



TACOMA-PIERCE COUNTY CHAMBER
P O W E R T H R O U G H
C O N N E C T I O N S

**CITY OF UNIVERSITY PLACE
ECONOMIC DEVELOPMENT STRATEGIC ACTION PLAN**

**ECONOMIC DEVELOPMENT TOOL BOX FOR WASHINGTON
CITIES**

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ECONOMIC DEVELOPMENT TOOL BOX FOR WASHINGTON CITIES

INTRODUCTION

The City of University Place City Council has created an Economic Development Task Force and charged the group with developing an Economic Development Strategic Action Plan. As part of this plan, the Task Force will recommend that the City of University Place take actions to enhance the economic sustainability of the City, address the current and future tax burden balance between residents and businesses, and promote and encourage redevelopment in University Place. In addition to policy guidelines, the Task Force may also suggest additional sources of revenue to fund the program it recommends.

As input to the Task Force's recommendations, this Economic Development Tool Box has been assembled. The Tool Box is designed to provide an overview of municipal funding, financing and economic development tools available to cities. Each of the tools is described, including what it can be used for, and the funding parameters, restrictions and policy implications of the tool.

In preparing this Tool Box, the following sources were consulted:

- *2001 Update to the Metropolitan Transportation Plan, Growth Strategy Initiatives*, PSRC, July 2000
- Community Development Block Grant Program materials from US Department of Housing and Urban Development (HUD) – Community Planning and Development - <http://www.hud.gov/offices/cpd/communitydevelopment/programs>, and the Washington State Office of Trade and Economic Development (OTED) - <http://www.oted.wa.gov/>
- *Elevated Transportation Company – Monorail Funding Options*, Berk & Associates, September 2001
- *Infill Development: Strategies for Shaping Livable Neighborhoods*, Municipal Research Service Center, June 1997.
- *Non-Traditional Mechanisms in Funding Transportation*, Blue Ribbon Commission on Transportation, August 1999.
- *State of Washington Local Government Infrastructure Study Final Report*, Moss Adams, Berk & Associates, et. al. July 1999
- *Tax Reference Manual 2002: Information on State and Local Taxes in Washington State*, State of Washington, Department of Revenue, January 2002.

How Economic Development Activities are Funded in Washington State

Economic development in Washington State is facilitated by a partnerships between agencies, local governments, small business development centers, port districts, community and technical colleges, workforce development councils, chambers, and economic development councils.

As financial partners, cities can invest public funds in a limited, but meaningful effort to promote commercial growth. The emphasis of this investment is on funding improvements to infrastructure, development of public amenities and parking facilities. While some funding is available in the form of grants and loans, from State and Federal sources for infrastructure improvements, most funding is generated by local governments.

Recently, State-sponsored efforts to support economic development have been focused on rural areas in Washington. In addition, special State and Federal programs exist for cities in empowerment zones. These programs are not covered in the Tool Box because they do not pertain to the City of University Place.

RCW 35.21.703

Economic development programs.

It shall be in the public purpose for all cities to engage in economic development programs. In addition, cities may contract with nonprofit corporations in furtherance of this and other acts relating to economic development.

Marketing and tourism promotion occurs with local funding and usually involves partnerships with local chambers, convention and visitor's bureaus, and business districts. In addition to the specified funding sources listed in the Tool Box, cities are permitted to spend monies and conduct tourist promotion of resources and facilities under the authority granted by RCW 35.21.700.

Some Definitions: Funding and Financing. There is an important distinction between sources of funding and financing. Sources of funding generate actual dollars that can be used to meet the financial obligations of the agency. These can be dedicated taxes, transfers of tax revenue from other agencies, or grants from various programs. Financing mechanisms, on the other hand, are ways to match cost and revenue cash flows. Usually, this means that the agency will borrow money and pledge future income from funding source for repayment. These can be revenue bonds, low interest loans, or general obligation bonds.

What Tools are in the Tool Box

Many of the tools in the Tool Box are designed to promote additional or compact development and private sector investment in downtown or urban core areas. To leverage and attract new investment, increase housing and encourage mixed-use development and walkability, local governments can invest in infrastructure (i.e. road improvements, water and sewer expansion, storm drainage, etc.), develop public amenities and provide parking. In partnership with the business community, local governments can also conduct marketing efforts and promote tourism. To create incentives for development and to help minimize developer risk, local governments can identify barriers to development in their regulatory role, change necessary policies and regulations, and provide financial incentives for mixed-use, multifamily housing to promote and attract development. Local governments can engage in public-private partnerships and take a leadership role in convening parties to resolve issues. These strategies may be best used in conjunction with one another and implementation of an Economic Development Strategic Action Plan may require a mix of funding and financing mechanisms to achieve its goals. For a complete list of Tool Box contents by category, please see Attachment 1.

