



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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May 31, 2018

TO: Brad Hendrickson, Secretary
Washington State Senate

Bernard Dean, Chief Clerk
Washington State House of Representatives

FROM: Vikki Smith, Director *VKS*

SUBJECT: Local Revitalization Financing Program Report

RCW 82.32.765 requires 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 business 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 additional jurisdictions imposed the tax on July 1, 2011; three more jurisdictions imposed the tax on July 1, 2013; and one more jurisdiction imposed the tax on July 1, 2016.

The report is available on our website at:

<http://www.dor.wa.gov/Content/AboutUs/StatisticsAndReports/Default.aspx>.

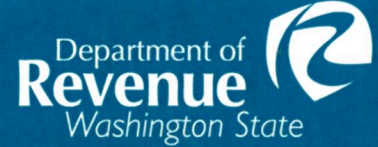
If you have questions about this report, please contact Kathy Oline, Assistant Director of Research and Fiscal Analysis, at (360) 534-1534.

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

2018 Report to the Legislature
Covering Calendar Year 2017 Activity
Pursuant to RCW 82.32.765



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 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 2017 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 demonstration projects authorized by RCW 82.14.505(1)(a)(iii), or any city receiving a project award under RCW 39.104.100 of less than \$150,000.

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 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. 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 | 2018 or 2019 | \$200,000 |
| 2009 Competitive, First-Come Projects | | | |
| Bellevue | Bellevue Revitalization Area #1 | 7/01/2013 | \$500,000 |
| Clark County | 179 th Street Revitalization Area | 7/01/2019 | \$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 | Before 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 | 7/01/2022 | \$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 2017 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.

All eligible jurisdictions received the approved award amounts prior to June 30, 2017, for Fiscal Year 2017. All participating jurisdictions should receive the approved award amounts for Fiscal Year 2018.

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 through 2017 | Fiscal Year 2017 Tax Distribution Cap | Date LRF imposed or estimated year to impose tax | LRF Award Amount |
|------------------|-----------------|------------------------|---------------------|--|----------------|--|----------------------------------|----------------------------------|--|---------------------------------------|--|------------------|
| Auburn | 0.02070% | \$2,750,352 | March 2010 | N/A | \$250,906 | \$3,224,901 | 73 | 183 | \$4,231,310 | \$250,000 | 07/01/2010 | \$250,000 |
| Bellevue | 0.01000% | \$408,518,619 | April 2014 | \$155,492,147 | \$0 | \$28,380,591 | 2,297 | 30,690 | \$349,200,000 | \$500,000 | 07/01/2013 | \$500,000 |
| Bremerton | 0.05000% | \$465,229 | 2010 | \$27,406 | \$104,658 | \$10,651,648 | 26 | 185 | \$500,770 | \$330,000 | 07/01/2010 | \$330,000 |
| Clark County | 0.01500% | \$1,498,373 | Tax not implemented | \$14,942 | \$69,233 | \$287,086 | N/A | N/A | \$1,926,154 | N/A | 2019 | \$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 | 0.04000% | \$16,724,714 | 2010 | \$335,184 | \$1,087,785 | \$13,188,645 | 54 | 396 | \$21,940,944 | \$500,000 | 07/01/2011 | \$500,000 |
| Lacey | 0.06200% | \$36,345 | 06/01/2021 | \$57,799 | N/A | N/A | N/A | N/A | N/A | N/A | 2022 | \$500,000 |
| Mill Creek | 0.01500% | N/A | Tax not implemented | \$65,912 | 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 | | | Tax not implemented | | | | | | | | | |
| Port Quendall | 0.03000% | N/A | Tax not implemented | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 2021 | \$400,000 |
| Renton South | | | Tax not implemented | | | | | | | | | |
| Lake Washington | 0.03000% | \$13,724,651 | implemented | \$81,618 | \$267,654 | \$4,639,253 | 2 | 122 | \$16,345,905 | N/A | 2022 | \$500,000 |
| Richland | 0.05000% | \$8,134,381 | 03/20/2013 | \$993,187 | \$3,085 | \$1,687,094 | 9 | 51 | \$8,726,618 | \$330,000 | 07/01/2013 | \$330,000 |
| Spokane | 0.01000% | \$1,477,765 | 2011 | \$103,780 | \$204,976 | \$9,664,880 | 3 | 68 | \$1,709,673 | \$250,000 | 07/01/2011 | \$250,000 |
| Tacoma | 0.00014% | \$4,695,247 | None reported yet | \$5,529,901 | \$4,535,788 | \$61,839,738 | N/A | N/A | \$2,956,741 | \$500,000 | 07/01/2016 | \$500,000 |
| University Place | 0.24000% | \$89,607 | 2011 | \$112,510 | \$0 | \$13,545,081 | 11 | 213 | \$28,871 | \$500,000 | 07/01/2011 | \$500,000 |
| Vancouver | 0.01000% | \$2,858,621 | 2011 | N/A | \$10,884,438 | N/A | N/A | N/A | \$3,248,816 | \$220,000 | 07/01/2011 | \$220,000 |
| Wenatchee | 0.07100% | \$4,114,170 | 2011 and 2012 | \$110,025 | \$623,034 | \$5,225,402 | 25 | 120 | \$4,937,681 | \$500,000 | 07/01/2013 | \$500,000 |
| Whitman County | 0.00510% | \$4,462,158 | Tax not implemented | N/A | N/A | N/A | N/A | N/A | \$5,354,589 | N/A | 2018 or 2019 | \$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.

Seven sponsoring local governments (note Renton has two revitalization areas) have not yet imposed the LRF tax. The anticipated dates to impose the LRF tax come from the original application or updated information submitted on the 2017 report. 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 development is in initial stages. With the 2016 legislative changes to the LRF program, we anticipate that the remaining local jurisdictions that have not imposed the LRF tax will impose the tax by July 1, 2022.

In Calendar Year 2017, LRF jurisdictions reported a state benefit of \$469.6 million. This represents the total sales and use tax increase since the Department approved the local government's award of \$366.4 million and the property tax increase in revenues for 2017 of \$103.2 million.

In Calendar Year 2017, local governments received \$4,157,187.66 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.