



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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June 23, 2011

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

The Honorable Ross Hunter, Chair
House Ways and Means Committee

FROM: Suzan DelBene, 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. To date, three more jurisdictions anticipate imposing the tax on July 1, 2011.

The report was prepared by our Research and Legislative Analysis Division under the direction of Mark Craig, Assistant Director. If you have questions about this program, please contact Mark 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
DEPARTMENT OF REVENUE

Research and Legislative Analysis Report #2011-3

**Local Revitalization Financing Program
Annual Report from the Department of Revenue
June 2011**

This report summarizes the Calendar Year 2010 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. 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. 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, although the city of Newcastle chose not to resubmit the application for its possible \$40,000 award. Overall, a total of 18 revitalization areas are eligible to receive LRF awards totaling \$6.66 million statewide.

The following table summarizes 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 |

| Sponsoring Local Government | Revitalization Area | LRF Award Amount |
|------------------------------------|--|------------------|
| 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. Jurisdictions must apply to the Department of Revenue (DOR) 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 DOR 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 DOR. 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 may impose the LRF tax July 1, 2010. The first-come projects awarded in 2009 and the second group of demonstration projects approved in 2010 may impose the LRF tax no earlier than 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 DOR. 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. DOR is responsible for administering the LRF program.

Report Requirements

RCW 82.32.765 requires DOR 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 amounts of state and local sales and use tax increments estimated to have been received since the approval of the project by DOR
- Any other information required by DOR to enable the Department to fulfill its duties under this chapter and RCW 82.14.510

All jurisdictions submitted the 2010 LRF Annual Report to the DOR and certified compliance with the requirements of the program. Auburn and Bremerton issued bonds and imposed the LRF tax on July 1, 2010.

The following table summarizes the LRF activity reported to the DOR by the sponsoring local governments that imposed the LRF tax on July 1, 2010:

| Project | Date LRF Tax was Imposed | Rate of LRF Tax | State Benefit Reported* | Other Information Reported | Fiscal Year 2011 Tax Distribution Cap |
|------------------|---------------------------------|------------------------|--------------------------------|---|---|
| Auburn | 7/01/2010 | 0.03% | N/A | Bonds issued on 3/2010 for local infrastructure improvements. \$753,638 reported for local match. | \$250,000 cap amount equals the award amount. |
| Bremerton | 7/01/2010 | 0.051% | N/A | Bonds issued in 5/2010 and 11/2010 for Park Plaza parking structure. \$1.2 million reported for local match. Reported a local sales and use tax increment of \$170,410 in 2009 and (\$273,556) in 2010. | \$330,000 cap amount equals the award amount. |

Auburn and Bremerton will receive their approved award amounts prior to June 30, 2011, for Fiscal Year 2011.

The following table summarizes the LRF activity reported to the DOR 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 new ordinances received as of May 24, 2011.

| Project | Anticipated Date to Impose LRF Tax | Anticipated Rate of LRF Tax | State Benefit Reported* | Other Information Reported |
|-------------------------|---|------------------------------------|--------------------------------|---|
| Spokane | 7/01/2011 | 0.007% | Not available | Reported \$1.082 million for local match. |
| Tacoma | 7/01/2010 | 0.00014 | Not available | Reported \$4.0 million for local match. |
| University Place | 7/01/2010 | 0.0024% | Not available | Reported \$1.98 million for local match. |
| Vancouver | 7/01/2011 | 0.0116% | Not available | Reported \$2.083 million for local match. |
| Whitman County | 7/01/2011 | 0.0051% | Not available | Project has not started. |
| Bellevue | 7/01/2013 | 0.0001% | Not available | Project is expected to begin in 2011. |
| Clark County | 7/01/2011 | 0.015% | Not available | Reported \$10,493 for local match for three quarters of 2010. Reported local and state sales and use tax increment of \$78,698 for three quarters of 2010. |
| Federal Way | 7/01/2011 | 0.0094% | Not available | Development is in the initial stages. |
| Kennewick | 7/01/2011 | 0.043% | \$839,030 | Reported \$3.25 million for local match. Bonds issued in 3/2010 for infrastructure improvements and a softball complex. Estimated state and local sales and use tax increment amounts to be \$1.07 million. |
| Renton | 7/01/2014 | 0.030% | Not available | Development is in the initial stages. |
| Port Quendall | | | | |
| Wenatchee | 7/01/2013 | 0.071% | Not available | Bonds have not been issued. |

| | | | | |
|---|-----------|----------|---------------|---|
| Lacey | 7/01/2015 | 0.062% | \$36,430 | Reported \$60,464 in local property tax allocation revenues. Bond sales anticipated to be 6/03/2015. Development has not started. |
| Mill Creek | 7/01/2012 | 0.0015% | Not available | Development is in the initial stages. |
| Puyallup | 7/01/2014 | 0.03125% | \$109,344 | Reported \$4.3 million for local match. |
| Renton South Lake Washington | 7/01/2013 | 0.030% | Not available | Development is in the initial stages. |
| Richland | 7/01/2011 | 0.005% | 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.

N/A = Not available.

As shown in the table above, a number of jurisdictions had planned to impose the LRF tax in 2011. Economic events have postponed many projects. Kennewick, Spokane, and Vancouver plan to impose the tax on July 1, 2011. As the economy continues to recover, development will proceed forward and more jurisdictions will levy the LRF tax in subsequent years. It is unknown at this time when the remaining jurisdictions will choose to impose the tax. 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 2010, jurisdictions reported an overall state benefit of \$984,804 while \$266,919.33 in LRF tax revenues was distributed to local governments.

Since DOR is in the initial stages of implementing the LRF tax within the LRF program, some information in this report may be updated as the DOR works with local sponsoring governments to obtain the most accurate information possible in the administration of 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.