What Is Not in the Tool Box

Funding sources that can be used to generate General Fund revenue are not discussed in this Tool Box, with the exception of several general purpose revenues that can be used to fund marketing, tourism promotion or that are likely to support economic development programs. General purpose revenues are not intended to expressly support economic development activities, however, smaller cities may use General Fund revenues to fund infrastructure improvements or to help to fund economic development programs. Existing General Fund revenues in University Place (i.e. property tax, sales tax, franchise fees, development service fees, parks and recreation fees, state-shared revenues, etc.) are allocated to fund basic municipal services such as police, jail, court, development services, street and traffic maintenance, and parks and recreation.

Other revenues that cities use for infrastructure purposes are not included because they are for specific purposes, such as funding high capacity transit or projects in rural communities, which are not relevant to University Place. User fees can also help fund improvements, but are not including in the Tool Box as they are defined as a payment of a fee for direct receipt of a public service by the person benefiting from the service, and tend to support existing programming and services.

In addition, cities can apply to several Federal and State grant and loan sources not represented in the Tool Box. These funding sources will continue to be pursued by the City. Sources of grants and loans that the City of University Place has been successful in pursuing in the past to fund elements of its Capital Improvement Plan include: Federal Aid to Urban Systems, Interagency Committee for Outdoor Recreation Grants, Transportation Efficiency Act (TEA 21), State Urban Arterial Improvement Account grants, Transportation Improvement Board, Washington State Department of Transportation, and Public Works Trust Fund loans.

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MUNICIPAL FUNDING MECHANISMS

Economic development activities are not limited to, but can include, improvements to infrastructure, development of public amenities and parking, and marketing and promotion of tourism to leverage and attract new investment. The following discussion highlights primary funding mechanisms and financing tools to promote economic development activities.

Commercial Parking Tax

RCW 82.80.030

- What it is:** Tax is levied on the parking of vehicles in commercial parking facilities. The tax may be levied on either the parking business and measured by gross proceeds or the number of stalls available for commercial parking, or on the customers who park in the commercial facility and measured by a flat fee per vehicle, or the amount of the charge for parking. The rates are not specified in the statute.
- What it's used for:** Proceeds must be used for local transportation purposes, including street and road improvements, public transportation, and high capacity transit facilities.
- Funding parameters/restrictions:** Owners or operators of commercial parking facilities report to the levying city or county on a monthly, quarterly or annual basis. Tax exempt carpools, vehicles with handicapped decals, government vehicles are exempt from the tax. State and local retail sales tax already applies to charges for parking vehicles.
- Policy implications:** A tax on commercial parking may hinder the achievement of other economic development goals of increasing walkability and pedestrian traffic downtown.

MUNICIPAL FUNDING MECHANISM

Impact Fees

RCW Chapter 82.02

For Transportation – RCW 39.92.040

- What it is:** Fees a local jurisdiction charges to new development as a condition of development approval to pay for public facilities needed to serve new growth and development. Impact fees are levied based on a level of service standard established by the jurisdiction and are designed to partially fund public facilities and services made necessary to the new development.
- What it's used for:** Impact fees can be assessed to fund expected incremental service needed for publicly owned parks, open space, and recreation facilities; fire protection and police facilities; and transportation improvements. In addition, a school district operating in a local jurisdiction may assess a school facilities impact fee.
- Funding parameters/restrictions:** Fees are often uniform based on the average cost of providing service to the new development. Cities may choose to develop impact fees that reflect actual cost of extending service (marginal cost) to promote development or redevelopment. Some of these areas may be less expensive to serve, depending on their location. The rationale for different fees, however, must be documented clearly to avoid legal challenges.
- Policy implications:** The City of University Place currently assesses park impact fees on new development. University Place could establish police impact fees if it could show that the expected additional development would require an additional increase in service. Fire and school impact fees are possible funding sources should development result in additional level of service requirements for these agencies.

MUNICIPAL FUNDING MECHANISM

Percent for Art

- What it is:** City or county policy to devote a portion of the value of capitalized project costs paid for wholly or in part by the city. The existing ordinance in King County does not include street or road construction contracts. Bainbridge Island's ordinance includes City staff time spent on capitalized project work.
- What it's used for:** To fund public art. City legislation specifies purpose. For example, King County's ordinance also created a public arts program and art commission to administer the fund and determine, on an annual basis, capital improvement projects that are most appropriate for public art.
- Funding parameters/restrictions:** Most county and municipal programs are 1% funding for the arts. There does not appear to be any specific statute for local government funding of the arts in this fashion.
- Policy implications:** Could help City develop of public art and amenities as part of a plan to redevelop areas of the City and enhance their character.

