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Incentives for TOD

TIF and Other Financing Tools

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Tax Increment Financing

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TIF Financing

- Tax increment financing, or “TIF,” is a traditional public financing method that has been used in countries, including the United States, for almost 70 years.
- TIF is a “value capture” approach to financing public improvements
  - TIF bonds are issued to finance public improvements. The bonds are paid from increased property taxes (the captured value) in the TIF area generated by rising property value resulting from public improvements.
- TIF is similar to another traditional value capture public financing method: local improvement districts or “LIDS.”
  - LID bonds are issued to finance public improvements that increase nearby property values, but are paid from assessments on the specially benefitted property rather than property taxes.

Tax-increment Financing: A form of “**value capture**.”

Bonds → **Infrastructure**

Supports Development

Increases Property Values

Generates “Tax Increment”

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Overlapping **taxing districts**

A particular development will be within a number of overlapping taxing districts

- State
- County
- Port
- City
- School district
- Library district
- Fire district
- Metropolitan park district
- Etc.

Include state taxes for the **common schools**?

- **State property taxes are collected to fund schools**
- **Constitution requires:**
  - "But the entire revenue derived from the common school fund and the state tax for common schools shall be exclusively applied to the support of the common schools." Article IX, Section 2
  - Leonard v. Spokane, 127 Wash.2d 194, 897 P.2d 358 (1995), struck down 1982 TIF statute.

101% Eyman Limit and TIF

- **The 101% Eyman limit disrupts the TIF mechanism.**
- **Can capture increased property taxes from <u>new construction</u>, not from higher property values generally.**
- **The 101% limit is a statutory problem, not a constitutional issue**

- ***The new TIF legislation addressed this statutory problem***

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TIF Statute: Chap. 39.114 RCW

The **TIF Act**

- The Washington Legislature adopted a new TIF statute that attempts to address both of these state law limitations. (ESHB 1189, the "TIF Act," codified at Chap. 39.114 RCW)
  - The TIF Act excludes state property taxes (as well as excess levies and port and public utility district levies for debt service) from the TIF value capture mechanism.
  - The TIF Act amends the 101% limitation to allow capture of local property taxes resulting from increased property values within the increment area.
    - Specifically, the TIF Act amends RCW 84.55.010 to add an exception from the 101% limitation for any increase in the assessed value of real property within an increment area, provided that such increase is not included elsewhere under another exception (such as the exception for new construction).

The **TIF Act**

The TIF Act allows counties, cities and port districts (or any combination of the three) to form increment areas, and allocates regular property taxes of overlapping local taxing districts generated by increased property tax values within the increment area to the sponsoring entity to finance public improvement costs.

Public improvements eligible for TIF financing include street and sidewalk improvements, utility improvements, parking, terminal, and dock facilities, park and ride facilities or other transit facilities, park and community facilities and recreational areas, brownfield mitigation.

Other eligible costs include energy efficiency projects, affordable housing, childcare facilities, maintenance and security, and historic preservation costs.

Sponsoring Jurisdictions

- Any sponsoring jurisdiction will receive property taxes on the increment value.
- Once the increment area has been formed, the county treasurer is directed to distribute receipts from regular property taxes imposed on real property located in the increment area.
- Tax allocation base value -- to each taxing district.
- Increment value – to the sponsoring jurisdiction.
  - Amount derived from the regular property taxes levied by *or for* each taxing district upon the "increment value" (the increase in property values in the increment area after formation of the increment area)
  - Used to pay or repay costs directly associated with the public improvements
    - Sponsoring jurisdiction may agree to receive less than the full amount as long as bond debt service, reserve, and other bond covenant requirements are satisfied, in which case the balance of the additional tax receipts are to be allocated to the taxing districts that imposed regular property taxes

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Forming an Increment Areas

- The TIF Act includes procedural requirements for, and limitations on, the formation of increment areas.
  - A sponsoring jurisdiction is able to create only two, non-overlapping increment areas
  - The increment area (or both areas if there are two) may not have an assessed valuation of more than $200 million or more than 20 percent of the sponsoring jurisdiction's total assessed valuation.
- The increment areas are subject to a 25 year sunset date.
- The sponsoring jurisdiction must satisfy a number of procedural requirements:
  - Make specific findings regarding the private investment expected to be generated by the public improvements
  - Complete an analysis that includes an assessment of impacts to – and necessary mitigation of – affordable and low-income housing as well as the local business community, school district and fire service.
    - If the increment area will impact at least 20 percent of the AV in a fire protection district or regional fire protection service authority or the fire service agency's annual report demonstrates an increased level of service directly related to the increment area, a mitigation plan is required to be negotiated
  - Submit project analysis to OST for review and consider any comments that the treasurer may provide.

Considerations

- The TIF Act represents the Legislature’s effort to authorize as close to a traditional TIF value-capture public financing method as is permitted under the Washington State Constitution.
  - The TIF Act authorizes increment areas that are limited in size and amount to serve, in effect, as a TIF pilot program.
- Washington’s budget-based property tax system already is complex as a result of the various limitations on both total dollar amount and levy rate.
  - As sponsoring jurisdictions proceed under the TIF Act it will be important to work with the county assessor, county treasurer and the other overlapping taxing districts in the increment area.
    - Although the TIF Act does not *require* that the sponsoring jurisdiction and the other overlapping taxing districts enter into an interlocal agreement, the TIF Act permits interlocal agreements with other local governments for the administration or other activities related to tax increment financing.

Examples

Port of Pasco

- Resolution No. 1569
  - “Creating a 150-acre, 25-year tax increment area to finance LTGO Bonds to help construct publicly own infrastructure improvements and enable development of $500 million milk processing facility”

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