



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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June 1, 2013

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

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) program 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 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 more jurisdictions imposed the tax on July 1, 2011.

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. 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



STATE OF WASHINGTON
DEPARTMENT OF REVENUE

Research Report #2013-3

**LOCAL REVITALIZATION FINANCING PROGRAM
RCW 82.32.765**

**Department of Revenue
June 1, 2013**

This report summarizes the Calendar Year 2012 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 with LRF award amounts equaling \$2.25 million. 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 in 2009 totaling \$2.5 million.

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 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, a total of 18 revitalization areas are eligible to receive LRF awards totaling \$6.66 million statewide.

The table on the following page provides a list of 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
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 for certain increases in local sales and use tax revenues and property tax revenues generated within the area and allows 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 (RA). The Department of Revenue (Department) administers the LRF program. Jurisdictions must apply to the Department in order to seek a state contribution.

State money is provided 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 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 to the Department and be approved for the state contribution 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 also show that the combined state sales and use tax and property tax increments in the preceding calendar year are equal to or greater than the project award approved by the Department.

The tax rate for the LRF tax may be as high as 6.5 percent, less any existing rates 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 amount of the LRF tax revenue that can be 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 local revitalization financing.

The tax is used to pay off bonds that finance 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 were eligible to impose the LRF tax on July 1, 2010. The first-come projects awarded in 2009 and the demonstration projects approved in 2010 were eligible to impose the LRF tax on July 1, 2011. The annual statewide contribution is limited to \$4.16 million for demonstration projects and \$2.5 million for the projects approved on a competitive basis, but each project cannot receive more than the approved annual award.

Incremental state and local sales and use taxes in the revitalization area are estimated by the local governments and reported in annual reports to the Department. These estimates must be reviewed and updated at least every three years. After award approval, local jurisdictions must estimate the state benefit from revitalization areas. The state benefit is the increase in state property tax and state excise tax received in the preceding calendar years from the revitalization area.

Program Results

The law (RCW 82.32.765) requires the Department to annually report on the progress of the LRF program. The following is a list of report 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 2012 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 expect to issue bonds and impose the LRF tax on July 1, 2013.

All jurisdictions except Spokane and University Place received their approved award amounts prior to June 30, 2012, for Fiscal Year 2012. All projects should receive their approved award amounts for Fiscal Year 2013.

The table on the following page 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 0.021% up to 0.026%	Not Available	Bonds issued on 3/2010 for local infrastructure improvements. \$250,181 reported for local match. \$716,788 expended for bond repayment. Eighteen new businesses located in the RA creating 34 new jobs in 2012.	\$250,000 cap amount equals the award amount.
Bremerton	07/01/2010	0.05%	\$76,000	Bonds issued in 2010 for Park Plaza parking structure. \$3.52 million reported for local match. Reported a local sales and use tax increment of \$2,322 in 2012. Three new businesses located in the RA creating 32 new jobs. \$4 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%	\$3,157,000	Bonds issued in 2010 for Division Street Gateway Corridor project. \$1.54 million reported for local match. Estimated about \$4 million for the total state and local sales and use tax increment. Nine new businesses located in the RA creating 86 new jobs in 2012. \$4 million was carried over for bond repayment and for pay-as-you-go public improvements.	\$500,000 cap amount equals the award amount.
Spokane	07/01/2011	0.01%	\$281,000	Bonds issued in 2011 for Division Street Gateway Corridor project. \$1.03 million reported for local match. Estimated state and local sales and use tax increment amount of \$364,282 in 2012. Reported \$9,139 in local property tax allocation revenues. First phase of public improvements completed in late 2011. \$3.5 million was carried over for bond repayment and for pay-as-you-go public improvements.	\$250,000 cap amount equals the award amount.
University Place	07/01/2011	0.24%	\$10,181	Bond issued in 2011 for Market Place Street improvements. Estimated a state and local sales and use tax increment amount of \$5,928 in 2012. Reported \$3,369 in local property tax allocation revenues. \$12.7 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%	\$1,271,000	Bond issued in 2011 for Waterfront Access project. \$11 million reported for local match. Reported a state and local sales and use tax increment of \$1.64 million in 2012.	\$220,000 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 2012 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%	\$1,820,000	Reported \$14.1 million for local match. Reported \$2.35 million in local property tax allocation revenues.
Whitman County	7/01/2014	0.0051%	Not available	Project has not started.
Bellevue	7/01/2013	0.0001%	\$14,600,000	NE 4 th Street extension project associated with widening of 120 th Avenue is expected to begin in 2013.
Clark County	7/01/2015	0.015%	\$231,000	Reported \$18,742 for total local match. Reported local and state sales and use tax increment amounts to be \$296,678.
Federal Way	Unknown at this time.	0.0094%	Not available	Development is in the initial stages.
Renton	7/01/2014	0.030%	Not available	Development is in the initial stages.
Port Quendall				
Wenatchee	7/01/2013	0.071%	\$659,000	Reported \$3.32 million for total local match. Estimated local and state sales and use tax increment amounts to be \$784,078.
Lacey	7/01/2017	0.062%	\$38,000	Reported \$20,683 in local property tax allocation revenues. Bond sales anticipated to occur 6/03/2015. Development has not started.
Mill Creek	7/01/2014	0.0015%	Not available	Development is in the initial stages. Bond sales anticipated to be in 2014.
Puyallup	Unknown at this time.	0.03125%	Not available	Development is in the initial stages.
Renton	7/01/2014	0.030%	Not available	Development is in the initial stages.
South Lake Washington				
Richland	7/01/2013	0.005%	\$2,076,000	Development is in the initial stages. Reported \$330,000 for local match in 2012. Estimated local and state sales and use tax increment amounts to be almost \$2.3 million. Two new businesses located in the RA creating 45 new jobs in 2012.

*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 table above shows, the majority of development is in initial stages. Most jurisdictions that have not imposed the LRF tax plan to impose the tax in 2013 or 2014. Economic events have postponed many projects. As the economy continues to recover, it is anticipated that projects will move forward and more jurisdictions will levy the LRF tax.

In Calendar Year 2012, jurisdictions reported an overall state benefit of \$24.2 million and \$2,347,107.06 in LRF tax revenue was distributed to local governments.

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