MUNICIPAL FUNDING MECHANISM

Real Estate Excise Tax (REET) For Local Capital Projects

RCW 82.46.035

- What it is:** Tax is assessed on sales of real estate measured by the full selling price, including the amount of any liens, mortgages or other debts. The tax also applies to transfers of controlling interests in entities that own property in the state. There are several different rates that cities, counties and the State can assess for different purposes. See RCW Chapter 82.45 for complete discussion of State assessment and RCW Chapter 82.46 for discussion of possible city and county assessments of REET. Tax rate for capital projects was authorized in 1990 and has been implemented to-date by 108 cities and 9 counties. Cities and counties can assess a tax rate of up to 0.25% for capital purposes.
- What it's used for:** Receipts may only be used for capital projects specified in a comprehensive plan.
- Funding parameters/restrictions:** Restrictions exist for other local portions of REET. The tax is typically paid by the seller of the property. Exemptions include: property acquired by gift, inheritance and other transfers which do not represent market transactions; transfers to lien holders when such transfers are "in lieu" of foreclosure or forfeiture; real property acquired from a governmental entity, including federal, state or local jurisdictions; and business transfers in which no gain or loss for federal income tax purposes occurs. In addition, credit may be granted for the amount of tax paid on a single family residential property if the property is transferred to a real estate broker or other party who resells the property within nine months.
- Policy implications:** An important tool for helping local governments fund infrastructure. The overall applicable tax rate (given the combination of State and local REET) on a sale may penalize long-time residents who need to sell their property and can be interpreted to create an inequitable situation between those households and businesses which must sell when compared to others who remain at their present locations.

MUNICIPAL FUNDING MECHANISM

Street Utility Tax

RCW 82.80.050

- What it is:** Cities may levy a tax commercial businesses and residential properties of up to \$2.00 per employee on commercial businesses and up to \$2.00 per residential housing unit.
- What it's used for:** Proceeds must be used for local transportation purposes, including street and road improvements, public transportation, and high capacity transit facilities.
- Funding parameters/restrictions:** Publicly-owned property, property exempt from leasehold excise tax and nonprofit organizations, low-income seniors and other low-income citizens are exempt from the tax. In the courts, this tax was interpreted as a property tax and was deemed improperly assessed because the rate was not uniform for all types of property, since different rates were assessed for single family and multiple unit dwellings. Cities may contract for the administration of the street utility tax.
- Policy implications:** If the City elects to raise the tax levy, with the introduction another tax on businesses, it could appear to be increasing the burden on local business.

MUNICIPAL FUNDING MECHANISM

Business & Occupation Tax

RCW 35.21.71

- What it is:** Local option taxes levied on gross receipts or gross income; fees based on a particular type of activity; fees based on number of employees; or fees based on floor space or square footage of buildings owned. The maximum rate is 0.2% for city taxes applied to business activities that are measured by gross receipts or gross income, unless a higher rate is approved by voters. License fees or taxes on gross receipts imposed on retail businesses must be levied at a single and uniform rate.
- What it's used for:** Use of these funds is not specified in the statute.
- Funding parameters/restrictions:** Any new or increased B&O tax is subject to a referendum procedure, allowing a filing of a challenge to a new or increased tax within seven days of the imposing ordinance. Administered by the city. Average rates of the 37 cities that currently levy a B&O tax on businesses, as measured by a percentage of the firm's gross receipts, are 0.17% for retail businesses, 0.15% for wholesale businesses and manufacturing firms, and 0.21% for service firms. Most cities levy a flat or fixed dollar license fee, based on the firm's employment, that is paid annually and ranges between \$25 and \$75.
- Policy implications:** Around the State, there is little uniformity in tax rates, which may be confusing for firms doing business in more than one city. In addition, it may serve as a disincentive in trying to attract new businesses or retain existing businesses. It may also be difficult to convince voters to authorize the B&O tax.

MUNICIPAL FUNDING MECHANISM

Local Admissions Tax

RCW 35.21.280 and 36.38.010

- What it is:** Tax on the price paid for admission to any place or event. The tax may apply to season tickets, cover charges, charges for the use of recreational facilities and equipment, and charges for parking of vehicles (if the charge is related to the number of passengers). Also, charges for food and beverages may be included if the price is subject to tax and entertainment is provided.
- What it's used for:** General city purposes.
- Funding parameters/restrictions:** Maximum rate of 1 cent per 20 cents of price (or 5%). When cities levy the tax, the county tax may not apply within the incorporated area of the levying city. Persons who charge admissions for events include the tax in the purchase price of the ticket and report the tax to the appropriate local jurisdiction. The tax is administered by the city. Activities of elementary or secondary schools are exempt from the tax.
- Policy implications:** The City of University Place currently has an admissions tax of 5%, the maximum rate. Based on the definition of admission charges subject to tax, there could be some possible overlap with the retail sales tax, which applies to certain amusement and recreation activities. In the case that both taxes were to apply to a particular admissions charge, the retail sales tax would apply to the total ticket price, including any local admissions tax.

