



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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May 27, 2022

TO: Sarah Bannister, Secretary
Washington State Senate

Bernard Dean, Chief Clerk
Washington State House of Representatives

FROM: Vikki Smith, Director *Vikki Smith*

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, 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.
- To date, 11 sponsoring local governments have imposed the tax, two local governments have withdrawn from the program, and the rest are expected to impose the tax by July 1, 2022.
- The Department reached out to the local jurisdictions to remind them of the July 1, 2022, deadline.
- As of May 12, 2022, three jurisdictions have contacted the Department to discuss imposing the tax and two jurisdictions have not provided comments.

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

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, Office of the Governor

Local Revitalization Financing Program

2022 Report to the Legislature

Covering Calendar Year 2021 Activity

Pursuant to RCW 82.32.765



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 2021 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. At this time, seven jurisdictions with revitalization areas have not imposed the LRF tax. Their award amounts total \$2.28 million. Forfeited award amounts will be available for future LRF applicants.

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	Withdrawn	\$200,000
2009 Competitive, First-Come Projects			
Bellevue	Bellevue Revitalization Area #1	7/01/2013	\$500,000
Clark County	179 th Street Revitalization Area	7/01/2022	\$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	7/01/2022	\$400,000
Wenatchee	Wenatchee Waterfront Revitalization Area	7/01/2013	\$500,000
2010 Demonstration Projects			
Lacey	Lacey Gateway Towne Center	Withdrawn	\$500,000
Mill Creek	East Gateway Planned Urban Village Revitalization Area	7/01/2022	\$330,000
Puyallup	River Road Revitalization Area, Phase 1	7/01/2022	\$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 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 as a result 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 as a result 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 as a result 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 submitted the 2021 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, 2021, for Fiscal Year 2021. All participating jurisdictions should receive the approved award amounts for Fiscal Year 2022.

Local Governments Not Yet Imposing the LRF Tax

In total, seven sponsoring local governments have not yet imposed the LRF tax.

- Clark County, Federal Way, Mill Creek, Puyallup, and Renton (Port Quendall) have not yet imposed the LRF tax but have reported their anticipated dates to impose the LRF tax on their annual reports. These projects are in the initial stages of development.
- Whitman County notified the Department on March 15, 2021, that they will 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 will not be developed in time to implement the tax.

With the 2016 legislative changes to the LRF program, we anticipated that the five remaining local jurisdictions that have not yet imposed the LRF tax would impose the tax by July 1, 2022.

On April 27, 2022, the Department reached out by email to all local jurisdictions which had not yet imposed the LRF tax to remind them of the pending July 1, 2022, deadline. The Department sent letters by regular mail on May 5, 2022. Clark County and the cities of Mill Creek and Renton have contacted the Department to discuss imposing the tax. The cities of Federal Way and Puyallup have not provided comments. None have formally opted in or out. At this time, it is unknown how many of the remaining jurisdictions will impose the LRF tax by July 1, 2022. Forfeited award amounts could potentially be as much as \$2.28 million. Forfeited award amounts will be available for future LRF applicants.

Program Results

For Calendar Year 2021, LRF jurisdictions reported a state benefit of \$928.6 million. This represents:

- The total sales and use tax increase since the Department approved the local governments' awards of \$703.8 million, and
- The property tax increase in revenues for 2021 of \$224.8 million.

Sponsoring local governments cannot fulfill the reporting requirements until imposing the LRF tax for a year.

In Calendar Year 2021, local governments received \$4,605,925.17 in LRF tax revenue.

Report Information for all Revitalization Areas

The table on the following page summarizes the reported LRF activity for all sponsoring local governments.

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 2021	Fiscal Year 2021 Tax Distribution Cap	Date LRF imposed or estimated year to impose tax	LRF Award Amount
Auburn	0.01920%	\$3,752,501	March 2010	N/A	\$250,000	\$5,138,609	114	340	\$5,830,810	\$250,000	07/01/2010	\$250,000
Bellevue	0.01000%	\$811,261,086	April 2014	\$279,578,294	\$0	\$26,376,183	2,295	N/A	\$822,400,000	\$500,000	07/01/2013	\$500,000
Bremerton	0.05100%	\$631,400	2010	\$28,337	\$2,477	\$10,891,263	47	295	\$687,597	\$330,000	07/01/2010	\$330,000
Clark County	0.01500%	\$3,928,308	N/A	\$98,792	\$154,264	\$774,860	N/A	N/A	\$5,003,923	N/A	07/01/2022	\$500,000
Federal Way	0.00940%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	07/01/2022	\$100,000
Kennewick	0.04300%	\$27,799,645	2010	\$911,773	\$576,409	\$14,529,407	66	1,020	\$36,079,083	\$500,000	07/01/2011	\$500,000
Lacey	0.06200%	\$123,622	N/A	\$164,594	N/A	N/A	N/A	N/A	N/A	N/A	Withdrawn	\$500,000
Mill Creek	0.01500%	N/A	N/A	\$24,170	N/A	N/A	N/A	N/A	N/A	N/A	07/01/2022	\$330,000
Puyallup	0.03125%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	07/01/2022	\$250,000
Renton												
Port Quendall	0.03000%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	07/01/2022	\$400,000
Renton South												
Lake Washington	0.03000%	\$19,293,214	04/09/2019	\$1,090,711	\$500,000	\$4,529,134	3	142	\$22,088,881	N/A	07/01/2019	\$500,000
Richland	0.05000%	\$19,141,286	03/20/2013	\$1,565,611	\$1,844	\$1,776,010	9	580	\$20,580,832	\$330,000	07/01/2013	\$330,000
Spokane	0.00700%	\$1,973,367	2011	\$132,995	\$0	\$14,086,175	3	135	\$2,701,994	\$250,000	07/01/2011	\$250,000
Tacoma	0.01400%	\$9,578,214	N/A	\$7,458,094	\$2,263,496	\$75,157,765	N/A	N/A	\$8,270,270	\$500,000	07/01/2016	\$500,000
University Place	0.24000%	\$259,028	2011	\$330,553	\$544,434	\$15,794,845	26	393	\$49,939	\$500,000	07/01/2011	\$500,000
Vancouver	0.01110%	\$20,403,189	2011	\$884,549	\$480,000	N/A	18	125-150	\$25,000,000	\$220,000	07/01/2011	\$220,000
Wenatchee	0.07100%	\$10,445,524	2011 and 2012	\$312,856	\$550,978	\$5,406,290	52	380	\$12,014,171	\$500,000	07/01/2013	\$500,000
Whitman County	0.00510%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Withdrawn	\$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.

N/A = not available