



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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June 1, 2014

TO: Hunter Goodman, Secretary
Washington State Senate

Barbara Baker, Chief Clerk
Washington State House of Representatives

FROM: Carol K. Nelson, Director 

SUBJECT: Local Revitalization Financing

RCW 82.32.765 requires that the Department of Revenue issue an annual report on the activity to date for the Local Revitalization Financing (LRF) program 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 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. Two sponsoring local governments chose to impose the local tax, which is credited against the state sales and use 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.

The attached report was prepared by Diana Tibbetts, Tax Policy Specialist, under the direction of Kathy Oline, Assistant Director of the Research and Fiscal Analysis Division. The report is available on our website at:

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

If you have questions about this program, please contact Kathy 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

Local Revitalization Finance Program

Research Report #2014-2

Pursuant to RCW 82.32.765

June 1, 2014



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 that encourage private development within a revitalization area. The program requires the Department of Revenue (Department) to make a report available to the public and the legislature by June 1st of each year that summarizes information provided by sponsoring local governments. This report covers the Calendar Year 2013 activity of 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 project LRF awards in 2009 totaling \$2.5 million.

In 2010, the Legislature amended the LFR statutes (E2SSB 6609, Chapter 164, Laws of 2010) by increasing the maximum state contribution for demonstration projects from \$2.25 million to \$4.2 million. Six jurisdictions were allowed 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 up to \$4.16 million.

Overall, 18 revitalization areas are eligible for LRF awards totaling \$6.66 million statewide.

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
2009 First-Come Projects		
Bellevue	Bellevue Revitalization Area #1	\$500,000
Clark County	179 th 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		
Lacey	Lacey Gateway Towne Center	\$500,000
Mill Creek	East Gateway Planned Urban Village Revitalization Area	\$330,000
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.” 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 Department administers the LRF program.

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 submitted an application to the Department. The Department then approved the state contribution known as the LRF award. Additionally, the sponsoring local government must issue bonds to finance public improvements in the revitalization area. 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 that needed for the local government to receive its entire annual state contribution of money in ten months.

The amount of the LRF tax revenue distributed each fiscal year is limited to the amount of local matching funds dedicated by the sponsoring local government in the preceding calendar year for LRF.

The tax must pay off bonds that finance the public improvements. The state contribution must be matched with 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 may continue 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 on 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 on July 1, 2011. The annual state contribution is limited to \$4.16 million for demonstration projects and \$2.5 million for competitive projects. Each project cannot receive more than the approved annual award.

The increase in state and local sales and use taxes in the revitalization area are estimated by the local governments and reported annually to the Department. At least every three years, local governments must review and updated 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 report annually on the progress of the LRF program. The following is a list of local jurisdiction reporting requirements:

- The amount 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 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 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 and public improvements 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 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 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 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, updates of estimates of the amount of 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 jurisdictions submitted the 2013 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.

All eligible jurisdictions received their approved award amounts prior to June 30, 2013, for Fiscal Year 2013. All projects should receive their approved award amounts for Fiscal Year 2014.

The table on the following pages summarizes the LRF activity reported to the Department by the sponsoring local governments that impose the LRF tax.

Project	Date LRF Tax Imposed	Rate of LRF Tax	State Benefit Reported*	Other Information Reported	Fiscal Year 2013 Tax Distribution Cap
Auburn	07/01/2010	Adjusted from 0.026% down to 0.025%	Not Available	Bonds issued on 3/2010 for local infrastructure improvements. \$250,183 reported for local match. \$1.18 million expended for bond repayment. Fourteen new businesses located in the RA creating 29 new jobs in 2013.	\$250,000 cap amount equals the award amount.
Bellevue	7/01/2013	0.01%	46,700,000	Bonds issued in April 2013 to partially fund local infrastructure improvements. \$2.1 million reported for local match. \$445,000 expended for bond repayment. Estimated \$52.7 million for the total state and local sales and use tax increment in 2013. Approximately 1,750 new businesses located in the RA creating 25,000 new jobs since 2009.	\$500,000 cap amount equals the award amount.
Bremerton	07/01/2010	0.05%	\$206,590	Bonds issued in 2010 for Park Plaza parking structure. \$2.97 million reported for local match. Estimated \$2 million for the total state and local sales and use tax increment in 2013. Four new businesses located in the RA creating 70 jobs overall. \$6.5 million was carried over for bond repayment and for pay-as-you-go public improvements.	\$330,000 cap amount equals the award amount.
Kennewick	07/01/2011	0.04%	\$4,558,447	Bonds issued in 2010 for Division Street Gateway Corridor project. \$1.46 million reported for local match. Estimated \$5.7 million for the total state and local sales and use tax increment. Eleven new businesses located in the RA creating 94 new jobs. \$5.37 million was carried over for bond repayment and for pay-as-you-go public improvements.	\$500,000 cap amount equals the award amount.
Richland	07/01/2013	0.05%	3,908,933	Bonds issued on March 20, 2013 for local infrastructure improvements. \$1.9 million reported for local match. Estimated \$4.35 million for the total state and local sales and use tax increment in 2013. Reported \$89,581 in local property tax allocation revenues. Seven new businesses located in the RA and six more businesses expanded creating a total of 80 new jobs.	\$330,000 cap amount equals the award amount.
Spokane	07/01/2011	0.01%	\$508,356	Bonds issued in 2011 for Division Street Gateway Corridor project. \$3.19 million reported for local match. Estimated state and local sales and use tax increment amount of \$646,827 in 2013. Reported \$20,947 in local property tax allocation revenues. First phase of public improvements completed in late 2011. \$4.3 million expended for bond repayment. \$4.0 million was carried over for bond repayment and for pay-as-you-go public improvements.	\$250,000 cap amount equals the award amount.

