STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR
P.O. Box 47454 • Olympia, Washington 98504-7454 • (360) 753-5574 • FAX (360) 586-5543

May 20, 2010

TO: Tom Hoemann, Secretary
Washington State Senate

Barbara Baker, Chief Clerk
Washington State House of Representatives

FROM: Cindi L. Holmstrom, Director

SUBJECT: LOCAL REVITALIZATION FINANCING

This report is submitted to the Legislature pursuant to RCW 82.32.765. It contains a brief summary of the activity to date for the local revitalization financing (LRF) local sales tax which was adopted by the Legislature in 2009. This program is intended to provide 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 participating jurisdictions with 19 revitalization areas. Out of the 19 revitalization areas, seven are eligible to impose the local tax on July 1, 2010. To date, one participating local government anticipates that it will impose the local sales tax, which is credited against the state tax, on July 1 of this year.

The report was prepared by our Research Division under the direction of Kathy Oline, Assistant Director. If you have questions about this program, please contact Kathy at (360) 570-6076.

cc: Members, Senate Ways and Means Committee
Members, House Finance Committee
Marty Brown, Director, OFM

STATE OF WASHINGTON

DEPARTMENT OF REVENUE

Research Report #2010-2

Local Revitalization Financing Program
Annual Report from the Department of Revenue
June 2010

This report summarizes the Calendar Year 2009 activity of the local revitalization financing (LRF) program as required by RCW 82.32.765. Chapter 270, Laws of 2009 (2SSB 5045) created local revitalization financing. The program helps local governments finance public improvement projects that are intended to encourage private development within a revitalization area.

Program Use

Seven demonstration projects are outlined in the original statute, and additional funds were available for jurisdictions to apply for the program on a competitive, first-come basis. Six first-come projects were granted LRF awards. Chapter 164, Laws of 2010 (E2SSB 6609) amended the LRF statutes by increasing the maximum state contribution for demonstration projects from $2.25 million to $4.2 million. Six jurisdictions are allowed to resubmit applications for approval in 2010. Overall, a total of 19 projects will be eligible to receive LRF awards.

The following table summarizes the LRF projects and award amounts:

Sponsoring Local Government	Revitalization Area	LRF Award Amount
2009 Demonstration Projects		
Auburn	Auburn Revitalization Area	$250,000
Bremerton	Park Plaza Revitalization Area	$330,000
Spokane	Spokane University Revitalization Area	$250,000
Tacoma	The Link Revitalization Area	$500,000
University Place	Towne Center Revitalization Area	$500,000
Vancouver	Columbia Waterfront Revitalization Area	$220,000
Whitman County	Paradise Creek Revitalization Area	$200,000

Research Division
P O Box 47459 ♦ Olympia, Washington 98504-7459 ♦ (360) 570-6070 ♦ Fax (360) 664-0972

Sponsoring Local Government	Revitalization Area	LRF Award Amount
2009 First-Come Projects		
Bellevue	Bellevue Revitalization Area #1	$500,000
Clark County	179th Street Revitalization Area	$500,000
Federal Way	Federal Way Village LRA	$100,000
Kennewick	Southridge Revitalization Area	$500,000
Renton	Port Quendall	$400,000
Wenatchee	Wenatchee Waterfront Revitalization Area	$500,000
2010 Demonstration Projects (pending approval)		
Lacey	Lacey Gateway Towne Center	$500,000
Mill Creek	East Gateway Planned Urban Village Revitalization Area	$330,000
New Castle	New Castle Downtown Project	$40,000
Puyallup	River Road Revitalization Area, Phase 1	$250,000
Renton	South Lake Washington	$500,000
Richland	Richland Revitalization Area for Industry, Science and Education	$330,000

Program Summary

LRF allows cities and counties to create “revitalization areas” and allows for certain increases in local sales and use tax revenues and property tax revenues generated within the area as well as additional funds from other local public sources, and a state contribution to be used for payment of bonds issued to finance local public improvements within the revitalization area. Jurisdictions must apply to the Department of Revenue (DOR) in order to seek a state contribution.

State money is received by 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 borne by 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 submit an application which is reviewed and accepted by DOR. The tax rate for the LRF tax may be as high as 6.5 percent less the rates of existing local sales and use taxes that are credited against the state sales and use tax and tax revenues diverted to performance audits. However, the rate must be no higher than what is needed for the local government to receive its entire annual state contribution of money over a period of ten months. The tax is to be used to pay off bonds that finance public improvements. The state contribution must also be matched with funds from local public sources that are dedicated to either paying the bonds or used to pay for public improvements in the revitalization area on a pay-as-you-go basis. The state contribution of money may continue for 25 years or until the bonds are paid off, whichever is sooner.

Demonstration projects awarded in 2009 may impose the LRF tax July 1, 2010. The first-come projects awarded in 2009 and the second group of demonstration projects approved in 2010 may impose the LRF tax beginning July 1, 2011. The annual statewide contribution is limited to $4.2 million for demonstration projects and $2.5 million for the other DOR approved projects, but each project cannot receive more than the approved annual award.

Incremental state and local sales and use taxes in the revitalization area will be estimated by the local governments and reported in annual reports to DOR. At least every three years, local governments will provide updated estimates of the state benefit. The state benefit is the amount of increases in state property tax allocation revenues and state excise tax allocation revenues anticipated to have been received in the preceding calendar years from the revitalization area after approval of an award was given. DOR is responsible for administering the LRF program.

Report Requirements

RCW 82.32.765 requires DOR to annually report on the progress of the LRF program. The seven initial demonstration project recipients do not have taxing authority until July 1, 2010, to finance public improvements; therefore, data are not yet available for the following information needed for this report:

- The amounts of local property tax allocation revenues received in the preceding calendar year broken down by sponsoring local government and participating taxing districts;
- The estimated amount of state property tax allocation revenues received by the state in the preceding calendar year;
- The amount of local sales and use tax and other revenue from local public sources dedicated by any participating local government used for payment of bonds under RCW 39.104.110 and public improvement costs within the revitalization area on a pay-as-you-go basis in the preceding calendar year;
- The amount of 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 under RCW 39.104.110 and public improvement costs within the revitalization area on a pay-as-you-go basis in the preceding calendar year;
- All other revenue sources from local public sources, broken down by type and source, used for payment of bonds under RCW 39.104.110 and public improvement costs within the revitalization area on a pay-as-you-go basis in the preceding calendar year;
- The anticipated date when bonds are expected to be retired;
- 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 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 issued under RCW 39.104.110 and the anticipated date when bonds are expected to be retired;
- 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 amounts of state and local sales and use tax increments estimated to have been received since the approval of the project by DOR;
- Any other information required by DOR to enable the Department to fulfill its duties under this chapter and RCW 82.14.510.

Information for the report requirements listed above will be available for revitalization areas after sponsoring local governments choose to impose the LRF tax. At this time, Auburn anticipates that it will impose the LRF tax on July 1, 2010.