Growing Transit Communities

Value Capture Financing in Washington

Puget Sound Regional Council
PSRC
FEBRUARY 2013

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Background

The analysis, findings, and conclusions of this report represent a consensus view and may not reflect the individual preferred positions of members of the Affordable Housing Steering Committee or Value Capture Subcommittee.

About PSRC

The Puget Sound Regional Council (PSRC) is the regional planning organization for the four-county central Puget Sound region of Washington state. PSRC is committed to creating a great future for the region through planning for regional transportation, land use and economic development, under authority embodied in state and federal laws.

PSRC maintains a common vision for the region's future, expressed through three connected major activities: VISION 2040, the region's growth strategy, Transportation 2040, the region's long-range transportation plan, and the Prosperity Partnership, which develops and advances the region's economic strategy. PSRC also distributes about $180 million a year to transportation projects and provides regional data for planning.

PSRC is designated under federal law as the Metropolitan Planning Organization (required for receiving federal transportation funds) and under state law as the Regional Transportation Planning Organization for King, Kitsap, Pierce and Snohomish counties. PSRC also supports the work of the region's federally designated Economic Development District (EDD).

About Growing Transit Communities Partnership

The goals of Growing Transit Communities include:

- Actively engaging and empowering people to shape their communities.
- More transportation choices within neighborhoods, and better connections between neighborhoods.
- More housing choices for people of all ages, incomes, abilities, races, and ethnicities.
- Greater economic vitality, achieved by growing existing businesses and attracting new ones, improving resident access to jobs, education, and opportunity, and giving employers access to talent.
- Sustaining existing communities and cultures through preservation and growth directed to meet diverse needs.
- Enhancing the return on transit and other public investments by creating complete and vibrant communities that attract growth and transit ridership.

In the coming decades, the central Puget Sound region will make a once-in-a-lifetime investment in rapid transit. The region has a unique opportunity to leverage these transit investments by growing and strengthening communities around station areas. To this end, the Puget Sound Regional

Council (PSRC) has partnered with other public, private and non-profit organizations to form the Growing Transit Communities Partnership. This consortium is leading the way to shape successful transit communities that provide social, economic, and environmental benefits to current and future residents and businesses. Guided by VISION 2040, the region's plan for a more sustainable future, the Growing Transit Communities Partnership brings new voices to the table to better enable the creation of vibrant, diverse, and inclusive communities for all people. This effort is funded by a $5 million regional planning grant from the federal Partnership for Sustainable Communities.

Affordable Housing Strategy

The Growing Transit Communities program contains a core component focused on providing tools and resources to promote affordable housing in transit station areas. The Affordable Housing Strategy includes a regionwide assessment of fair housing access and provides technical assistance to local jurisdictions on affordable housing policy development. Policy work includes research on new tools to support affordable housing preservation and development, especially around transit stations.

The development of financing tools and regional assessment of Fair Housing and Equity is overseen by the Affordable Housing Steering Committee, composed of affordable housing advocates, funders, developers, and others from around the region. The Affordable Housing Steering Committee works in conjunction with the Regional Equity Network, which is making efforts to involve underrepresented people, such as low income families, communities of color, as well as organizations, in community planning now and in the future. The Steering Committee has developed various subcommittees to address the detailed issues surrounding each component of the strategy. The Value Capture Financing Subcommittee was created to take on the work addressed in this report.

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Executive Summary

This report provides an analysis of value capture financing methods and tools in Washington state and around the United States for developing infrastructure and affordable housing that support transit investments. The conclusions and recommendations are intended to guide the development of future legislation for new value capture financing tools in Washington.

Strong Communities With Great Access to Transit Offer Many Advantages to the Region

- They offer a way for the region to accommodate growth within the urban core and thus minimize the impact of growth on the beautiful natural environment that surrounds the urban areas.
- They encourage households to drive cars less and thus help reduce greenhouse gas emissions.
- They reduce energy consumption.
- They support the significant regional investment in high-capacity transit by increasing ridership.
- They offer opportunities to meet the housing needs of all income groups.
- They enable lower income households to reduce the financial burdens associated with housing and transportation costs.

What Is Value Capture Financing?

Public improvements increase the value of property nearby. A part of that added value can be captured to finance more public improvements. The premise is that the captured value can then finance other public improvements in the area, creating a virtuous cycle. Value capture financing mechanisms include tax increment financing (TIF), land value tax, special assessments, development impact fees, joint development (public-private partnerships), and more. Lessons learned elsewhere and analysis in this report suggest the need for a new value capture financing tool that incorporates elements of different financing mechanisms.

Value Capture Financing Strategies Can Help Create Strong Transit Communities

As national and local data suggests, transit accessibility increases property values. Value capture financing can support the creation of equitable and affordable transit communities, in addition to lowering development costs and encouraging development to occur sooner. Value capture financing can help ensure that compact communities near transit investments are affordable to all income groups and are great places to live.

There Are Numerous Legal and Political Challenges to Value Capture in Washington State

Some of the biggest barriers are:

- State property tax revenues cannot be diverted for local economic development as done with traditional Tax Increment Financing. Traditional TIF was ruled unconstitutional by the Washington State Supreme Court because it diverts state property tax revenues from schools.

- Washington's "budget-based" property tax system makes it impossible for a local government to capture property value increases due to public investments. Property taxes are levied in gross amounts, based on budgetary needs, rather than a percentage of property value. Because of statutory caps on budget amounts, increases in assessed values are not captured by local governments under existing law.
- Constitutional limits on property taxes force tax districts to compete for revenues. The Washington State Constitution limits total property tax levies to $10 per $1,000 of property value. If total levies approach this total, then smaller, junior tax districts are prorated.
- Cities have limited debt capacity to take on projects in value capture financing districts. Some cities may be hesitant to take on city-wide debt for improvements that are intended to benefit a sub-area of the jurisdiction.

