



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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June 1, 2012

TO: The Honorable Ed Murray, Chair
Senate Ways and Means Committee

The Honorable Ross Hunter, Chair
House Ways and Means Committee

FROM: Brad Flaherty, Director *BF*
Department of Revenue

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.

This report was prepared by Diana Tibbetts, Tax Policy Specialist in the Research and Fiscal Analysis Division, under the direction of Kathy Oline, Assistant Director. If you have questions about this program, please contact Kathy at (360) 534-1534.

cc: Tom Hoemann, Secretary, Washington State Senate
Barbara Baker, Chief Clerk, Washington State House of Representatives
Marty Brown, Director, Office of Financial Management
Jim Justin, Director of Legislative Affairs, Office of the Governor
Members, Senate Ways and Means Committee
Members, House Ways and Means Committee



STATE OF WASHINGTON
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Local Revitalization Financing Program
Annual Report from the Department of Revenue
June 2012

This report summarizes the Calendar Year 2011 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 of \$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 did resubmit applications, although 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.” It 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). Jurisdictions must apply to the Department of Revenue (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 the combined 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 amount of the LRF tax revenues that can be distributed to a sponsoring local government each fiscal year is limited or capped 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 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 were eligible to impose the LRF tax July 1, 2010. The first-come projects awarded in 2009 and the demonstration projects approved in 2010 were eligible to impose the LRF tax 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 will be 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. The state benefit is the amount of increases in state property tax increments and state excise tax increments estimated to have been received in the preceding calendar years from the revitalization area after approval of an award was given. The Department is responsible for administering the LRF program.

Report Requirements

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 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 amount of state and local sales and use tax increments estimated to have been received since the approval of the project by the Department; and
 - Any other information required to enable the Department to fulfill its duties under this chapter and RCW 82.14.510.

All jurisdictions submitted the 2011 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.

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

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

		Fiscal Year 2012 Tax Distribution Cap			
Project	Date LRF Tax was Imposed	Rate of LRF Tax	State Benefit Reported*	Other Information Reported	
Auburn	07/01/2010	Adjusted from 0.03% down to 0.021%	Not Available	Bonds issued on 3/2010 for local infrastructure improvements. \$250,000 reported for local match. \$330,000 expended for bond repayment.	\$250,000 cap amount equals the award amount.
Bremerton	07/01/2010	0.05%	\$65,000	Bonds issued in 2010 for Park Plaza parking structure. \$1.593 million reported for local match. Reported a local sales and use tax increment of \$8,541 in 2011. Five new businesses located in the RA creating 14 new jobs. \$910,295 was carried over for pay-as you go public improvements.	\$330,000 cap amount equals the award amount.
Kennewick	07/01/2011	0.04%	\$1,781,000	Bonds issued in 2010 for Division Street Gateway Corridor project. \$857,000 reported for local match. Estimated total state and local sales and use tax increment amount of \$2.25 million. Seven new businesses located in the RA creating 79 new jobs.	\$500,000 cap amount equals the award amount.
Spokane	07/01/2011	0.01%	\$69,000	Bonds issued in 2011 for Division Street Gateway Corridor project. \$2.793 million reported for local match. Estimated state and local sales and use tax increment amount of \$91,150 in 2011. Reported \$1,294 in local tax allocation revenues. First phase of public improvements completed in late 2011.	Will not reach \$250,000 award amount.
University Place	07/01/2011	0.24%	\$10,000	Bond issued in 2011 for Market Place Street improvements. \$1.94 million reported for local match. Estimated a state and local sales and use tax increment amount of \$5,928 in 2011. Reported \$3,101 in local property tax allocation revenues.	Will not reach \$500,000 award amount.
Vancouver	07/01/2011	0.01%	\$656,000	Bond issued in 2011 for Waterfront Access project. \$10.9 million reported for local match. Reported a state and local sales and use tax increment of \$847,709 in 2011.	\$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 came from the information submitted in the original application and/or updated information submitted on the 2011 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%	\$1,862,000	Reported \$2.713 million for local match. Reported \$2.248 million in local property tax allocation revenues.
Whitman County	7/01/2014	0.0051%	Not available	Project has not started.
Bellevue	7/01/2014	0.0001%	Not available	Project is expected to begin in 2014.
Clark County	7/01/2015	0.015%	\$122,000	Reported \$10,322 for total local match. Reported local and state sales and use tax increment amount of \$156,113.
Federal Way	7/01/2013	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	7/01/2013	0.071%	\$116,000	Reported \$282,000 for total local match. Estimated local and state sales and use tax increment amounts to be \$136,705.
Wenatchee	7/01/2013	0.071%	\$116,000	Reported \$282,000 for total local match. Estimated local and state sales and use tax increment amounts to be \$136,705.
Lacey	7/01/2017	0.062%	\$40,000	Reported \$21,872 in local property tax allocation revenues. Bond sales anticipated to occur 6/03/2015. Development has not started.
Mill Creek	7/01/2013	0.0015%	Not available	Development is in the initial stages. Bond sales anticipated to be in 2013.

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Project	Anticipated Date to Impose LRF Tax	Anticipated Rate of LRF Tax	State Benefit Reported*	Other Information Reported
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%	\$971,000	Development is in the initial stages. Reported \$13,391 for local match in 2011. Estimated local and state sales and use tax increment amounts to be almost \$1.1 million in 2011. Four new businesses have located in the RA creating 120 new jobs.

*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, development will proceed forward and more jurisdictions will levy the LRF tax in subsequent years. Since many of the revitalization projects are in the initial planning and construction phases, more information will be available in the future as the projects progress. In Calendar Year 2011, jurisdictions reported an overall state benefit of \$5.69 million while \$1,249,323.76 in LRF tax revenues was distributed to local governments.

The Department is still in the initial stages of implementing the LRF tax within the LRF program. The LRF tax must be imposed for a year before sponsoring local governments can fulfill the report requirements. We anticipate more information will be available to report next year.