Department of Revenue
Washington State

Special Notice

Intended audience: County assessors, county treasurers, taxing districts, and local governments

August 9, 2021

Legislative changes to tax increment financing

The 2021 Legislature passed Engrossed Substitute House Bill (ESHB) 1189, effective July 25, 2021. The bill authorizes local governments to establish Local Tax Increment Finance (LTIF) areas or "increment areas" to fund public improvements. The bill creates a new chapter in Title 39 Revised Code of Washington (RCW) and amends RCW 84.55.010 and RCW 84.55.120.

Increment areas

An increment area is an area where regular property taxes are apportioned to pay public improvement costs. A local government, which can be a city, town, county, port, or any combination of, may designate up to two increment areas and use resulting tax revenues to pay for public improvement costs. To do so, local governments must adopt an ordinance designating a specific increment area within its boundaries, and specify the public improvements that are going to be financed with the use of LTIF.

Restrictions and requirements

There are certain restrictions and requirements for local governments implementing an increment area:

- A local government must adopt an ordinance designating an increment area and detailing public improvements proposed to be paid for by the resulting tax allocation from regular property taxes.
- The increment area may not cover the entirety of the local government's boundaries.
- The assessed valuation of the increment area cannot exceed $200 million, or more than 20% of the local government's total assessed value, whichever is less.
- A local government cannot have more than two active increment areas, and those two areas

cannot overlap.

- The ordinance must set an expiration date for the increment area. The maximum time an increment area can exist is 25 years following the first year property taxes are collected from the increment area.
- Increment areas must take effect on June 1 following the adoption of the ordinance.
- Additional public improvements cannot be added to the project after the adoption of the ordinance. The sponsoring local government can expand, alter, or add to the existing public improvements if doing so is necessary to complete the originally approved improvements.
- The ordinance has to establish a deadline for when construction begins. The deadline must be at least five years into the future, and extensions can be made for good cause.

Project analysis

When considering whether to establish an increment area, the local government's legislative body must complete a project analysis that includes, but is not limited to, the following:

- Objectives of the local government for the increment area.
- Any property the local government intends to acquire.
- Duration of the increment area.
- Identification of all parcels to be included in the area.
- Description of the expected private development within the increment area, along with comparisons of growth with public improvements versus growth without public improvements.
- Description of public improvements, estimated costs, estimated amount of bonds/other obligations to be issued to fund the public improvements and repaid with tax revenues.
- County assessor certified value of real property within the increment area, as well as an estimate of the increment value and tax revenues to be generated from the growth.
- Estimate of job creation as a result of the public improvements and private development.
- Assessment of impacts to:
    - ◊ Affordable and low-income housing.
    - ◊ The local business community.
    - ◊ The local school districts.
    - ◊ The local fire service.

Local governments creating increment areas must make the finding that the public improvements would encourage private development within the area and increase the assessed value of real property within the area, more so than if the public improvements were not present. It must also find that private development in the area would be anticipated.

Requirements to adopt an ordinance

Prior to the adoption of an ordinance authorizing the creation of an increment area, the local government must:

- Hold at least two public briefings for the local community, announced at least two weeks prior to the date the briefing is being held. During these briefings, the increment area must be described including the public improvements to be funded and an estimate of the tax revenues to be allocated to the public improvements.
- Submit the project analysis to the Washington State Treasurer (Treasurer) for review. The Treasurer has 90 days to review the analysis and provide feedback or suggestions.
- Publish notice of the increment area in a newspaper, detailing the public improvements and boundaries of the increment area.
- Deliver a certified copy of the ordinance to county treasurer, assessor, and governing body of any taxing district located within the increment area.

Impact on taxing districts

If the project analysis finds the increment area will impact 20% or more of a fire protection district or regional fire authority, the local government must negotiate a mitigation plan with the district to address any service issues within the increment area.

