U.S. Department of Transportation
Federal Highway Administration

CENTER FOR
INNOVATIVE FINANCE SUPPORT

Tax Increment Financing, Washington

In 2021, Washington passed a Tax Increment Finance (TIF) program to help local communities improve public infrastructure, increase economic development, and create jobs. The TIF provides local governments with an opportunity to self-finance community improvements without imposing new taxes. Instead, cities and counties can use increased property values to help repay loans.

Financial Challenges and Indicative Solution

The COVID-19 pandemic provoked an economic recession that devasted businesses and families across Washington. There was an immediate need to fund local infrastructure, but existing State and Federal funding covered only a limited number of projects.

In the past, Washington had adopted several financing programs to help cities and counties grow, including: the Community Revitalization Financing Program, the Local Infrastructure Financing Tool, the Local Revitalization Financing Program, the Hospital Benefit Zone Financing Program, the Local Infrastructure Project Area Financing program, and the State Land Improvement Financing Program. However, these financial opportunities have significant limitations on use and require a State contribution that is typically funded by the State operating budget.

In an effort to help rebuild Washington communities with infrastructure and create new jobs, Governor Jay Inslee signed House Bill 1189, deemed the "TIF for Jobs" bill, in May 2021. TIF programs have been used in the United States for almost 70 years, but two long-standing laws had prevented the funding from being widely adopted in Washington. The State's constitution requires property taxes levied by the State to be dedicated to schools. Another Washington statute prohibits property taxes from increasing by more than one percent in any given year.

The State's TIF program was carefully structured to abide by the constitutional challenges and provide much-needed economic relief for local governments and communities. It was supported by various community organizations, including the Association of Washington Cities, Washington Ports Association, Washington Economic Development Association, and the Washington Chapter of the Commercial Real Estate Development Association.

Tax Increment Financing

TIF programs offer a value capture approach that increases the borrowing capacity for municipalities to finance public improvements. The innovative funding tool works similarly to local improvement districts, but TIF programs allow local governments to fund infrastructure projects by using a portion of increased property values, new tax revenues, and economic activities created by transportation investment. Local governments bond the future revenue to pay for the construction costs needed for development. They are able to leverage public investments to attract employers and jobs. TIF programs do not affect a State's property tax rate and do not impact current taxing districts' taxing authority, or existing tax collections. In order to secure TIF funding, local governments must confirm that development in the designated area would not be possible without the TIF-funded infrastructure.

TIF funding can be used for many types of public improvements that lie within or outside of the tax increment areas, as long as they benefit the community within the area. Possible projects include streets and roads, water and sewer systems, sidewalks and streetlights, parking, terminal and dock facilities, park-and-ride facilities for transit authority, park and community facilities and recreation areas, electric and broadband or rail service, and the mitigation of brownfields. TIF funding can also help pay for long-term affordable housing and energy efficiency retrofits, childcare facilities serving low-income and homeless communities, maintenance and security for public improvements, acquiring real and personal property, and maintenance and restoration for historic preservation purposes.

To repay TIF funding, sponsoring jurisdictions receive property taxes on the increment value. Once the increment area is formed, the county treasurer distributes receipts from regular property taxes imposed on property within the increment area. Each taxing district receives that portion of its regular property taxes for the increment area. The sponsoring jurisdiction receives an additional amount equal to the amount derived from the regular property taxes, but it receives no more than is needed for the costs directly associated with the public improvements. Sponsoring jurisdictions can agree to receive less than the full amount as long as bond debt service, reserve, and other bond covenant requirements are satisfied. In this case, the balance is allocated to the taxing districts that imposed the regular property taxes.

TIF Benefits for Private Developers

Although TIF funding can only be used to pay for publicly owned infrastructure, the program is a powerful public-private partnership tool that helps local governments encourage private development as well. Communities can finance public infrastructure and improvements with the additional property taxes from increased property values that result from that public investment and the ensuing private investment.

Once a taxing district establishes a geographic area that is expected to benefit most from the new infrastructure, it utilizes the increased tax revenues from that area to pay for the new infrastructure. Often times, the local government issues bonds to raise funds to pay for the new infrastructure and uses the tax increment to pay the bond debt service. With TIF funding, communities can rely on private development to pay for the new public improvements without tapping the existing tax base. This assures private developers that the infrastructure will be built while the local jurisdiction is confident the private project will catalyze new property tax revenue to help pay the costs. TIFs also allow private developers to participate in the process to cover certain administrative costs that local jurisdictions incur. Plus, as long as private developers meet all applicable State and local laws, they are authorized to construct the planned public improvements.

Limitations of TIF Funding

In order to use TIF funding, local governments can only have two active increment areas at a time. Those areas cannot overlap, and no designated area may account for the entire geographic area of the jurisdiction. Sponsoring jurisdictions must make certain findings to justify projects and when an increment area is created, it may not have an assessed value greater than $200 million or 20 percent of the jurisdiction's total assessed value. TIF funding must expire no later than 25 years after the first-year tax revenues are allocated.

Sources:

Opinion: An innovative new tool for Washington communities to create jobs
Tax Increment Financing in Washington
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Bring Tax increment Financing to Washington
AWC joins coalition advocating for Tax Increment Financing in Washington state
Tax Increment Financing
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