

TAX INCREMENT FINANCING TYPE PROGRAMS IN WA

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This document briefly summarizes tax increment financing type programs in Washington State. It is intended to provide some basic information to assist persons interested in financing tools for local public infrastructure. It is not intended to be used as an interpretive document on the state laws pertaining to these programs.

The programs summarized in this document include:

- [Community Revitalization Finance \(CRF\) Act](#)
- [Local Infrastructure Financing Tool \(LIFT\) Program](#)
- [Hospital Benefit Zone \(HBZ\) Financing Program](#)
- [Local Revitalization Financing \(LRF\) Program](#)
- [Local Infrastructure Project Area \(LIPA\) Financing](#)
- [State Land Improvement Financing Area \(SLIFA\)](#)

COMMUNITY REVITALIZATION FINANCING (CRF) ACT

Summary

In 2001, the Community Revitalization Financing (CRF) Act was created. It authorized cities, towns, counties, and port districts to create a tax “increment area” and finance public improvements within the area by using increased revenues from local property taxes generated within the area.

Some specifics

- An increment area cannot be created without approval of the local governments imposing at least 75 percent of the regular property taxes within the area.
- The incremental local property taxes under this program are calculated on 75 percent of any increase in assessed value in the increment area.
- Any fire protection district with geographic boundaries in the increment area must agree to participate for the project to proceed.
- CRF increment areas are created and administered at the local government level.
- The CRF Act does not include a state contribution.

Status and availability of program

- There are currently six increment areas located in Spokane County.
- This program is currently available for local government use.

For more information

- See [Chapter 39.89 RCW](#).

LOCAL INFRASTRUCTURE FINANCING TOOL (LIFT) PROGRAM

Summary

In 2006, the Local Infrastructure Financing Tool (LIFT) program was created and made available to certain local governments for financing local public improvement projects intended to encourage economic development or redevelopment. As part of the LIFT program, a sponsoring jurisdiction (city, town, county, port district, or federally recognized Indian tribe) creates a “revenue development area” from which annual increases in revenues from local sales/use taxes and local property taxes are measured and used. Such increases in revenues and any additional funds from other local public sources are used to pay for public improvements in the revenue development area and are also used to match a limited amount of state contribution.

Some specifics

- A revenue development area and award of a state contribution must be approved by the state’s Community Economic Revitalization Board (CERB).
- Incremental local property taxes under this program are calculated on 75 percent of increases in assessed value as a result of new construction and improvements to property within the revenue development area.
- Incremental local sales and use taxes are estimated by the sponsoring local government with assistance of the Department of Revenue when requested.
- Participation in the sharing of incremental revenues for this program is voluntary and requires written agreement. (e.g. A city sponsoring a LIFT project may ask a library district to share its incremental property tax revenue and a county to share its incremental sales tax revenue with the city to support the project. The library district and county could sign a written agreement to participate, but they don’t have to.)
- To receive the state contribution, the sponsoring local government imposes a local sales and use tax that is credited against the state sales and use tax. This local tax is the mechanism by which the local government will receive the state contribution. The local tax does not increase the rate of tax paid by consumers but instead diverts state sales and use tax revenue to the local government. The local government receives a limited amount of distributions from the local LIFT tax each fiscal year up to the lesser of: (1) the amount of project award approved by CERB; (2) the amount of local matching funds dedicated to the payment of the public improvements or bonds in the previous calendar year; and (3) the highest amount of incremental state sales/use and property tax revenues for any one calendar year as determined by the sponsoring local government and identified in an annual report submitted to the Department of Revenue and CERB.
- The local funds and state contribution are used for payment of bonds issued for financing local public improvements within the revenue development area. The public improvements may be financed on a pay-as-you-go basis but only for the first five years of the state contribution.
- The state contribution ends after 25 years or when the bonds are paid off, whichever is earlier. The state contribution must also cease if the sponsoring or cosponsoring local government fails to commence construction on public improvements by June 30, 2017.
- The state can contribute a maximum of \$7.5 million statewide to the LIFT program per state fiscal year.

- The maximum state contribution per project is capped at \$1 million per state fiscal year.

Status and availability of program

- Nine projects have been awarded state contributions under the LIFT program. The projects are located in Bellingham, Bothell, Everett, Federal Way, Mount Vernon, Puyallup, Vancouver, Yakima, and Spokane County.
- The application process for the LIFT program is closed. Approval of additional projects and awards by CERB would require future legislative action.

For more information

- See [Chapter 39.102 RCW](#), and [RCW 82.14.475](#).
- See annual LIFT reports prepared by CERB located on the Department of Commerce's web site. Go to www.commerce.wa.gov and search in the reports and publications for "Local Infrastructure Financing Tool."