Existing Value Capture Tools Have Taken Different Approaches to Addressing Challenges in Washington and Have Limited Potential to Help Create Equitable Transit Communities

Various value capture tools have been approved over the years by the Washington Legislature. However, none have directly addressed the legal challenges and have instead attempted to work within the current legal parameters to create new financing tools. Eligible value capture tools in Washington also fail to address the impact of rising property values on housing affordability or impacts to small, culturally significant businesses. The following are the primary value capture tools in use in Washington:

- **Tools that require a local government to ask permission of other taxing districts to divert revenues.** The Community Revitalization Financing (CRF) legislation, passed in 2001, allows cities to capture a portion of property tax revenues from other districts with their approval. CRF has seen limited use in Spokane. Revenues are limited because the state property taxes are not included.
- **State provides a sales tax credit to match local incremental property and sales tax revenues.** The Local Infrastructure Financing Tool (LIFT) and Local Revitalization Financing (LRF) legislation provided a fixed amount of state credited revenues for matching with local revenues. The state allocation of funds for these programs has been spent and requests for additional funding have died in the legislature. LIFT and LRF provided a way for cities to access state dollars for local economic development, but were limited by a cap of annual state match ($1 million per year for LIFT and $500,000 per year for LRF) and the failure of other taxing districts to participate in diverting revenues for these projects.
- **Counties give up incremental property tax revenues in return for city acceptance of transferable development rights (TDR) from a county.** The Landscape Conservation and Local Infrastructure Programs (LCLIP) legislation passed in 2011 applies only to eligible cities in King, Pierce, and Snohomish counties. The revenues are limited to the incremental increases of city and county property taxes; there is no state contribution. Currently, a few cities are working to implement this tool, but none have yet done so.

The Washington State Constitution Needs to Be Amended in Order to Achieve Maximum Value Capture Potential

Local governments have few tools to help capture the property value increases caused by public investments. When analyzed, existing value capture tools provide significantly less revenue than do special assessment and traditional TIF tools. A value capture financing tool based on the recently proposed (2011) Community Revitalization Act (SB 5705 and HB 1881) has the potential, based on hypothetical development scenarios, to produce revenues up to $78.2 million at Bellevue's 130th Ave NE planned light rail station area, $37.2 million at Mountlake Terrace's Freeway Tourist District, and $60.1 million in Tacoma's Dome District.[1]

Value Capture Tools Will Not Provide Enough Revenues to Finance All the Public Improvements in an Area

Value capture is one technique to support development of equitable transit communities, but must work in conjunction with other tools and incentives for growth. Conversations with stakeholders about revenues available from various value capture tools analyzed at the Bellevue 130th Ave NE light rail station area showed that no tool would be sufficient to finance all the necessary infrastructure, affordable housing, parks, open space preservation, and other needs in a transit station area. Value capture should be thought of as one of many tools for financing public improvements in cities and counties.

Washington Can Learn From Other States That Have Used TIF and Value Capture Financing Tools

- Setting aside value capture revenues for affordable housing helps to ensure new development benefits households of all incomes. Several states and cities revised policies after years of use to require that a proportion of revenues from value capture financing go to create and preserve affordable housing.
- Capturing state funds puts development interests in conflict with schools and other public services and is unsustainable.
- Clear communication about where value capture revenues are spent is of critical importance.
- Strict definitions of where value capture districts can be located are necessary to prevent urban sprawl and support regional plans for growth and infrastructure investments.
- Targeting value capture incentives for transit-oriented development helps bring development earlier than expected in weak market areas and may ensure that all current and future low income residents benefit from the development.

New Value Capture Financing Tools in Washington Should Support the Creation of Equitable Transit Communities By:

- Enabling local governments to partner with the private sector without relying on state funds to capture the value that public improvements add to private property.
- Providing a robust financing source to overcome the challenges of costly infrastructure upgrades, preserving and developing affordable housing, preserving parks and open spaces in the community and rural areas, and more.
- Dedicating revenues to build and preserve affordable housing and, if it's a community priority, to preserve rural lands.

- Ensuring that a portion of all new housing is affordable and that demolished low income units are replaced.
- Protecting and supporting existing small businesses by making it possible to support at-risk businesses with value capture revenues.
- Ensuring that public investments are used to attract good jobs for the community and not poach businesses from neighboring cities.
- Supporting the Growth Management Act, VISION 2040, multicounty planning policies, and countywide planning policies by targeting use of new value capture financing tools to areas with existing or planned rapid or high-capacity transit service.
- Requiring accountability for achieving the affordable housing, environmental, and social equity goals set by sponsoring local governments.

Introduction

This report is intended to provide an analysis of the value capture financing tools currently available and recently proposed in Washington state and across the United States for the purpose of creating equitable transit-oriented communities in the central Puget Sound region.

The region is making a voter-approved $15 billion investment in regional rapid transit over the next 10-20 years. Growing Transit Communities is designed to help make the most of this investment by locating housing, jobs, and services close enough to transit so that more people will have a faster and more convenient way to travel. The Growing Transit Communities Partnership is a consortium of approximately 40 organizations from around the central Puget Sound region committed to creating vibrant and affordable communities around transit investments.

The Growing Transit Communities Partnership's Affordable Housing Steering Committee developed a subcommittee to focus on the potential to use value capture financing to fund affordable housing development within transit station areas. The Value Capture Subcommittee includes individuals and agencies from across the state because legislative action would require involvement from outside the central Puget Sound region. Beginning in fall 2011, the group met eight times. The Value Capture Financing Subcommittee has requested that this report include legislative recommendations.

PSRC staff has provided analysis, findings, and recommendations from a technical and objective viewpoint and does not have an advocacy position other than that a value capture tool should be pursued for creating equitable transit-oriented communities. While the impetus for the report stems from issues facing the central Puget Sound region, the findings and recommendations from the report are intended to address similar issues faced by other regions. Therefore, this report serves as a resource to legislators, municipalities, developers, and advocates for financing equitable transit-oriented communities across the state.

What Is an Equitable Transit Community?