MUNICIPAL FUNDING MECHANISM

State Shared Local Hotel-Motel Tax

RCW 67.28.180

Special Local Hotel-Motel Tax

RCW Chapters 67.28, 67.40 & 36.100

- What it is:** Charges for lodging at hotels, motels, rooming houses, private campgrounds, RV parks and similar facilities for continuous periods of less than one month. Both taxes are administered by the Department of Revenue and distributed monthly to the levying jurisdiction by the State Treasurer. Maximum of 2.0% for each; all cities and counties that levy the tax have adopted the shared maximum rate. The State Shared Tax is deducted from the state retail sales tax so that the hotel-motel tax is not an additional tax for the customer. The Special Local Hotel-Motel tax is not shared, and if levied it is an additional burden for consumers. The Special Local taxes are in addition to the combined state and local retail sales tax. Thus, the overall sales and hotel-motel tax rate is in the range of approximately 10% to 11% for most jurisdictions.
- What it's used for:** Promotion of tourism or construction and operation of tourism-related facilities.
- Funding parameters/restrictions:** Special restrictions apply to use of receipts for a facility that will house a professional sports franchise. Emergency lodging provided to homeless persons is exempt from the tax.
- Policy implications:** The City may consider one element of these taxes initially in anticipation of the development of the local hotel/motel industry with the Chambers Creek property or in Town Center.

MUNICIPAL FUNDING MECHANISM

Utility Tax

RCW 35.21.870

- What it is:** Local option taxes levied on gross receipts or gross income; fees based on a particular type of activity; fees based on number of employees; or fees based on floor space or square footage of buildings owned. A maximum rate of 6.0% may be assessed on electrical, natural gas, steam energy and telephone businesses. There is no limit on the rate for garbage, water and sewer services. Other than competitive telephone service and charges to other telecommunications companies (taxed as a retailing activity and limited to the 0.2% rate), telephone businesses operating within the city and measured by gross receipts must be taxed at a uniform rate.
- What it's used for:** Use of these funds is not specified in the statute.
- Funding parameters/restrictions:** Average utility tax rates are more than 5% and, in some cases such as water and sewer, have exceeded 7% with voter approval.
- Policy implications:** The City currently assesses Utility Taxes on garbage, gas, cable, phone, cellular, CATV, and surface water management.

MUNICIPAL FINANCING TOOLS

“63-20” Financing

Federal IRS Code

What it is: A public funding mechanism predicated on the creation of a non-profit entity somewhat like a public development authority and a long term revenue stream that can be used to back revenue bonds. Available under IRS Code, an alternative method of obtaining tax-exempt financing that allows public bonds to be used if secured by lease agreement. Often used for facilities built as part of a public-private redevelopment. Funds available depends on the project costs and bond issuance.

What it’s used for: All infrastructure projects, with some exceptions.

Funding parameters/restrictions: To qualify for 63-20 financing, certain requirements must be met, including the transfer of the facility’s title to the government entity once the debt is retired.

How to use it:

- 1) Generally, these bonds require a credit-worthy private developer willing to enter into a lease to support a bond offering.
- 2) A non-profit corporation issues debt on behalf of political subdivision.
- 3) Debt is repaid using a specific revenue stream. For example, parking structures can be built using this kind of financing and parking revenues can be used to repay the bonds.

Policy implications: Need to have developer willing to enter into a lease to support the bond offering. Requires compliance with “private use” requirements (limits on tax exempt bonds to finance private activities). Success depends on joint development opportunities and ability to develop public/private partnership. Need a source of funds for repayment of bonds.

General Obligation and Revenue Bonds

RCW Chapters 35.41 and 39.46

- What it is:** Debt financing for capital projects. General obligation bonds, backed by the full faith and credit of the local government, generally result in the lowest interest rates of all debt types. Two types of GO bonds are authorized: vote and non-voted. Voted GO bonds require 60% voter approval and create a new source of funds. Non-voted bonds are also called councilmanic bonds and do not require voter approval. Funds to repay the non-voted bonds must be made available from existing sources. Revenue bonds are backed by a specified stream of revenue or income and are used where it can be demonstrated that an adequate revenue stream existing from a dedicated source.
- What it's used for:** To fund infrastructure projects.
- Funding parameters/restrictions:** Debt service must be repaid from current taxing authority for LTGO bonds and from new levy for voted GO bonds. Capacity is based on percent of assessed value within the jurisdiction – not greater than 2.5% for cities (including both LTGO and UTGO debt) Use of UTGO capacity requires 60% voter approval (of 40% of voters who voted in prior election.)
- Policy implications:** For voted GO bonds, voter approval may be hard to secure. For non-voted GO and revenue bonds, it may be difficult to re-prioritize a revenue source or stream to repay bond.