HOSPITAL BENEFIT ZONE (HBZ) FINANCING PROGRAM

Summary

In 2006, the Hospital Benefit Zone (HBZ) Financing Program was created. This program is similar to the LIFT program. However, this program does not include any incremental property tax revenues. Instead only incremental sales and use taxes are calculated and used. The HBZ program is intended to encourage private business development and the development of a hospital within a "hospital benefit zone." Similar to the LIFT program, the HBZ program authorizes a state contribution for public improvements within the zone.

Some specifics

- The HBZ program project awards are determined on a first-in-time basis and are available only when a health care provider has received a certificate of need from the Department of Health for the construction or expansion of a hospital.
- Incremental sales and use tax revenues from the hospital benefit zone are measured by the Department of Revenue using unique local tax reporting codes.
- Participation in the sharing of incremental sales and use taxes is voluntary and requires a written agreement. (e.g. If a county wants to share its incremental sales tax revenue for a city sponsored project, it may do so by written agreement.)
- To receive the state contribution, the sponsoring local government imposes a local sales and use tax that is credited against the state sales and use tax. This local tax is the mechanism by which the local government will receive the state contribution. The local tax does not increase the rate of tax paid by consumers but instead diverts state sales and use tax to the local government. The local government receives a limited amount of distributions from the local HBZ tax each fiscal year up to the lesser of: (1) the amount of project award approved by the Department of Revenue; (2) the amount of local matching funds dedicated to the payment of the public improvements or bonds in the previous calendar year and identified in an annual report submitted by the local government; and

(3) the amount of incremental state revenues received in the previous calendar year from the HBZ.

- The local funds and state contribution are used for payment of revenue bonds issued for financing local public improvements within the HBZ or public improvements financed on a pay-as-you-go basis.
- The state contribution ends after 30 years or when no longer needed for public improvements in the HBZ, whichever is earlier.
- The maximum state contribution per project is \$2 million per state fiscal year.
- \$2 million per state fiscal year is also the maximum amount the state can contribute statewide for this program.

Status and availability of program

- Gig Harbor (partnering with Pierce County) is the only jurisdiction approved for a state contribution under the HBZ program. It was awarded the maximum \$2 million per fiscal year.
- The application process for the HBZ program is closed. Approval of additional projects and awards by the Department of Revenue would require future legislative action.

For more information

- See [Chapter 39.100 RCW](#), and RCWs [82.14.465](#) and [82.14.470](#).
- See the Department of Revenue's annual reports on the Hospital Benefit Zone Financing Program on the Department of Revenue's web site. Go to www.dor.wa.gov and search for "Hospital Benefit Zone."

LOCAL REVITALIZATION FINANCING (LRF) PROGRAM

Summary

In 2009, The Local Revitalization Financing (LRF) Program was created by Second Substitute Senate Bill 5045 (2SSB 5045). The LRF program authorizes cities, towns, counties, and port districts to create a "revitalization area" (RA) and allows certain increases in local sales and use tax revenues and local property tax revenues generated from within the revitalization area, additional funds from other local public sources, and a state contribution to be used for payment of bonds issued for financing local public improvements within the revitalization area. This program is very similar to the LIFT program.

Some specifics

- The Department of Revenue (Department) is responsible for the administration of the program. To seek a state contribution, the local government that creates a revitalization area must apply to the Department.
- The program makes available state contributions for seven demonstration projects and other competitive projects approved on a first-come basis.
- Incremental local property taxes under this program are calculated on 75 percent of increases in assessed value as a result of new construction and improvements to property within the revitalization area.

- Participation in the sharing of incremental revenues for this program is voluntary but requires action to opt out of participation. (e.g. If a library district, or other taxing district, doesn't want to share its incremental property tax revenue with the city, it must pass an ordinance to remove itself from participation.)
- To receive the state contribution, the sponsoring local government imposes a local sales and use tax that is credited against the state sales and use tax. This local tax credit is the mechanism by which the local government will receive the state contribution. The local tax credit does not increase the rate of tax paid by consumers but instead diverts the state sales and use tax to the local government. The local government receives a limited amount of distributions from this local tax each state fiscal year up to the lesser of: (1) the amount of project award approved by the Department of Revenue; and (2) the amount of local matching funds dedicated to the payment of the public improvements or bonds in the previous calendar year and identified in an annual report submitted by the local government.
- The state can contribute a maximum \$6.63 million statewide for the LRF program per state fiscal year.
- The maximum amount of state contribution for each demonstration project is specified in law and ranges from \$200,000 to \$500,000 per project. The maximum state contribution for each competitive project approved on a first-come basis is \$500,000.
- The local funds and state contribution are used for payment of bonds issued for financing local public improvements within the revitalization area.