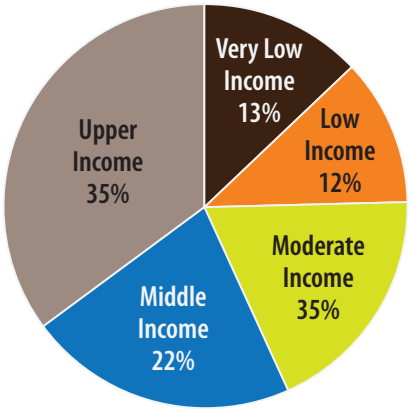
Equitable transit communities are mixed-use, transit-oriented neighborhoods that provide housing and transportation choices and greater social and economic opportunity for current and future residents. Although defined by the half-mile walking distances around high-capacity transit stations, they exist within the context of larger neighborhoods with existing residents and businesses.

The Washington State Growth Management Act requires communities to plan for housing affordable to "all economic segments of the population."[2] VISION 2040 uses the following income categories to track regional housing affordability. These categories divide the regional households into groups based on how their incomes compare to the Area Median Income (AMI):

- Middle Income.....80 – 120% of AMI
- Moderate Income ..... 50 – 80% of AMI
- Low Income..... Below 50% of AMI
- Very Low Income..... Below 30% of AMI[3]

Creating transit communities affordable to all ensures that new developments in central Puget Sound reflect the broad diversity of the region.

FIGURE 1: REGIONAL HOUSEHOLDS BY INCOME GROUP



Source: American Community Survey 2006 – 2010 Public Use Microdata Sample

How Do Equitable Transit Communities Benefit the Region?

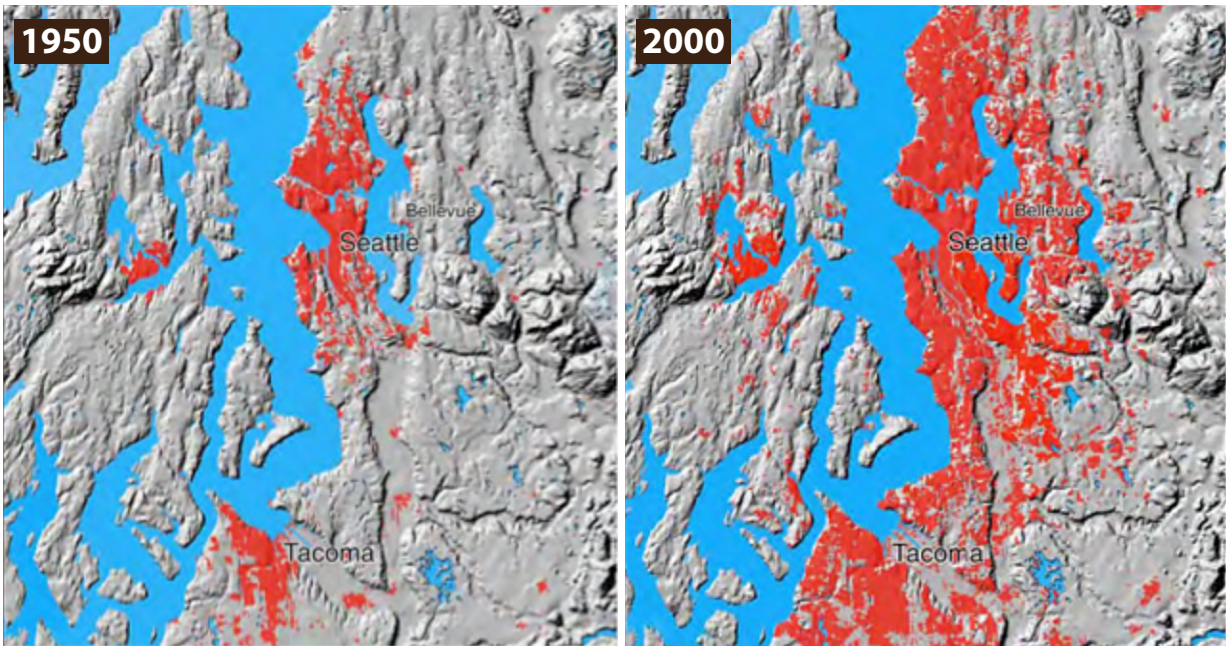
Transit Communities Accommodate Growth

VISION 2040 identifies a growth pattern that accommodates future population and employment growth in a way that minimizes adverse impacts on the environment… It provides the framework for the region to take the necessary public policy steps to bend development trends where necessary to promote a growth pattern that transitions the region into a more sustainable way of living.[4]

According to forecasts from PSRC, the population of the central Puget Sound region will grow to nearly 5 million people by the year 2040. This is an increase of more than 1.2 million over today's population. Between 550,000 and 600,000 new housing units will need to be built to accommodate this growth.

Historically, the region has grown through sprawl. Between 1950 and 1990 the Seattle Metropolitan Area population grew from 622,000 to 1,744,000, an increase of 180%. Despite this phenomenal growth rate, the region's density actually decreased over this time. The urbanized area grew by 378% between 1950 and 1990.[5] The American Farmland Trust has calculated that the four-county region lost 350,000 acres of farmland between 1950 and 2007, a loss of 62% of the agricultural land in the region.[6] Over the last 50 years, between 66% and 84% of the old growth forest in the Puget Sound region has been lost, and 80% of the region's wetlands have disappeared.[7]

FIGURE 2: URBANIZED AREA OF CENTRAL PUGET SOUND, 1950 AND 2000



Source: United Stated Geographic Society

Out of concern that sprawl was damaging the environment and reducing the quality of life across the state, Washington state passed the Growth Management Act in 1990. This law requires local, county and state government to designate urban growth areas and to protect natural resource and critical environmental areas.

Growth management was effective at limiting urban sprawl, but it did not eliminate it. In central Puget Sound, the share of the residents that lived in compact urban neighborhoods grew from 21% in 1990 to almost 25% by 2000. However, over this same decade, 55% of the growth happened in low density areas with fewer than 12 people per acre (roughly 4-5 dwelling units per acre).[8]

Transit communities offer an alternative to low density sprawl that could accommodate a significant percentage of the region's growth. The Puget Sound Regional Council engaged Strategic Economics to project how much growth the region's three major light rail corridors could absorb by 2040. Strategic Economics estimates that demand for housing in the half-mile areas around light rail stations in these corridors is between 101,700 and 103,400 new units.[9] In other words, roughly 17.5% of the total growth in the region can be accommodated in the already urbanized areas where light rail stations are located, which account for well less than 1% of the land area in the region.