Benefit Assessment Districts – Business Improvement Areas

RCW Chapter 35.87

What it is: A benefit assessment is a charge levied to properties (businesses, multifamily residential, or mixed use projects) within a designated district. Formation of district attempts to link the cost of public improvements to those landowners specifically benefiting from those improvements.

What it's used for: BIA is allowed for the following purposes:

- Acquisition, construction or maintenance of parking facilities
- Decoration of any public place
- Promotion of public events in public places
- Furnishing of music in any public place
- Providing professional management, planning or promotion of retail trade activities
- Providing maintenance and security for common public areas

Funding parameters/restrictions: Assessments may not exceed the benefits of the improvement to each parcel.

How to use it:

- 1) Develop and sign petition - operators responsible for 60% of the assessments by businesses and multifamily residential or mixed-use projects within the area.
- 2) Determine the level of special assessment and on what the assessment will be based (number of employees, square footage, gross sales, etc.).

Policy implications: In some cases, establishment of a business improvement area has been controversial. May require significant effort to promote district formation.

Benefit Assessment Districts – Local Improvement

RCW Chapter 35.43

- What it is:** A benefit assessment is a charge levied to properties of a designated district to finance capital facility projects.
- What it's used for:** Formation of district attempts to link the cost of public improvements to those landowners specifically benefiting from those improvements.
- Funding parameters/restrictions:** Assessments may not exceed the benefits of the improvement to each parcel. Funding can be used to match grants from federal agencies.
- How to use it:**
- The development of a district is a collaborative process between the governing body and affected property owners which may be initiated by either party.
 - Capacity is determined according to the levying jurisdiction and depends on the project costs and bond issuance.
 - A bond sale finances the improvement and bonds are retired using annual payments by benefited properties.
 - Requires public outreach and two public hearings. Local property owners must be accepting of the project and of a special property assessment.
- Policy implications:** LIDs can be complicated, time consuming, and expensive to administer. In recent years, they have fallen out of favor and are not widely used due to legal and administrative difficulties with their implementation. Two challenges must be overcome to establish a LID: (1) special benefits accruing from the project must be demonstrable and greater than or equal to the amount of the assessment for each property in the district; and (2) the LID cannot be formed if property owners constituting 60% of the value of the assessment protest its formation. University Place has formed a LID to make improvements to East Road. No further action, however, has taken place at this time.

Public Private Partnerships

- What it is:** Lease or joint development agreement with a private entity could either result in lease income to the project or transfer some cost responsibility to the private partner. Public-private financing of this sort is based on common goals and the mutual interest of both parties. Pledged private funds may be used to leverage public funding or as a match for loan programs.
- What it's used for:** May be used to finance projects.
- Funding parameters/restrictions:** The arrangement would entail a private partner providing its own financial resources in some way in exchange for the development rights, easements or special access that would constitute a benefit for the private party.
- Policy implications:** Public-private partnerships can be complex and time consuming to arrange. In some public-private partnerships, incentives such as rent abatement, are not be available because public funds are involved.

Tax Increment Financing

RCW Chapter 39.89

What it is: Tax increment financing (TIF) is a financing tool that can encourage development and redevelopment projects by “capturing” the additional property taxes generated by private development projects. This additional revenue can be used to finance the up-front public development costs and help spur development in targeted locations. The funding comes from net increases in real property tax revenues within a community redevelopment area established according to state statute.

The law limits the amount that can be diverted and requires agreement among public service providers:

- 1) Funds are limited – state taxes are withheld, 25% of the increment from other taxing authorities’ funds are withheld, and port and public utility districts’ dedicated debt-service are also withheld.
- 2) Super Majority Agreement is required for use of the remaining funds – by a joint agreement among taxing authorities that represent at least 75% of the taxes. The fire protection district must also agree to the formation of the TIF district.

What it’s used for: The 2001 Legislature enacted a new version of tax increment financing to support community redevelopment. The new law permits cities and counties to divert a portion of regular property taxes within a tax increment area to several uses, including:

- Street and road construction and maintenance
- Water and sewer system construction and improvements
- Sidewalks and streetlights
- Parking, terminal, and dock facilities
- Park and ride facilities of a transit authority
- Park facilities and recreation areas
- Storm water and drainage management systems
- Expenditures for providing environmental analysis, professional management, planning, and promotion within the area

MUNICIPAL FINANCING TOOL

How to use it/Steps:

- 1) Cities, counties and port districts can initiate the creation of a tax increment area within a county, city, town, or port district boundary.
- 2) The designated area must be approved by all districts imposing 75% of taxes in the area. For example, Pierce County, School District, Fire District, Library and other taxing districts would have to agree to divert their property taxes to this purpose.
- 3) Prepare a plan for development
- 4) Hold a public hearing and adopt an ordinance establishing the area. (May require approval by County and City.