Status and availability of program

- Eighteen projects have been approved for state contributions under LRF. The projects are located in Auburn, Bellevue, Bremerton, Federal Way, Kennewick, Lacey, Mill Creek, Puyallup, Renton (2 projects), Richland, Spokane, Tacoma, University Place, Vancouver, Wenatchee, Clark County, and Whitman County.
- The application process for awarding a state contribution is currently closed. Additional approvals for a state contribution would require future legislative action. However, in 2016, [E2SSB 5109](#) became law requiring local jurisdictions to forfeit all LRF award amounts previously approved for jurisdictions that do not impose the LRF tax by December 31, 2016. A city or county can avoid forfeiting their award by sending the Department of Revenue a letter by July 1, 2016, stating its intent to impose the tax by July 1, 2022. E2SSB 5109 also allows for a new competitive bidding process (administered by the Department of Commerce) to re-award any forfeited funds to new projects.
- To date, Auburn, Bellevue, Bremerton, Kennewick, Richland, Spokane, Tacoma, University Place, Vancouver, and Wenatchee have imposed the LRF tax.
- This program is also available for use at the local level without a state contribution.

For more information

- See [Chapter 39.104 RCW](#), RCWs [82.14.505](#), [82.14.510](#), [82.14.515](#), and [82.32.765](#).

- Go to the Department of Revenue’s Local Government Web Page at www.dor.wa.gov/localgovernment and click on the link for “Local Revitalization Financing.”

LOCAL INFRASTRUCTURE PROJECT AREA FINANCING

Summary

In 2011, the Local Infrastructure Project Area (LIPA) Financing program was created by Engrossed Substitute Senate Bill 5253 (ESSB 5253) to enable local governments to finance infrastructure investments and incentivize development rights in the Central Puget Sound. The LIPA Financing program authorizes cities to create a LIPA and allows certain increases in local property tax revenues generated from within the LIPA to be used for payment of bonds issued for financing local public improvements within the LIPA. The tax increment financing (TIF) portion of this program is similar to the property tax component of LIFT and LRF with a few differences.

Some specifics

- This program provides for the transfer of development rights (TDRs) from rural farm and forest lands to cities to be used within the LIPA.
- Only eligible cities, in counties that border Puget Sound having a population of 600,000 or more and have an established program for the transfer of development rights may sponsor a LIPA. To be eligible, a city must be incorporated with a population plus employment equal to 22,500 or greater.
- The incremental local property taxes used for LIPA financing are calculated based on the sponsoring city ratio multiplied by 75 percent of the increases in assessed value as a result of new construction and improvements to property within the LIPA. The city ratio takes into account several factors related to a city’s TDRs.
- Participation in the sharing of incremental local property taxes is mandatory for both the sponsoring city and county.
- Counties and cities must allow the use of all incremental local property tax revenues unless specifically excluded through an interlocal agreement.
- The LIPA Financing program does not include a sales tax component.

Status and availability of program

- LIPA Financing is only available in King, Pierce, and Snohomish counties.
- Currently, no city has created a LIPA.

For more information

- See [Chapter 318, Laws of 2011](#) (Engrossed Substitute Senate Bill 5253), or [Chapter 39.108 RCW](#) and [RCW 36.70A.080](#).

STATE LAND IMPROVEMENT FINANCING AREA (SLIFA)

Summary

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 Prepared by Miki Gearhart
 Legislation and Policy Division, Washington State Dept. of Revenue

In 2016, State Land Improvement Financing was created by House Bill 2842 (HB 2842) to allow a city to use local property taxes levied by the city and other local taxing districts within a specified area to finance public improvements for state lands within the designated area. The state lands must be owned by the state of Washington and be for sale to private development, or the state of Washington must be the most recent owner of the land prior to it being sold for private development.

Some specifics

- Only a city with a population greater than 60,000 that is located east of the Cascade Mountains and abutted by the Columbia River to the south may sponsor a state land improvement financing area.
- A state land improvement financing area must be comprised of no more than 25% of the total assessed value of taxable real property within the boundaries of the city at the time the area is designated.
- Only regular property taxes, except the state property tax levied for support of the common schools, levied within a state land improvement financing area are used for this financing program. Regular property taxes do not include excess property tax levies that are exempt from the aggregate limits provided in RCW 84.52.043.
- The city may agree to receive less than the full amount of the regular property taxes levied within the designated area as long as bond debt service, reserve, and other bond covenant requirements are satisfied.
- The distribution of regular property tax from other local taxing districts to the city must cease when the regular property taxes are no longer obligated to pay the costs of the public improvements.
- This financing program does not include a sales tax component.

Status and availability of program

- The city of Pasco is the only city that currently qualifies to sponsor a SLIFA.

For more information

- See [Chapter 192, Laws of 2016](#) (HB 2842).