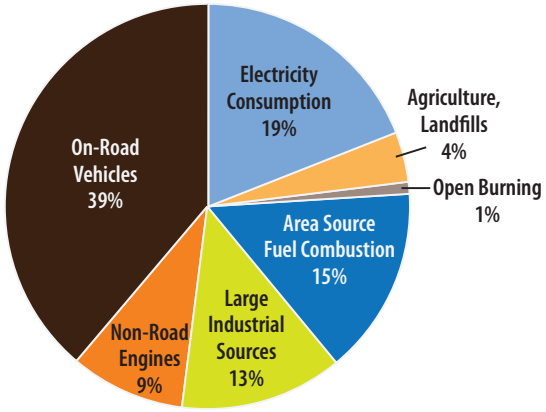
Transit Communities Reduce Greenhouse Gases

Global climate change is the economic and environmental issue of our lifetime. The science is clear that we must move forward quickly to reduce greenhouse gas emissions in order to mitigate its effects. Without action, climate change will negatively affect nearly every part of Washington's economy… — Path to a Low-Carbon Economy [10]

In 2008, Washington state enacted legislation that established greenhouse gas emissions reduction targets for the state. This law requires that greenhouse gas emissions be reduced to 1990 levels by the year 2020, to 25% below this level by 2035, and to 50% below by 2050.

Transportation 2040 charts a way that central Puget Sound can meet these reduction targets. It identifies a four-part strategy for reducing greenhouse gases in the region, and transit-oriented development is highlighted in one of these strategies. The plan states that "a compact development pattern is a foundation of the region's greenhouse gas reduction strategy." [11]

FIGURE 3: DISTRIBUTION OF GREENHOUSE GAS EMISSIONS IN CENTRAL PUGET SOUND



Source: Puget Sound Clean Air Agency 2005 Emission Inventory

On-road vehicles account for nearly 40% of the greenhouse gas emissions in the region (Figure 3); the vast majority of these emissions come from passenger cars and light duty trucks. It will be impossible to meet the state-mandated goals without getting vehicles off the road.[12] Because vehicle miles traveled (VMT) are such a large contributor to greenhouse gases, the state Legislature has also mandated reductions in vehicle miles traveled per capita. In Washington, per capita vehicle miles traveled need to decrease by 18% by 2020, by 30% by 2035, and by 50% by 2050.

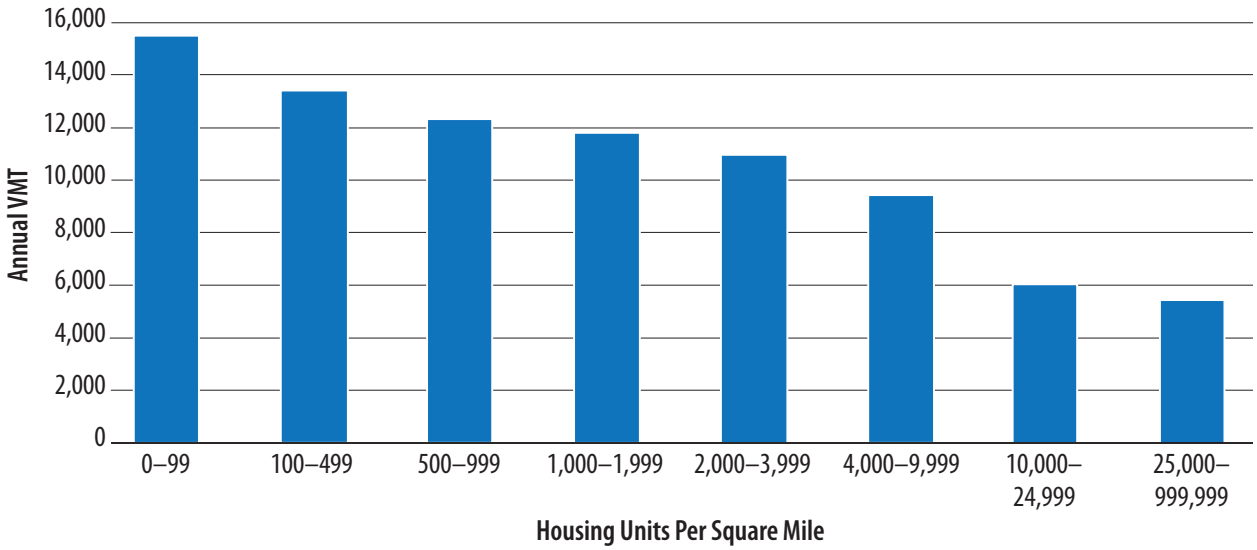
In addition to lowering greenhouse gas emissions, reducing vehicle miles traveled also benefits the region by reducing congestion. According to the 2011 Urban Mobility Report, the Seattle metro area has the 12th worst congestion in the country. Traffic delays in 2010 resulted in nearly 88 million people hours in the region; the excess fuel consumed due to congestion was over 46 million gallons. In total, the economic cost of congestion in the region in 2010 was almost $2 billion.[13]

Compact developments are an extremely effective way of reducing VMT. The 2009 National Household Travel Survey found that drivers who lived in areas with a density of more than 10,000 housing units per square mile (15.6 units per acre) on average drove less than half of the miles of drivers in areas with lower densities (see Figure 4).[14] Recent studies have indicated that a doubling of residential density in urban areas will result in a 5 to 12% reduction in household VMT. [15]

Building compact communities close to high-capacity transit has an even larger impact on VMT. A 2008 study conducted by the Center for Transit Oriented Development and the Urban Land Institute looked at 17 transit-oriented development projects in four metropolitan areas. This study documented reduced vehicle usage in these projects beyond what one would expect from similarly

compact projects that were not transit-oriented. It found that the actual number of vehicle trips in these transit-oriented communities was 44% less on average than what the Institute of Traffic Engineers would predict based on data for similar multifamily developments.[16]

FIUGRE 4: AVERAGE ANNUAL VEHICLE MILES TRAVELED PER DRIVER IN DIFFERENT RESIDENTIAL DENSITIES



Source: Federal Highway Administration, 2009 National Household Travel Survey

The maximum greenhouse gas reduction benefit from compact transit-oriented development alone will be realized only if the new transit communities are equitable and affordable. Households with limited incomes are much more likely to forego car ownership than other households. In Seattle, 40% of the residents with incomes below 150% of the poverty level do not own cars, as compared to 15% of the total population.[17] Many of those low income households that do own cars do so because it is the only way they can access housing they can afford. Building transit communities affordable to a wide range of incomes would enable these households to give up their cars and live closer to where they work.