Project	Date LRF Tax Imposed	Rate of LRF Tax	State Benefit Reported*	Other Information Reported	Fiscal Year 2013 Tax Distribution Cap
University Place	07/01/2011	0.24%	\$13,550	Bond issued in 2011 for Market Place Street improvements. Estimated a state and local sales and use tax increment amount of \$9,451 in 2013. Reported \$3,888 in local property tax allocation revenues. \$15.1 million was carried over for bond repayment and pay-as-you-go public improvements.	\$500,000 cap amount equals the award amount.
Vancouver	07/01/2011	0.01%	\$1,701,756	Bond issued in 2011 for Waterfront Access project. \$12.9 million reported for local match. Reported a state and local sales and use tax increment of \$1.92 million in 2013.	\$220,000 cap amount equals the award amount.
Wenatchee	07/01/2013	0.071%	1,409,553	Bonds issued in 2011 and 2012. \$1.67 million reported for local match. Estimated a state and local sales and use tax increment amount of \$1.68 million in 2013. So far nineteen businesses have located in the RA creating 55 new jobs.	\$500,000 cap amount equals the award amount.

The following table summarizes the LRF activity reported to the Department by the sponsoring local governments that have not yet imposed the LRF tax. The anticipated date to impose the LRF tax is from the information submitted in the original application and/or updated information submitted on the 2013 annual reports.

Project	Anticipated Date to Impose LRF Tax	Anticipated Rate of LRF Tax	State Benefit Reported*	Other Information Reported
Tacoma	Unknown at this time.	0.00014%	\$1,891,540	Reported \$19.7 million for local match. Reported \$2.55 million in local property tax allocation revenues.
Whitman County	Possibly 2015 or 2016	0.0051%	Not available	Project has not started.
Clark County	7/01/2019	0.015%	\$465,113	Reported \$40,394 for total local match. Reported local and state sales and use tax increment amounts of \$599,630.
Federal Way	Possibly 2014 or 2015	0.0094%	Not available	Development is in the initial stages.
Renton Port Quendall	Possibly 2015	0.030%	Not available	Development is in the initial stages.
Lacey	07/01/2019	0.062%	\$39,414	Reported \$20,685 in local property tax allocation revenues. Bond sales anticipated to occur 6/01/2017. Development has not started.
Mill Creek	7/01/2015	0.0015%	Not available	Development is in the initial stages. Bond sales anticipated to be in 2015.
Puyallup	Unknown at this time.	0.03125%	Not available	Development is in the initial stages.
Renton South Lake Washington	Possibly 2015	0.030%	Not available	Development is in the initial stages.

*2009 Demonstration projects are required to report the state sales and use tax increments at least once every three years. State and local property tax increments don't begin to be received until the second calendar year after award approval.

As the tables above show, the majority of development is in initial stages. Most jurisdictions that have not imposed the LRF tax plan to impose the tax in 2015 or later. Economic events postponed many projects. As the economy continues to recover, it is anticipated that projects will move forward and the remaining jurisdictions will levy the LRF tax.

In Calendar Year 2013, LRF jurisdictions reported a state benefit of \$61.4 million and local governments received \$6,491,495 in LRF tax revenue.

The LRF tax must be imposed for a year before sponsoring local governments can fulfill the reporting requirements. The revitalization projects in the initial planning and construction phases have limited information to report. More information becomes available as additional local governments impose the LRF tax.