted 2SSB 5045, Chapter 270, Laws of 2009, creating the Local Revitalization Financing (LRF) program. The program helps local governments finance public improvement projects to encourage private development within a revitalization area. The program requires that the Department of Revenue (Department) make a report available to the public and the Legislature by June 1 of each year. The report summarizes information that the sponsoring local governments provide. This report covers Calendar Year 2022 activity for the LRF program, as required by RCW 82.32.765.

Evolution of the LRF Program

Original Enactment
The original statute outlined the LRF award amounts for demonstration and competitive projects. The statute listed the demonstration projects and jurisdictions that could apply for additional funds on a competitive, first-come basis.

The first round of projects included:

- Seven demonstration projects with award amounts totaling $2.25 million, and
- Six competitive projects with award amounts totaling $2.5 million.

2010 Amendment
In 2010, the Legislature amended the LRF statutes 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 to $4.16 million.

2015 Amendment
In 2015, the Legislature amended the LRF statutes to eliminate the requirement to issue bonds for demonstration projects or for any city receiving a project award of less than $150,000.

2016 Amendment
In 2016, the Legislature amended the LRF statutes providing that local governments approved for a project award prior to January 1, 2011, but that did not impose the LRF sales and use tax by December 1, 2016, would forfeit the project award unless they sent the Department a letter by July 1, 2016, stating their intent to impose the tax by July 1, 2022. Any forfeited funds would be available for new LRF applications. All local governments that had not imposed the LRF tax submitted a letter to avoid forfeiture of the project awards.

Altogether, the state granted 18 revitalization areas LRF awards totaling $6.66 million per fiscal year. Seven jurisdictions with revitalization areas did not impose the LRF tax. Their award amounts total $2.28 million. Forfeited award amounts will be available for future LRF applicants.
**Original LRF Projects and Award Amounts**

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

**Program Funding**

LRF allows cities and counties to create “revitalization areas.” The Department administers the LRF program. The program allows the following 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 done through a state-shared local tax.

The state contribution provides money to the local government sponsoring the LRF area through a state-shared local sales and use tax (commonly referred to as the “LRF tax”). A state-shared local sales and use tax credits the local tax against the state sales and use tax; therefore, 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 must apply to the Department. The Department then approves the state contribution known as the LRF award. The sponsoring local government is required to issue bonds to finance public improvements in the revitalization area. Legislation passed in 2015 excluding Tacoma and Federal Way from the bond-issuing requirement. 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 by the local government to receive its entire annual state contribution of money in ten months.

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

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, 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 taxes and the increase in state sales and use taxes received since approval of the revitalization area.

**Report Requirements**

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

- The local property tax allocation revenues received in the preceding calendar year broken down by sponsoring local government and participating taxing districts (local jurisdictions do not 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 do not receive the state property tax increments until the second calendar year after award approval);
- The local sales and use taxes and other revenues from local public sources dedicated by any participating local governments and used for the payment of bonds and for public improvements within the revitalization area on a pay-as-you-go basis in the preceding calendar year;
- The local sales and use taxes 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 for 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 for 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 because of the 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 because of the 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 because of the 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.

Program Summary

All participating jurisdictions that have imposed the LRF tax submitted the 2022 LRF Annual Report to the Department and certified compliance with the requirements of the program.

Local Governments Imposing the LRF Tax

In total, eleven sponsoring local governments have imposed the LRF tax.

• 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.
• Tacoma imposed the LRF tax on July 1, 2016.
• Renton issued bonds and imposed the LRF tax on July 1, 2019, for the South Lake Washington project.

All eligible jurisdictions received the approved award amounts prior to June 30, 2022, for Fiscal Year 2022. All participating jurisdictions should receive the approved award amounts for Fiscal Year 2023.

Local Governments that did not impose the LRF Tax

In total, seven sponsoring local governments did not impose the LRF tax.

• Whitman County notified the Department on March 15, 2021, that they would not proceed with LRF financing due to the sale of the property intended for development.
• Lacey stated on their 2021 annual report that the Gateway Town Center project would not be developed in time to implement the tax.
• Clark County, Federal Way, Mill Creek, Puyallup, and Renton (Port Quendall) did not impose the LRF tax by July 1, 2022, and forfeited their award amounts.
Forfeited award amounts equal $2.28 million. Forfeited award amounts will be available for future LRF applicants.

**Program Results**

For Calendar Year 2022, LRF jurisdictions reported a state benefit of $1.41 billion. This represents:

- The total sales and use tax increase since the Department approved the local governments' awards of $1.189 billion, and
- The property tax increase in revenues for 2022 of $222.5 million.

In Calendar Year 2022, local governments received $4,379,996.80 in LRF tax revenue.