Typically, a jurisdiction will sell tax increment bonds at the initial formation of the financing "district." As private investments are added to the tax base within the district, the increased tax revenues are used to pay back the bonds and interest – rather than going to the general fund or other taxing sources. After the project costs have been paid or the tax increment financing district sunsets, the tax revenues are reallocated to the entities that collected them prior to the creation of the district. In addition, local governments can issue long-term bonds, not to exceed 30 years, that are paid for from dedicated funding sources based on the increment raised. These bonds are not considered an indebtedness of the local government and bondholders have no claim against the local government.

Funding parameters/restrictions:

Before 2001, a version of TIF was available but was found unconstitutional and never fully utilized. The community redevelopment statute allowed the use of a revenue stream from a change in the assessed valuation or the issuance of limited tax general obligation bonds. There was no requirement to reference the specific property benefited by the improvements. The incremental additional taxes are then pledged to repay the bonds. Once the bonds are repaid, the incremental tax increase would be distributed to the taxing districts sharing in the property taxes for the affected properties. This statute was ruled unconstitutional on the grounds that it violated the uniformity provisions of the State Constitution, and created confusion regarding whether tax increment bonds would count against a municipality's debt limit.

Policy implications/risks:

TIF requires careful analysis, accurate project costs and a clear understanding of the tax. TIF can create inter-agency and inter-jurisdictional challenges because one public agency is essentially subsidizing another by giving up tax revenues over the life of the financing district. Any TIF program would need to be examined to anticipate its effects on the county, school districts, fire districts and other jurisdictions that apply taxes within the district. For agencies that are directly impacted by the increased development in a TIF district, the freezing of revenues at the base year values (which can equal a net loss) can present financial difficulties in serving the new development, which can undermine support for the district. While they still receive the revenues received in the past, these revenues may not cover inflation increases and new costs associated with growth. Jurisdictions may be less willing to divert revenues because they are restricted to annual growth of 1% in their tax base since the implementation of Initiative 747. The sponsoring government

may be at risk if tax allocation revenues are insufficient to meet debt service obligations.

“Internal Tax Increment Financing”

Practical application before 2001

Because traditional TIF was not an option in Washington State prior to 2001, several local jurisdictions adapted the concept and used it for capital funding processes. To avoid legal challenges, jurisdictions focused on applying the concept to certain types of development expected to generate net positive fiscal benefits. These investments were expected to be recovered through regular tax collections from the benefited properties.

The City of Renton used this concept as part of its effort to relocate its auto dealers away from downtown and to another area of the City. The City compared the costs of acquiring the properties with the potential increase in sales tax from the auto mall location and the benefits of creating available downtown property for economic development purposes. Since the relocation, the City has set aside 50% of all incremental sales tax above the previous year’s base to support future economic development projects. As a result, the City has not needed to use the City’s councilmanic debt capacity to support the projects.

INCENTIVES AND OTHER TOOLS FOR MINIMIZING DEVELOPER RISK

In addition to funds for infrastructure investment, the City can use its regulatory function to minimize developer risk by reducing the time or the cost associated with developing in the area. Tools can include incentives to develop, and may also include zoning to encourage like development in certain areas, and adjustments in permitting or other regulatory adjustments.

Fast Track Permitting or Expedited Permitting Processes

- What it is:** On a day to day basis there are opportunities for the city, as a regulatory body, to make it easier for projects to move forward. Streamlining or expediting the permitting processes to establish predictability in land use and building permitting minimizes developer risk and timeline associated with processes. Administrative determinations can create flexibility in regulations where development conditions are difficult – when permissible under state and federal law.
- What it’s used for:** To make it easier for development to move forward – a project will be more profitable or more feasible to the extent that the developer can proceed quickly through the permit approval, project design and construction stages.
- Funding parameters/ Restrictions:** City revenues and other priorities for capital improvements, outlined in Transportation Improvement Plan and Capital Improvement Plan.
- How to use it/Steps:**
- 1) Can be encouraged through a pre-application meeting with written comments to clarify expectation and requirements; administrative review and action on permits involving minor impacts (rather than a scheduled public hearing); assignment of a single staff person to help an applicant throughout a project; use of technical review committees to coordinate multiple departmental review; and early meetings with neighbors of the project.
 - 2) Building permit processes can run concurrently with SEPA or other environmental processes and site plan review.
- Policy implications:** Consider benefits of moving projects forward while ensuring that they are workable in the community, that they do not sacrifice community quality of life, and that staff and public have adequate review of projects.