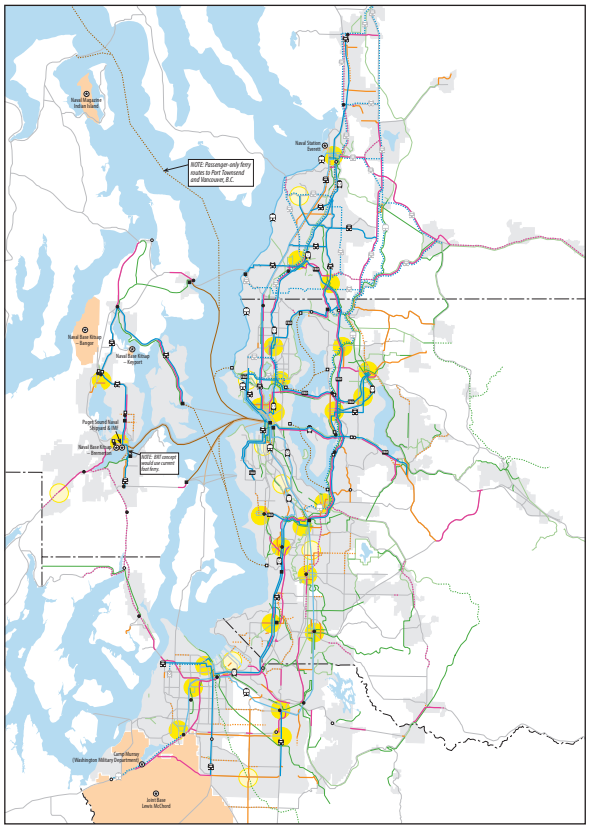
When new transit communities are developed in existing low income neighborhoods, there could even be a negative impact on greenhouse gases if these new communities do not include affordable housing for very low, low, and moderate income households. Puget Sound Sage looked at the impact of Central Link stations in Seattle's Rainier Valley. "The effect of displacement will not simply mean a swap of households with the potential for the same transit use. The residents being forced out by gentrification are more likely than the in-moving residents to be regular transit riders, while in-moving residents are more likely to be auto-oriented." [18] Developing equitable transit communities is an effective way to avoid the negative consequences new transit stations can have on existing neighborhoods. It ensures that new development will include sufficient affordable housing to meet the needs of the residents in the community.

Transit Communities Reduce Energy Consumption

[There are] potentially drastic differences in energy consumption rates when housing development shifts from conventional, low-density development patterns to the more compact, transit-oriented, location efficient development patterns characteristic of many urban neighborhoods. — Jonathan Rose Companies [19]

Transit-oriented development is one of the most effective ways of reducing energy consumption. A recent EPA study found that compact, transit-oriented development was the most energy efficient housing type. A household in a transit-oriented multifamily unit consumes 50% less energy than one in a multifamily unit in a conventional suburban development. The difference, 91 million BTU a year, is over nine times the benefit of incorporating Energy Star efficiency measures in a multifamily unit, and about one and a haf times the benefit of improving automobile fuel efficiency by 85%.[20]

FIGURE 5: PUBLIC TRANSPORTATION INVESTMENT PLAN FOR CENTRAL PUGET SOUND



Source: Puget Sound Regional Council, *Transportation 2040*

Transit Communities Support Regional Investments in Transit

TOD is expected to contribute to the larger context of integrating regional land use patterns with transit service, specifically within individual station areas. TOD includes investment strategies intended to create compact, livable neighborhoods near transit stations, capitalizing on opportunities which improve travel demand efficiencies, expand consumer choice, and contribute to environmentally enhanced communities.
— Sound Transit TOD Policy Framework [21]

The central Puget Sound region has made a significant investment in light rail. Through the Sound Move and ST2 ballot measures, the region twice voted to tax itself to develop a high-capacity regional transit network. Combined with federal and state funding, over $7 billion will be spent on building 55 miles of light rail in three corridors. There will be up to 40 transit stations along these corridors, creating many opportunities for development of new transit-oriented communities. Future phases of light rail expansion in these corridors will build another 31 miles of light rail and up to 20 more stations.

A number of national studies of transit ridership have documented a TOD ridership bonus, showing that residents of transit-oriented developments use transit much more often than other residents of the same region. The Transportation Research Board found that the difference can be significant. "On balance, research to date shows that TOD yields an appreciable ridership bonus: well designed, concentrated, mixed-use development around transit nodes can boost patronage as much as five to six times higher than comparable development away from transit." [22] Within a community, residents of TOD are twice as likely not to own a car as residents who live elsewhere, and own half as many cars per household.[23]

The best way to support transit investments is to make sure transit-oriented development includes housing affordable to lower income households. The Dukakis Center for Urban and Regional Policy documented the danger of developing transit communities without concern for equity in the report, *Maintaining Diversity In America's Transit Rich Neighborhoods*: "A new transit station may set in motion a cycle of unintended consequences that reduces neighborhood residency by those groups most likely to use transit in favor of groups more likely to drive. In some newly transit-served neighborhoods, rising rents and home values attract not only higher-income residents but also car-owning residents." [24] A Sightline Institute analysis of American Community Survey data has shown that lower income households in the region are much more likely to commute with public transit than those with higher incomes.[25] Giving more low income households the opportunity to live in light rail station areas could have a huge impact on light rail ridership.

