



TO: T.C. Broadnax, City Manager
FROM: **Ricardo Noguera, Director, Community and Economic Development Department**
COPY: City Council and City Clerk
SUBJECT: **Ordinance – Local Revitalization Financing: Obtaining Credit from State Sales and Use Tax for Economic Development – April 12, 2016**
DATE: March 30, 2016

SUMMARY:

During the 2009 regular session, the State of Washington enacted Second Substitute Senate Bill 5045: Local Revitalization Financing (LRF). This legislation authorized cities to promote community and economic development by levying a local sales and use tax credit against the 6.5% State sales tax in order to assist with financing public improvements in an identified revitalization area. The State Legislature designated the City of Tacoma as a demonstration project for the LRF Program and granted an award of \$500,000/year in State funds for up to 25 years (\$12.5 million). Insufficient debt capacity precluded the City from accessing these funds to date. In 2015, new State legislation was enacted and went into effect that provides more flexibility. The City may draw down \$500,000 annually under the new bond issuance exemption or issue bonds up to \$12.5 million to finance public improvements in the downtown Revitalization Area (map attached). Council is requested to adopt an ordinance to impose the local sales and use tax to be credited against the 6.5% State sales and use tax to utilize Local Revitalization Financing. There is no net change in the tax rate to the taxpayer.

COUNCIL SPONSORS:

Council Member Robert Thoms and Council Member Marty Campbell

STRATEGIC POLICY PRIORITY:

Accessing Local Revitalization Financing will result in leveraging new investment, job creation and greater revenue and will align best with the following Council priorities:

- Foster a vibrant and diverse economy with good jobs for all Tacoma residents.
- Assure outstanding stewardship of the natural and built environment.
- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.

BACKGROUND:

On June 24, 2008, by Ordinance No. 27724, the Tacoma City Council authorized the Community and Economic Development Department to submit an application to the State of Washington Community Economic Revitalization Board to access the Local Infrastructure Financing Tool (LIFT) Program and designated a Revenue Development Area, which included 658.6 acres in the downtown, as provided for in Chapter 39.102 of the Revised Code of Washington. This area is bounded by South 4th Street to the north; South 28th Street, I-705, SR-7 NB, Wiley Avenue and I-5 to the south; Dock Street, Puyallup Avenue and L Street to the east; and Tacoma Avenue to the west. The State of Washington was unable to finance the City of Tacoma's competitive application due to inadequate funding. The City continued to pursue a State allocation to support downtown revitalization.

In 2009, former State Senator Derek Kilmer sponsored Second Substitute Senate Bill 5045 that created the Local Revitalization Financing (LRF) Program, as the LIFT Program sunset in 2008. The State Legislature designated Tacoma as one of seven demonstration projects eligible to receive up to \$500,000/year for 25 years to finance public infrastructure improvements. On August 25, 2009, by Ordinance No. 27828, the Tacoma City Council authorized the Community and Economic Development



Department to submit an application to the State of Washington Department of Revenue (DOR) for Local Revitalization Financing and created the 658.6-acre Revitalization Area (map attached) in downtown Tacoma, which boundaries coincided with the former Revenue Development Area. On September 16, 2009, DOR approved the application, granting a project award of \$500,000/year for 25 years, equivalent to \$12.5 million.

Prior to the release of funds, State law required two key criteria to be met. (1) Cities must provide a 1:1 match based on the State's contribution. The City of Tacoma has satisfied this requirement. Since 2010, approximately \$54.6 million has been invested in the Revitalization Area from Federal and local sources. (2) Cities must bond for eligible public improvements. The City of Tacoma was unable to issue bonds due to insufficient debt capacity exacerbated by the severe recession. As a result, the City successfully sought a change in State legislation. In 2015, the State adopted Senate Bill 5249 which allows a bond issuance exemption that will enable Tacoma to draw down funds on an annual basis. In addition, the City may bond for eligible public improvements in the future.

Infrastructure improvements to be funded must be associated with an increase in private investment and employment within the Revitalization Area. Eligible uses include:

- Street, road, bridge and rail construction and maintenance;
- Water and sewer system construction and improvements;
- Sidewalks, streetlights, landscaping and streetscaping;
- Parking, terminal and dock facilities;
- Park and ride facilities of a transit authority;
- Park facilities, recreational areas and environmental remediation;
- Storm water and drainage management systems; and
- Electric, gas, fiber and other utility infrastructure.

In order to access LRF funds, the City of Tacoma must pass an ordinance by June 1, 2016, for a July 1, 2016 start that establishes a rate to produce the sales and use tax increment the State returns to the City from its 6.5% share of sales tax revenue generated equivalent to \$500,000 annually. The proposed rate is 0.00014, which will support the full award to the City based on a minimum estimated \$3.6 billion taxable sales base.

On March 22, 2016, the City of Tacoma Economic Development Committee unanimously approved forwarding an ordinance to the full City Council to impose the local sales and use tax to be credited against the 6.5% State sales and use tax to utilize Local Revitalization Financing.

ISSUE:

It is important to access LRF funds to promote revitalization in downtown Tacoma. Investing in public infrastructure will assist in leveraging private investment, enabling job creation and generating additional tax revenue.

ALTERNATIVES:

If the ordinance is not adopted by June 1, 2016, the City of Tacoma would forfeit its \$12.5 million award in accordance with SB5109 passed by the Washington State Legislature in March 2016 and delivered to the Governor for signature on March 10, 2016.



RECOMMENDATION:

Staff recommends approval of adopting an ordinance to access the \$12.5 million Local Revitalization Financing award over a 25-year period (\$500,000 annually) to promote downtown revitalization.

FISCAL IMPACT:

First installment is due September 1, 2016.

EXPENDITURES: N/A

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Local Revitalization Financing			\$12,500,000
TOTAL			\$12,500,000

POTENTIAL POSITION IMPACT: N/A

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: \$500,000 IN REVENUE TO ACCRUE EACH YEAR

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? N/A

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED. N/A

Attachment: Revitalization Area Map