STATE OF WASHINGTON

DEPARTMENT OF REVENUE

OFFICE OF THE DIRECTOR

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May 27, 2020

TO: Brad Hendrickson, Secretary
Washington State Senate

Bernard Dean, 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 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 businesses to locate and/or expand 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 jurisdictions imposed the tax on July 1, 2011; three jurisdictions imposed the tax on July 1, 2013; one jurisdiction imposed the tax on July 1, 2016; and one jurisdiction imposed the tax on July 1, 2019. In total, 11 jurisdictions currently impose the tax.

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 Oline, Assistant Director of Research and Fiscal Analysis, 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
Drew Shirk, Executive Director, Legislative Affairs

Local Revitalization Financing Program

2020 Report to the Legislature
Covering Calendar Year 2019 Activity
Pursuant to RCW 82.32.765

Department of Revenue Washington State

Program Overview

During the 2009 session, the Legislature adopted 2SSB 5045 Chapter 270 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 sponsoring local governments provide. This report covers Calendar Year 2019 activity for the LRF program, as required by RCW 82.32.765.

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 to $4.16 million.

In 2015, the Legislature amended the LRF statutes (SB 5249, Chapter 112, Laws of 2015) to eliminate the requirement to issue bonds for "Tacoma international financial services area/Tacoma dome project" (RCW 82.14.505(1)(a)(iii)), or any city receiving a project award for local revitalization financing of less than $150,000 (RCW 39.104.100).

In 2016, the Legislature amended the LRF statutes (ESSB 5109, Chapter 207, Laws of 2016). Local governments approved for a project award prior to January 1, 2011, but that did not imposed 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. However, all local governments that had not imposed the LRF tax submitted a letter to avoid forfeiture of the project awards.

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	Unknown	$200,000
2009 Competitive, First-Come Projects			
Bellevue	Bellevue Revitalization Area #1	7/01/2013	$500,000
Clark County	179th Street Revitalization Area	7/01/2020	$500,000
Federal Way	Federal Way Village LRA	7/01/2022	$100,000
Kennewick	Southridge Revitalization Area	7/01/2011	$500,000
Renton	Port Quendall	7/1/ 2022	$400,000
Wenatchee	Wenatchee Waterfront Revitalization Area	7/01/2013	$500,000
2010 Demonstration Projects			
Lacey	Lacey Gateway Towne Center	7/01/2022	$500,000
Mill Creek	East Gateway Planned Urban Village Revitalization Area	7/01/2020	$330,000
Puyallup	River Road Revitalization Area, Phase 1	Unknown	$250,000
Renton	South Lake Washington	7/01/2019	$500,000
Richland	Richland Revitalization Area for Industry, Science and Education	7/01/2013	$330,000

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 submits an application 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 excluded 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 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 participating jurisdictions submitted the 2019 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.
- 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, 2019, for Fiscal Year 2019. All participating jurisdictions should receive the approved award amounts for Fiscal Year 2020.

The table on the following page summarizes the reported LRF activity for all sponsoring local governments (in the table, N/A means not available).

Project	Rate of LRF Tax	State Benefit Reported	Bonds Issued Date	State and Local Property Tax Allocation Revenues	Local Matching	Amount carried over for bond repayment and for pay-as-you-go public improvements	New Businesses located in the RA	Jobs created from new businesses	Estimated total state and local sales and use tax increment in 2019	Fiscal Year 2019 Tax Distribution Cap	Date LRF imposed or estimated year to impose tax	LRF Award Amount
Auburn	Adjusted from 0.0203% to 0.0193%	$3,304,240	May 2010	N/A	$250,000	$4,330,810	84	308	$5,083,446	$250,000	07/01/2010	$250,000
Bellevue	0.01000%	$683,662,052	April 2013	$228,463,110	$0	$27,376,183	4,128	20,986	$581,300,000	$500,000	07/01/2013	$500,000
Bremerton	0.05100%	$530,286	2010	$28,999	$126,589	$10,881,246	38	247	$572,766	$330,000	07/01/2010	$330,000
Clark County	0.01500%	$2,352,075	Tax not implemented	$19,658	$79,726	$438,490	N/A	N/A	$3,026,517	N/A	2020	$500,000
Federal Way	0.00940%	N/A	Tax not implemented	N/A	N/A	N/A	N/A	N/A	N/A	N/A	07/01/2022	$100,000
Kennewick	0.04300%	$23,494,647	2010	$673,167	$391,550	$14,458,267	46	1,029	$30,650,535	$500,000	07/01/2011	$500,000
Lacey	0.06200%	$71,330	N/A	$108,189	N/A	N/A	N/A	N/A	N/A	N/A	2022	$500,000
Mill Creek	0.01500%	N/A	Tax not implemented	$24,675	N/A	N/A	N/A	N/A	N/A	N/A	2020	$330,000
Puyallup	0.03125%	N/A	Tax not implemented	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Unknown	$250,000
Renton Port Quendall	0.03000%	N/A	Tax not implemented	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2022	$400,000
Renton South Lake Washington	0.03000%	$16,764,075	04/09/2019	$797,584	$500,000	$5,138,290	3	142	$19,363,540	N/A	07/01/2019	$500,000
Richland	0.05000%	$12,524,023	03/20/2013	$1,250,507	$5,000	$1,782,565	3	170	$13,495,178	$330,000	07/01/2013	$330,000
Spokane	0.00700%	$1,626,473	2011	$68,319	$385,341	$13,708,701	3	68	$2,201,994	$250,000	07/01/2011	$250,000
Tacoma	0.01400%	$8,122,186	None reported yet	$7,840,284	$5,459,134	$72,079,028	N/A	N/A	$5,787,482	$500,000	07/01/2016	$500,000
University Place	0.24000%	$115,590	2011	$134,976	$630,484	$14,756,869	23	434	$42,876	$500,000	07/01/2011	$500,000
Vancouver	0.01110%	$8,649,589	2011	$259,388	$484,483	N/A	9	65	$12,529,898	$220,000	07/01/2011	$220,000
Wenatchee	0.07100%	$7,502,937	2011, 2012, 2014	$156,787	$519,437	$5,336,431	40	377	$8,854,186	$500,000	07/01/2013	$500,000
Whitman County	0.00510%	N/A	Tax not implemented	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Unknown	$200,000

*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.

Six sponsoring local governments (note Renton has two revitalization areas) have not yet imposed the LRF tax. Jurisdictions reported their anticipated dates to impose the LRF tax on their annual reports. These projects are in the initial stages of development.

As the previous tables show, over half of the jurisdictions have imposed the LRF tax. The rest of the development is in initial stages. With the 2016 legislative changes to the LRF program, we anticipate that the remaining local jurisdictions, except for Whitman County, will impose the LRF tax by July 1, 2022. Whitman County indicated to the Department in 2019 that their project would not proceed.

For Calendar Year 2019, LRF jurisdictions reported a state benefit of $768.7 million. This represents the total sales and use tax increase since the Department approved the local government's award of $593.1 million and the property tax increase in revenues for 2019 of $175.6 million.

In Calendar Year 2019, local governments received $4,334,211.49 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.