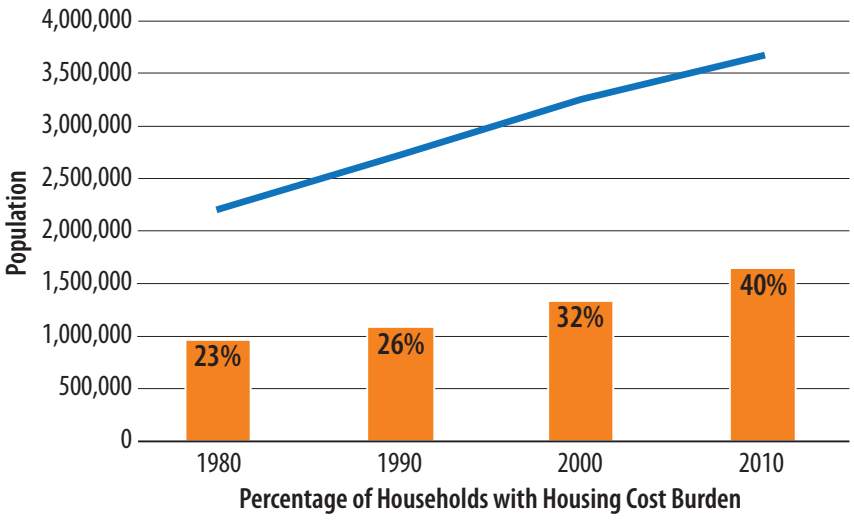
Transit Communities Increase Economic Security

Providing for a mix of all incomes is good, but providing for a mix of incomes in walkable neighborhoods near transit is even better because it lowers transportation costs, has the potential to reduce driving and greenhouse gas emissions, and to address the growing gap between rich and poor. — Center for Transit-Oriented Development [26]

As the region has grown, housing has become less affordable. HUD considers households that spend more than 30% of their incomes on housing to be cost burdened; that is, they have unaffordable housing costs. As Figure 6 shows, the percentage of households in the region that cannot afford their housing has steadily increased as the regional population has grown.[27]

The increased cost of housing has hit those with the lowest incomes the

FIGURE 6: COST BURDENED HOUSEHOLDS IN CENTRAL PUGET SOUND, 1980 – 2010



Source: U.S. Census Bureau 1980, 1990, 2000, 2010 Decennial Census, 2006 – 2010 American Community Survey

hardest. Two-thirds of the low and moderate income households in the region have unaffordable housing costs. Over one-third of low and moderate income households and 70% of the very low income households pay more than half of their income for housing.[28]

The high cost of housing has forced many low income households to seek housing where it is cheaper, farther from the urban core in suburbs and exurban areas. Unfortunately, this housing is not close to the regional employment centers and transit hubs, so these households must endure long car commutes. Much of the savings they gained with cheaper housing is eaten up in higher transportation costs. The Center for Neighborhood Technology has estimated that working families in the Seattle metropolitan area spend almost as much on transportation as they do on housing. The combined housing plus transportation cost for working families in the area takes 61% of their income, which is the second highest level in the nation, behind only the San Francisco metropolitan area.[29]

Equitable transit communities offer economic security to low and moderate income households by offering both affordable housing and affordable transportation. Living near transit stations would enable low-income households to greatly reduce their dependence on cars, thus significantly reducing their transportation costs. According to the American Public Transportation Association, switching from car ownership to transit use could save a household in Seattle $11,708 a year.[30]

Value Capture Financing Strategies

The workplan of the Growing Transit Communities Partnership calls for staff to explore "Tax Increment Financing alternatives for financing infrastructure and affordable housing in transit station areas." In most states, Tax Increment Financing (TIF) would be the primary tool to encourage growth in priority areas. In Washington, however, TIF as it is commonly used elsewhere, is not available due to various legal constraints. Before the Value Capture Financing Subcommittee could move towards recommendations, the members desired to understand the national and Washington state history of TIF. As the research from other states and findings from a case study in the central Puget Sound region show, TIF is only one of several potential strategies to finance infrastructure and provide housing resources. This section provides an overview of various value capture financing strategies.

Value Capture Financing Defined

Public improvements increase the value of property nearby. A part of that added value can be captured to finance more public improvements. The premise is that the captured value can then finance other public improvements in the area, creating a virtuous cycle. Value capture financing mechanisms include TIF, land value tax, special assessments, development impact fees, joint development (public-private partnerships), and more. This report focuses on the potential for tax increment financing and special assessments, but offers a brief description of other methods as well.

Tax Increment Financing

Traditionally, Tax Increment Financing (TIF) is a tool used by local governments that enables the debt accumulated to pay for public infrastructure and other investments in one area to be paid back through the increases in property tax revenues in that same area (TIF district). TIF revenues are traditionally allocated to pay for infrastructure improvements in the district where the incremental tax revenues are collected. TIF districts (where taxes are collected from increased property values) are typically restricted to areas that possess significant challenges to development or redevelopment. The investments made possible through the TIF tool must increase property values, upon which property tax values are based (creating the "increment"), or the TIF authority will not have the funds to pay off the debt. For more about the history, process, and arguments for and against TIF, see Appendix A.

There are different interpretations of the purpose of TIF. However, this report uses the following interpretation of the function of TIF: "TIF represents a commitment by local governments to a vision for economic development in a particular neighborhood or district. The jurisdictions are willing to pledge future tax revenues to incentivize a development that otherwise might not have occurred as fast or at all." [31] TIF is a tool to reallocate tax revenues to meet a public good. There are various political and legal challenges to TIF in Washington, including the uniformity clause of the State Constitution, limits on property tax growth, and political views of TIF (see Tax Sources and Legal Challenges to Value Capture Financing in Washington).