INCENTIVES AND OTHER TOOLS FOR MINIMIZING DEVELOPER RISK

Focus Public Investment in Targeted Geographic Area

What it is:	Zones for priority investment.
What it's used for:	Priority infrastructure investments for economic purposes.
Funding parameters/Restrictions:	City revenues and other priorities for capital improvements, outlined in Transportation Improvement Plan and Capital Improvement Plan.
How to use it/Steps:	Create zones for priority investment out from the city center. A city can prioritize servicing a central developed core by developing a policy to focus a larger share of programmed capital improvements in a core area.
Policy implications:	Approach works best when there is a clear basis for distinguishing areas – it's harder to justify if all the areas are at a similar stage of development. Designated area for investment could be politically difficult.

INCENTIVES AND OTHER TOOLS FOR MINIMIZING DEVELOPER RISK

Land Assembly for Specific Purposes

RCW 84.34.200

- What it is:** Assembling small individual parcels into larger blocks of available land under common ownership. Purchasing land under fragmented ownership can be time-consuming and expensive to a developer. The city can do the land assembly and minimize the developer's risk.
- What it's used for:** To enhance development potential of redevelopable property. This can also be called strategic land banking. Banking the land is done when the city holds land for future purpose or better development environment. In this case, the city may want to transfer the land to a development corporation until sale. In the interim, the city may elect to improve the land to support future sale.
- Funding parameters/restrictions:** Washington's constitution generally restricts cities from giving property to private individuals or from offering it for less than fair market value. For affordable housing purposes, however, a city can loan or grant monies to benefit low income housing. Land must be sold at market rate. Acquisition should be done three to five years in advance of market speculation to avoid paying inflated land prices.
- How to use it/Steps:**
- 1) Identify priority area where infill development could be successful and where the city wants to encourage development.
 - 2) Begin steps to acquire property. The city can acquire blighted property or for the accomplishment of another legitimate public purpose through the power of eminent domain, if necessary.
 - 3) Focus resources to make areas more attractive for development – address barriers (both real and perceived) which have prevented past development of parcels.
 - 4) Provide support to make it attractive to developer, promote benefits to potential residents and existing residents.
 - 5) Promote necessary coordination to make development happen.
 - 6) Sell at market rate.
- Policy implications:**
- Land assembly or banking can be expensive (may require environmental clean up costs) and can require considerable start-up costs. In some cases, if state or federal seed money is not available, it may be necessary to generate strong enough citizen support for the effort to get a bond approved.
 - While under public ownership, land is removed from tax roles and City will be responsible for any property maintenance.
 - May not be viewed favorably by the development and real estate community – can appear competitive to industry land speculation.
- May be difficult to carry out on a significant enough scale without some use of eminent domain powers. If eminent domain is used, it will be vital to demonstrate valid public purpose and to proceed with acquisitions on an adopted plan.

INCENTIVES AND OTHER TOOLS FOR MINIMIZING DEVELOPER RISK

Multi-Family Tax Abatement Program

RCW Chapter 84.14

- What it is:** The multiple-unit dwellings property tax exemption encourages construction of new multi-family housing and rehabilitation of existing vacant and underutilized buildings for multi-family housing by forgiving the property tax payments on improvements for ten years.
- What it's used for:** Designed to encourage multi-family housing developments in locally-designated urban center areas, the abatement covers new construction, rehabilitation of a vacant building or improvements to an occupied structure that result in at least four additional renter or owner-occupied units.
- Funding parameters/restrictions:** Land, existing improvements, and non-residential improvements are not exempt from taxation. The housing must meet the guidelines of the local jurisdiction, which may include height, density, public benefit features, number and size of proposed development, parking, low-income or moderate-income occupancy requirements and any other adopted requirements.
- How to use it/Steps:**
- 1) Local government designates residential "target area."
 - 2) Adopt standards and guidelines establishing basic requirements for both new construction and rehabilitation to be used in considering applications and granting the exemptions.
 - 3) Tax exemption is for ten successive years beginning January 1 of the year immediately following the issuance of the certificate of tax exemption eligibility.
- Policy implications:** Last year, eligibility was lowered to cities of 30,000 in population. In addition, cities with regionally designated urban centers that fall below the population threshold, SeaTac and Tukwila, can also utilize this incentive to support infill development within their urban centers. The City should determine if the revenue loss outweighs the benefits and work to inform the community about the economic and community benefits of higher densities and multi-family housing.

