Tax Increment Financing

Overview – The use of future tax collections to finance infrastructure improvement projects is one financing tool used to encourage economic development. This method is known as tax increment financing (TIF), but also by other names including: Local Infrastructure Financing Tool (LIFT) or Community Redevelopment Financing (CRF). TIF uses **anticipated** higher tax collections to finance capital improvement projects.

Authorizing legislation using state property taxes for TIF projects was ruled unconstitutional by the State Supreme Court in 1995. Three attempts at passing a constitutional amendment were rejected by voters. In 2001, the Legislature authorized local governments to use their own property tax collections for capital improvement projects to encourage economic development. Despite the inability of the state to fund projects through TIF, local governments view it as an important tool to encourage community revitalization and economic development.

How TIF works – A local government must adopt an ordinance establishing a TIF area and have permission from any local government entity that levies at least 75 percent of its regular property taxes within the TIF area. Permission is also required from the fire district serving the TIF area. There must also be a public hearing on the proposal.

If the area is established, then bonds are issued to pay for capital improvement projects like roads, sewers, etc. When the assessed valuation (and property tax collections) within the TIF area increase, 75 percent of the increased property tax collections are diverted to pay off the bonds and 25 percent is distributed to the local government as additional revenue.

In 2006, the Legislature passed HB 2673, creating the Local Infrastructure Financing Tool (LIFT) program. LIFT was structured as a competitive grant program for local governments with three named demonstration projects that are approved for funding first. LIFT utilizes increased property tax revenues, increased local excise tax revenues and revenues generated by a new sales and use tax imposed in the new Revenue Development Area (RDA.) The new tax is credited against the state portion of the sales and use tax so there is no increase to the taxpayer. Other features of LIFT are:

- Specific criteria are established for the creation of an RDA, such as limits on the assessed value of the property, how the boundaries are drawn, the potential for investment and employment in the area, mitigation for negative effects, and having public hearings.
- The LIFT program is administered by the Community Economic Revitalization Board (CERB), with projects approved in consultation with the Department of Revenue (DOR) and the Department of Community, Trade, and Economic Development (CTED.)
- Named demonstration projects in the 2006 legislation:
  - the Bellingham redevelopment project (up to $1 million per year),
  - the Spokane River district project (up to $1 million per year), and
  - the Vancouver Riverwest project (up to $500,000 per year).
- Criteria are established for CERB to use when evaluating LIFT applicants for their potential to improve their communities.
- CERB cannot approve more than one project per county.
- A local government may issue bonds to finance the public improvement, to be retired by the tax allocations received.

The Legislature initially authorized $5 million a year for LIFT projects. The LIFT program is subject to review by DOR and the Joint Legislative Audit and Review Committee (JLARC).

In 2007, the Legislature made several technical modifications to the LIFT program including increasing the annual amount for LIFT projects to $7.5 million per year. That legislation also changed the one LIFT per county restriction. Now, counties with a named demonstration project (i.e. Spokane, Clark, and Whatcom) can have more than one LIFT project and cities that cross multiple counties do not count towards the one per county restriction.

Issues and Outlook – The goal of TIF is to encourage increased private investment in an area and by providing new or improved public infrastructure. Expanding the TIF program has been a priority for many legislators from areas struggling to grow. It has wide support among local governments and business interests. However, other legislators have expressed concerns about TIF including the potential situation that a local government creates a TIF area, issues bonds to pay for improvements, but little to no economic development occurs. In this situation, the local government is left to pay for the bonds without the corresponding economic benefit. Other legislators argue that TIF would not be needed if government simply created a healthy business climate with low taxes and reasonable regulations. The LIFT law was created as a potential compromise to the various viewpoints on TIF. It will take time to see whether the LIFT law leads to more local economic development.

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