Land Value Tax

Land value tax is an additional tax on property without regard to improvements on the property. Traditionally, land and improvements are valued together, and the total value is then taxed at a given rate. A land value tax is intended to value the location and nearby public improvements of the property rather than both the land and buildings (improvements) simultaneously. This method allows local governments to more appropriately tax land based on recent public investments that might increase the value of the property. It can be argued that the land value tax system discourages land owners from developing their properties because publicly funded improvements have a limited impact on the overall property taxes. While the concept is worth consideration, there are various legal and political challenges to using a land value tax in Washington. One major challenge is the uniformity clause of the State Constitution, which requires that all real property constitutes one class of property and does not permit property taxes to be assessed against a segregated portion of the value, or against a sub-set of properties within the taxing jurisdiction (see Tax Sources and Legal Challenges to Value Capture Financing in Washington, page 23).

Special Assessments and Special Taxation

Financing mechanisms also exist in many states to capture value through special taxation or special assessments in addition to the property taxes already collected to support local government, usually collected based on the incremental increase in the value of the properties. The difference between "special assessments" and "special taxes" can be summarized as follows:

- A special assessment represents an apportionment of project costs to each property based on a current estimation of the future special benefit that will accrue to the property that is subject to the assessment.

- A special tax, in contrast, is levied on a property based on assessed value. The proportion of the project costs paid by each property owner thus changes over time, tracking the changes in assessed value that actually accrue to the subject property.

In Washington state, the "local improvement district" mechanism has been in use for over 100 years and relies on special assessments. Local improvement districts are fair, adequate and stable for making identified improvements, but lack the flexibility of other tools and are cumbersome for cities to implement and administer. Washington does not currently have a tool for using special taxation in a value capture context.

Development Impact Fee

A development impact fee is a one-time fee charged to a development to recover the cost incurred by government in providing the public facilities required to serve the new development. In Washington, cities planning under the Growth Management Act (RCW 82.02.050 - .110) are authorized to use this tool. The tool is widely used, but could be expanded to consider higher rates in transit station areas.

Joint Development (Public-Private Partnership)

Joint development is a means of capturing value by trading or discounting publicly owned land near a public investment in return for the inclusion of public benefits in the private development. This is a more localized approach to capture the value created by public investments on a case by case basis, where opportunities exist. Washington's constitutional restrictions on the gifting of public funds and against the lending of credit increase the complexity of this type of financing strategy. However, the State Constitution does allow a gifting of public funds for the "poor and infirmed."

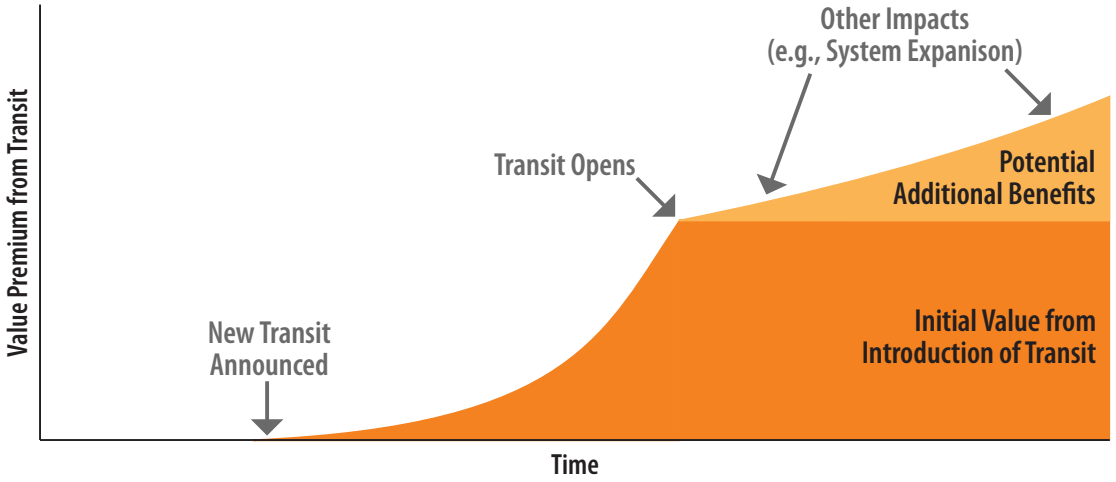
Value Capture in Central Puget Sound

Value capture financing mechanisms are well suited to capture growth in property values generated by transit accessibility to pay for transit or related improvements. Related improvements can include the development and preservation of affordable housing, construction of parks and open space, improvements to streets, bicycle or pedestrian networks, increased capacity for utilities to support development, and support for businesses and residents at risk of displacement. The Growing Transit Communities Value Capture Financing Subcommittee and this report focus on creating the communities that support transit service, rather than exploring the feasibility of using value capture to pay for transit.

The previous section laid out the various strategies and mechanisms for value capture. To determine the appropriate strategy for the central Puget Sound region, it is important to consider the specific impacts of transit on property values and property owners. Value capture is not a one-size-fits-all tool and considerations for each transit station area should be carefully analyzed before

a tool is applied. Generally there are two key points where property values increase as a result of improved transit accessibility investments: (1) when new transit service is announced and an alignment is identified, and (2) when transit service opens. Figure 7 helps to visualize this concept.

FIGURE 7: THE VALUE PREMIUM FROM TRANSIT (theoretical)



Source: Strategic Economics

Capturing the Value of Transit

There are hundreds of studies that show the benefits of transit facilities on property values.[32] To consolidate some of this research, the Center for Transit-Oriented Development summarized property value premiums from developments in proximity to transit stations in the November 2008 report *Capturing the Value of Transit*, prepared for the United States Department of Transportation — Federal Transit Administration.