Reimbursement for county assessor and treasurer

Local governments creating an increment area may be responsible for reimbursing the county assessor or treasurer for costs related to the implementation and ongoing administration of the increment area. For the county assessor, this may include expenses in the revaluation of real property to determine the base value, the value at the time of the creation of the increment area, and the increment value. For the county treasurer, this may be expenses related to apportioning the taxes.

Use of bonds to finance public improvements

Local governments designating an increment area may issue general obligation bonds to finance the public improvements within an increment area. The bond debt will be repaid through the taxing district or districts within the increment area's regular levy.

Levy impact

The creation of an increment area will have an impact on county assessor's levy calculations. The levy limit will be increased based on the increase in assessed value within the increment area, similar to how the increase in state assessed utility value is added onto the district's levy limit. The revenue increase based on the increase in assessed value within the area is not carried forward as part of their highest lawful levy since 1985.

The county assessor will need to determine:

1. The base value, meaning the assessed value of the real property within the increment area prior to the public improvements.
2. The increment value, meaning the difference in the current year's assessed value within the increment area, less the base value in the year the increment area was established. The increment value cannot be included in any other levy calculation, such as new construction or state assessed utility value.

Below is an example of levy calculations for a taxing district with an increment area, using a total assessed value of the taxing district of $10,000,000,000:

a.)	Highest lawful levy	$25,000,000	x	101% limit factor	=$25,250,000
b.)	New construction	$1,800,000	x	$1.25 per $1,000 assessed value	=$2,250
c.)	Utility increase	$1,700,000	x	$1.25	=$2,125
d.)	Increment value	$2,200,000	x	$1.25	=$2,750
e.)	Total levy limit (sum of a-d)				=$25,257,125
f.)	Statutory maximum	$10,000,000,000	x	$3.375	=$33,750,000
g.)	Max. allowable levy for this year (lesser of e or f)				=$25,257,125
h.)	New highest lawful levy since 1985 (lesser of e-d, or f)				=$25,254,375

Apportionment of taxes

Beginning in the calendar year following the passage of the ordinance, the county treasurer will distribute funds from regular property taxes imposed on real property located in the increment area. Property taxes to be apportioned under LTIF include most property tax levies subject to the Constitutional 1% and $5.90 aggregate limits. Taxes levied by port districts or public utility districts specifically for the purpose of making payment on bonds, taxes levied by the state for the support of the common schools, and local school district excess levies are excluded from LTIF apportionment.

Each taxing district will receive that portion of its regular property taxes produced by the rate of tax levied by the taxing district based on the assessed value of real property located in the area for taxes imposed in the year that the area was first designated.

The local government that created the increment area will receive a portion of the regular property taxes levied by each taxing district based off the increment value within the increment area.

The local government that created the increment area may agree to receive less than the full amount of this portion as long as bond debt service, reserve, and other bond covenant requirements are satisfied. The portion of the tax receipts distributed to the local government may only be expended to finance public improvement costs financed by LTIF.

The apportionment of increases in assessed valuation in an increment area stop when the local government certifies to the county assessor that allocation revenues are no longer needed to pay the public improvement costs. The local government must return any excess tax allocation revenues to the county treasurer and distribute to the taxing districts that imposed regular property taxes.

The following is an example of the application of property taxes and tax allocations for a parcel within an increment area. In this example, the increment area was created June 1, 2021:

Assessment year	Base value	Increment value	Total value	Levy rate(per $1,000 assessed value)	Total property tax	Tax allocated to local government with increment area	Tax allocated to taxing district
2021	$1,000,000	$0	$1,000,000	$1.25	$1,250	$0	$1,250
2022	$1,000,000	$200,000	$1,200,000	$1.20	$1,440	$240	$1,200
2023	$1,000,000	$400,000	$1,400,000	$1.10	$1,540	$440	$1,100

Questions?

If you have questions or need additional information, please contact the Department of Revenue, Property Tax Division at 360-534-1400.