**Report Information for Current Revitalization Areas**

The table on the following page summarizes the reported LRF activity for sponsoring local governments that imposed the LRF tax prior to July 1, 2022.
<table>
<thead>
<tr>
<th>Project</th>
<th>Rate of LRF Tax</th>
<th>State Benefit Reported</th>
<th>Bonds Issued Date</th>
<th>State and Local Property Tax Allocation Revenues*</th>
<th>Local Matching</th>
<th>Amount carried over for bond repayment and for pay-as-you-go public improvements</th>
<th>New Businesses located in the RA</th>
<th>Jobs created from new businesses</th>
<th>Estimated total state and local sales and use tax increment in 2022</th>
<th>Fiscal Year 2022 Tax Distribution Cap</th>
<th>Date LRF imposed or estimated year to impose tax</th>
<th>LRF Award Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auburn</td>
<td>0.01840%</td>
<td>$3,885,501</td>
<td>March 2010</td>
<td>N/A</td>
<td>$250,000</td>
<td>$5,848,813</td>
<td>117</td>
<td>345</td>
<td>$4,240,527</td>
<td>$250,000</td>
<td>07/01/2010</td>
<td>$250,000</td>
</tr>
<tr>
<td>Bellevue</td>
<td>0.01000%</td>
<td>$1,105,191,524</td>
<td>April 2014</td>
<td>$280,012,809</td>
<td>$0</td>
<td>$25,876,183</td>
<td>2,316</td>
<td>40,668</td>
<td>$1,006,400,000</td>
<td>$500,000</td>
<td>07/01/2013</td>
<td>$500,000</td>
</tr>
<tr>
<td>Bremerton</td>
<td>0.05100%</td>
<td>$680,347</td>
<td>2010</td>
<td>$25,504</td>
<td>$1,063</td>
<td>$10,892,325</td>
<td>52</td>
<td>337</td>
<td>$745,422</td>
<td>$330,000</td>
<td>07/01/2010</td>
<td>$330,000</td>
</tr>
<tr>
<td>Kennewick</td>
<td>0.04300%</td>
<td>$34,648,929</td>
<td>2010</td>
<td>$1,082,161</td>
<td>$581,532</td>
<td>$14,970,225</td>
<td>68</td>
<td>882</td>
<td>$45,515,569</td>
<td>$500,000</td>
<td>07/01/2011</td>
<td>$500,000</td>
</tr>
<tr>
<td>Renton South Lake</td>
<td>0.03000%</td>
<td>$21,117,984</td>
<td>04/09/2019</td>
<td>$672,536</td>
<td>$500,000</td>
<td>$4,231,485</td>
<td>5</td>
<td>650</td>
<td>$24,513,082</td>
<td>N/A</td>
<td>07/01/2019</td>
<td>$500,000</td>
</tr>
<tr>
<td>Richland</td>
<td>0.05000%</td>
<td>$21,648,169</td>
<td>03/20/2013</td>
<td>$1,097,198</td>
<td>$3,869</td>
<td>$1,772,345</td>
<td>11</td>
<td>650</td>
<td>$23,347,525</td>
<td>$330,000</td>
<td>07/01/2013</td>
<td>$330,000</td>
</tr>
<tr>
<td>Spokane</td>
<td>0.00700%</td>
<td>$2,232,955</td>
<td>2011</td>
<td>$257,736</td>
<td>$4,497,074</td>
<td>$13,836,175</td>
<td>75</td>
<td>353</td>
<td>$2,951,994</td>
<td>$250,000</td>
<td>07/01/2011</td>
<td>$250,000</td>
</tr>
<tr>
<td>Tacoma</td>
<td>0.01400%</td>
<td>$188,979,988</td>
<td>N/A</td>
<td>$7,348,512</td>
<td>$43,270,109</td>
<td>$119,164,318</td>
<td>N/A</td>
<td>N/A</td>
<td>$292,702,299</td>
<td>$500,000</td>
<td>07/01/2016</td>
<td>$500,000</td>
</tr>
<tr>
<td>University Place</td>
<td>0.24000%</td>
<td>$233,769</td>
<td>2011</td>
<td>$279,681</td>
<td>$643,472</td>
<td>$16,424,456</td>
<td>29</td>
<td>366</td>
<td>$62,800</td>
<td>$500,000</td>
<td>07/01/2011</td>
<td>$500,000</td>
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<tr>
<td>Vancouver</td>
<td>0.01110%</td>
<td>$20,490,250</td>
<td>2011</td>
<td>$1,205,637</td>
<td>$0</td>
<td>N/A</td>
<td>18</td>
<td>350-400</td>
<td>$25,000,000</td>
<td>$220,000</td>
<td>07/01/2011</td>
<td>$220,000</td>
</tr>
<tr>
<td>Wenatchee</td>
<td>0.07100%</td>
<td>$12,501,918</td>
<td>2011 and 2012</td>
<td>$336,762</td>
<td>$473,817</td>
<td>$5,380,107</td>
<td>56</td>
<td>351</td>
<td>$14,313,952</td>
<td>$500,000</td>
<td>07/01/2013</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

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

N/A = not available