INCENTIVES AND OTHER TOOLS FOR MINIMIZING DEVELOPER RISK

Planned Action Environmental Review/Programmatic EIS

RCW 43.21

- What it is:** Conduct a more detailed environmental review analysis for a planning area at the planning stage. A programmatic or general EIS is a broad, initial environmental review of the effects of a specific type of land use action in a specific type of area. Site-specific or project-specific environmental review may be required.
- What it's used for:** Helps streamline the development review and permitting process. This approach is used to attract specific types of developments, which will expedite the goals of local, regional, and state plans.
- Funding parameters/restrictions:** Cost of environmental review.
- How to use it/Steps:**
- 1) Define a sub area of the city. For example, in Olympia, the City prepared an EIS focused on its North Downtown Planning Area.
 - 2) City consolidates and discloses known information about the area – reducing the time and expense of finding information and providing greater certainty for the developer about what will be involved in developing the property.
 - 3) Conduct an area-wide environmental analysis, which contains enough detail to greatly speed up permit review for projects within the area that are consistent with the subarea plan
 - 4) Projects found to be consistent during a pre-application review will not be subject to further SEPA Review.
- Policy implications:** Higher cost of more detailed environmental review makes it difficult for some local jurisdictions to conduct the analysis for an extensive geographic area. It may be possible to partner and pool resources with developers who are interested in an area to conduct a wider, more cost-effective environmental analysis.

INCENTIVES AND OTHER TOOLS FOR MINIMIZING DEVELOPER RISK

Revise Codes to Provide Flexibility

What it is:	Administrative flexibility in land use and development codes.
What it's used for:	Intended to promote desired type of development in desired locations. Can also speed development review and other processes.
Funding parameters/restrictions:	Adjustments should be carefully studied to ensure that they are workable and that they do not sacrifice community quality of life.
How to use it/Steps:	<ol style="list-style-type: none">1) Conduct careful study and testing of proposals intended to promote the type of development desired and to eliminate excessive standards – i.e. reflect real demand for parking rather than parking capacity that may never be fully utilized. Look at set backs and lot coverage, parking ratios, promote pedestrian-oriented movement and linkages.2) Develop criteria for permitting deviations from code standards. Consider crafting special infill development standards. A planning variance or waiver should be specifically provided for by the ordinance.3) Allow for administrative flexibility to deviate from zoning requirements for a development which meets or exceeds the intent of the land use codes. In some cases, these provisions may allow a development a density or height bonus if certain design features and amenities are provided.4) Change development regulations to promote the type of development desired and adopt zoning changes within the comprehensive plan ahead of development. Designate a mixed use zone, including residential, retail, commercial, personal service (day care centers) and office uses in urban centers.<ul style="list-style-type: none">• Allow housing in all commercial zones to increase pedestrian-oriented area.• Increased density allowances can help to make a development opportunity more attractive and profitable, lower public service operating costs and support higher levels of both publicly and privately-provided services and amenities.• In high-density housing zones, allow commercial – but limited to 50% of the residential floor area.• In residential neighborhoods, encourage neighborhood retail uses that are targeted to and compatible (in design) with the neighborhood area.
Policy implications:	Criteria for flexibility or sponsorship of certain development priorities should be in city ordinance. Some changes in zoning may trigger resistance on the part of neighboring residents. Active community involvement in developing standards, careful location and design features that blend with existing community can help to alleviate some concerns.

INCENTIVES AND OTHER TOOLS FOR MINIMIZING DEVELOPER RISK

Transfer of Development Rights (TDR)

Transfer of Development Credits (TDC)

What it is:	Decrease or remove development potential in one area by transferring development potential to another area. Mechanism allows local jurisdictions to either increase or decrease development capacity in specific areas and provides benefits of preserving or protecting rural and resource lands from development or subdivision indefinitely.
What it's used for:	TDR credits can be used for additional building space, parking spaces, required public or private park land, increased impervious surface, and additional height to encourage density levels. TDR credits also create the opportunity to remove or preserve environmentally-constrained lands or open space from total land area. A TDC program is being used to preserve rural lands in King County and promote housing and economic development.
Funding parameters/restrictions:	Areas that are eligible to transfer development credits are zoned agriculture or urban recreation, critical or wildlife habitats. Commercially zoned properties are eligible to receive the credits.
How to use it/Steps:	<ol style="list-style-type: none">1) City defines TDR credit program, what development credits can be used for2) Development credits are purchased from willing sellers3) Land remains privately owned (typically) and retains use and value
Policy implications:	Programs can require intergovernmental coordination. Process can occur without public funding, however, many public agencies seek to facilitate the process with funding for development of public amenities to increase the opportunity for development in the credit-receiving area.

INCENTIVES AND OTHER TOOLS FOR MINIMIZING DEVELOPER RISK

Waive Mitigation or Building Permit Fees

What it is:	City elects to waive mitigation fees or building permit fees it collects.
What it's used for:	To mitigate developer risk and provide incentives for development to occur.
Funding parameters/restrictions:	Primarily restricted by the budget implications of foregone revenue.
How to use it/Steps:	Must document criteria for waiving fees.
Policy implications:	In some cases, the costs of waiving fees can be outweighed by the public benefit of lower long-term operation and maintenance costs of development in central areas. If the development creates increased density, on-going costs could be spread over a greater population base as existing facilities are more fully utilized, which may translate to lower use fees in the long-term. Additional funding sources may be required to serve the new development.