

City of Blaine
Request for Council Action
Meeting Date: May 26, 2020

Subject: Stating a Position on Tax Increment Financing

Department: City Manager

Prepared By: _____
(Digital Signature)

This Action Is: Necessary and Routine COVID-19 Response

This action is Necessary and Routine under Governor Inslee's Proclamation No. 20-08 because:

- (1) it is Necessary because the City Manager needs City Council direction to pursue state legislative action that is outside the direction included in the City of Blaine 2020 Legislative Agenda, and
- (2) it is Routine because City Council providing direction to the City Manager is routinely a part of the operations of the City of Blaine when necessary.

Agenda Location: Consent Agenda Council Action Unfinished Business

Attachments:

- 1. Gordon Thomas Honeywell Memo regarding Tax Increment Financing

Background/Summary:

Tax Increment Financing (TIF) is an economic development tool which allows cities (and developers) to build infrastructure and finance the infrastructure through added tax value that exists after construction. TIF is available in many states, but currently Washington does not allow TIF. The benefit to TIF is that it allows for financing of costly infrastructure that might otherwise make a project economically infeasible. The improvements add to the tax base by increasing property values, and after the financed debt is paid off the added tax value is spread amongst the various taxing districts (Ex. city, county, fire district, school district, state, etc.).

Previously the City Manager provided the City Council with a memo on Tax Increment Financing (Attachment 1). In addition, an email was sent to City Council that included video links and a link to the Municipal Research Service Center (MRSC) page on TIF.

Short animated video

<https://www.bing.com/videos/search?q=tax+increment+financing+explained&docid=608036930695988271&mid=C759F3F2BD80D3D8D2A8C759F3F2BD80D3D8D2A8&view=detail&FORM=VIRE>

Longer and more complete explanation from Marion, Iowa

<https://www.bing.com/videos/search?q=How+Do+Tax+Increment+Financing+Work&ru=%2fvideos%2fsearch%3fq%3dHow%2bDo%2bTax%2bIncrement%2bFinancing%2bWork%26FORM%3dVDMHRS&view=detail&mid=9343D957638F086EDB139343D957638F086EDB13&&FORM=VDRVRV>

MRSC website. <http://mrsc.org/Home/Explore-Topics/Economic-Development/Financing-Economic-Development/Tax-Increment-Financing.aspx>

Adding TIF to Washington State's legal structure would assist the state in competing against other states to attract industries. If the Washington Legislature and Governor approve a program, the City would

have another tool in the City's economic development toolkit. Having the authority does not mandate that we use it, and any decision to implement a TIF program would ultimately lie with the City Council.

Budget Implications: Current Budget New Budget Request Non-Budgetary

Government relations contracting is included in the City's 2020 budget.

Recommendation:

The City Manager recommends that Council take a position in support of Tax Increment Financing legislation in Washington and direct staff to pursue Tax Increment Financing.

Reviewed By:

City Manager _____ Finance Director _____ City Clerk _____
(Digital Signature) (Digital Signature) (Digital Signature)



MEMO

To: City of Blaine

From: Briahna Murray & Holly Cocci, Gordon Thomas Honeywell Government Affairs

Date: May 4, 2020

Subject: Tax Increment Financing

Washington State faces a significant revenue shortfall in the state budget due to the COVID-19 pandemic. As the state struggles with how to address this revenue shortfall, cities will need to advocate to ensure that the Legislature does not cut state-shared revenues. In preparation for a possible special session in late June, the Association of Washington Cities has developed legislative priorities. These priorities include protecting state-shared revenues, providing flexibility with existing revenues, providing regulatory relief, and investing in tools that will facilitate an economic recovery. One of the tools to assist cities with economic recovery is tax increment financing. Below provides background on the tax incremental financing tool. The City should evaluate whether it wants to support the Association's legislative effort to have this tool approved in Washington State.

Tax Increment Financing:

Tax Increment Financing (TIF) is a method of utilizing a portion of future property tax collections to finance public infrastructure to spur economic growth. Using TIF, a local government would issue bonds to finance public improvements surrounding a site where a private developer intends to construct an economic development project that will increase property values. For example, a local government would issue bonds to construct an interchange that would open several acres of vacant land for job-generating economic development; or a local government would issue bonds to improve a stagnant and empty downtown main street to attract new businesses.

Construction of these public improvements would increase the property values of the direct site being impacted, as well as nearby properties. To repay its bondholders, the local government would collect the incremental increase in property tax revenue generated through the increased property values surrounding the public improvements. Under TIF, the local government making the improvement receives all the resulting tax revenue increase, rather than dividing it amongst the state, county, and other local taxing districts. The property tax revenue generated from the underlying property value (i.e. the vacant land) would continue to be collected and remitted as it is today. However, the incremental increase due to the increased property values would not have occurred but for the construction of the public improvement.

For example, if a city makes an improvement that raises nearby property values, the city receives all the resulting increase in property taxes, rather than sharing that increase



with the state, county, and other local districts under the normal property tax allocation system. Once the city is repaid, then the state, county, and other local districts collect the amount under the normal property tax allocation. It's worth noting that in the long run, the state, county, and other local districts see an increase in property tax collections because property values surrounding the public infrastructure investment significantly increase. The community also benefits from jobs, and increased sales and business and occupation tax revenue collections. In short – the bonds are repaid for the public infrastructure that spurred the economic growth, and once repaid, all entities see an increase in revenue collections.

Funding public infrastructure in this manner does not require the state or other entities to make an upfront commitment of funds. Most infrastructure projects in Washington State are currently funded by the State or other entity making an upfront infusion of cash into a public infrastructure project (either via grant or loan). TIF allows public infrastructure projects to be funded without identifying a large infusion of funding. Given the revenue shortfalls that the State is facing, it may become increasingly challenging to identify upfront funding for public infrastructure. And yet, public infrastructure is likely a key element to the State's economic recovery.

Washington State is one of the only states that does not allow TIF. Most other states, if not all, allow some form of the tool to be utilized. The Legislature has considered authorizing TIF in previous years. However, the former Speaker of the House was opposed to the concept, arguing that TIF is unconstitutional and provides too great a benefit to private developers. A 1982 Washington State Supreme Court ruling found that property tax revenue must be dedicated to K-12 education, and any incremental increase cannot be used to pay back bonds issued to fund public infrastructure that spurred the increase. Therefore, an amendment to the state constitution is needed to allow a traditional property tax-based TIF program.

There is now a new Speaker of the House, and an increased willingness amongst legislators to consider authorizing TIF in Washington State. Additionally, the public sentiment around an economic recovery effort could create the momentum necessary to amend the state constitution.