FIGURE 8: SUMMARY OF ESTIMATED PROPERTY VALUE PREMIUM FROM TRANSIT ACCESS

LAND USE	RANGE OF PROPERTY VALUE PREMIUM		
Single Family Residential	+2% within 200 feet of station (San Diego Trolley, 1992)	to	+32% within 100 feet of station (St. Louis MetroLink Light Rail, 2004)
Condominium	+2% to 18% within 2,640 feet of station (San Diego Trolley, 2001)		
Apartment	+0% to 4% within 2,640 feet of station (San Diego Trolly, 2001)	to	+45% within 1,320 feet of station (VTA Light Rail, 2004)
Office	+9% within 300 feet of station (Washington Metrorail, 1981)	to	+120% within 1,320 feet of station (VTA Light Rail, 2004)
Retail	+1% within 500 feet of station (BART, 1978)	to	+167% within 200 feet of station (San Diego Trolley, 2004)

Source: Center for Transit-Oriented Development

The Center for Transit-Oriented Development's (CTOD) analysis highlights examples from around the country where property values increased as a result of transit service. However, many factors may lead to uneven property value increases across a transit corridor or station area. Some key factors highlighted by the CTOD report that influence the impact of property values on transit include: [33]

- Frequency of transit service — Higher frequency service is likely to produce higher property values.
- Transit connectivity — A light rail station without good feeder bus connections from the surrounding neighborhood is less likely to produce higher property values than a well-connected transit station area.
- Real estate market conditions — A weak real estate market is likely to have less potential for increased property values than a strong market area.
- Land uses in transit station area — A station area with a single dominant land use type may be less likely to see increased property values from transit service.
- Ease of access to the transit station — A station area without easy pedestrian, bicycle, or auto access could have mixed impacts on property values.
- Disincentives to driving — If transit service does not provide a more efficient and cost effective way to travel for nearby residents and customers, then the mere presence of transit is unlikely to increase property values.

Implementing Value Capture Financing to Create Equitable Transit Communities

There are two key considerations in the implementation of a value capture district. First, there must be a supply of land and planned capacity for development.[34] Regardless of market conditions, there must be development or redevelopment opportunities. Potential development sites are most attractive when planning and zoning support increased densities. Second, the local economic conditions should support new development.[35] Strong markets provide the best opportunity for value capture because new development is likely to occur without an incentive. Value capture in strong-market transit station areas can provide financing to ensure that new development benefits low income residents, provides public open spaces to balance added density, and focuses growth in areas planned and built to take on more density. In weak real estate markets, value capture financing can help to create the infrastructure that makes catalyst developments feasible. Local governments should be careful in weak market areas to ensure that the public investments financed by the captured value will increase property values.

Potential Interests in Value Capture

To better understand the potential interests in value capture financing and how value capture affects different groups, the list below highlights the actions and potential results of value capture for different stakeholders. This list helps to show the complexity of using value capture and the need for tools that address the various concerns of different stakeholders.

Sponsoring Jurisdiction (typically a city)

- Commits revenues to value capture district.
- Receives new revenues from value capture district.
- Can constrain ability to fund other objectives within jurisdiction.

Other Participating Jurisdictions (typically schools, state, county, port)

- In the case of TIF these jurisdictions potentially lose future cash flows by forgoing incremental growth for the period of the TIF district. However, it could potentially increase tax revenues over the life of the TIF district if the resulting private development would not have occurred but for the public improvements financed through TIF.
- Can constrain ability to fund other objectives within jurisdiction.
- In case of tools that do not require loss of future cash flows (e.g., special assessment districts and joint development), the other jurisdictions may see increased revenues from higher property values after public improvements.

Transit Agency

- Increased ridership from development in proximity to transit stations.
- Potential to capture revenues from property value increases.

Developer/Property Owners

- Factors into equation of project feasibility.
- Can reduce cost of development, but may also increase tax burden.

Community Interests

- Interested in ensuring that incentive does not come at the cost of other public benefits like schools.
- Interest in directing revenues to other public benefits, such as:
  - Affordable housing
  - Rural land conservation
  - Cultural centers and small businesses
- Increased property values can cause displacement of affordable housing and small businesses.
- Location of value capture district — ensure that incentive is furthering community goals.

Why Is a Value Capture Financing Tool Needed to Help Create Equitable Transit Communities?

The following section highlights several reasons for the creation of a financing tool to finance infrastructure and affordable housing in transit station areas.

Infrastructure Costs Are on the Rise and City Budgets Are in Decline

Different types of value capture financing have long been a legislative priority for Washington's cities, which have faced growth pressure and declining budgets for many years. Declining state and city budgets have led to a decline in the amount of funding available for replacing old infrastructure.

In 2011, 54% of cities anticipated decreasing spending on infrastructure systems in order to balance the budget.[36] Meanwhile, nearly two-thirds of cities indicated that growth is influencing the city's need to update or expand infrastructure systems.[37]

It is clear that infrastructure is a major cost for developers and can be a barrier to development at times. In undeveloped places, away from the residential densities and infrastructure investments like light rail transit, it is often cheaper to develop because of lower property values and lower construction costs. However, most quantitative analysis shows that sprawl is actually more costly to develop when the true costs are considered than is urban infill type development. A literature review about the impacts of sprawl showed that adding infrastructure in these areas is more costly: "Sprawling development requires more lane-miles and longer water and sewer pipes than more compact communities. Compact areas can also more effectively share public services within a smaller geographic scope, requiring fewer fire and police stations per capita." [38] Value capture tools can help to avoid high infrastructure costs in urban areas where the initial investment is often higher than the maintenance costs of the infrastructure.

Value capture financing can finance infrastructure necessary to support dense development in transit communities. Incentivizing growth near transit stations is consistent with VISION 2040, Transportation 2040, and the Regional Economic Strategy. Enabling private developers to finance improvements over time with lower public financing rates keeps transit communities competitive with areas where initial infrastructure and land costs are lower, but might have a larger cost to the region in the long-term.

Transit-Oriented Development Is in Demand

The central Puget Sound region has voted twice to develop a high-capacity transit system in the recent past. These investments have the potential to create up to 60 light rail stations (including existing stations). Of the 580,000 housing units that it would take to accommodate the region's projected population growth between 2010 and 2040, it is estimated that there will be demand for slightly less than 110,000 of those to be in transit-oriented developments.[39] Larger demographic, economic, and social trends are also contributing to demand for transit-oriented housing development. Household sizes are smaller, making it more desirable for the largest cohort of the region's population to live in smaller dwelling units in transit-oriented places. Transportation costs are often less in transit-oriented communities where more things are accessible by transit or walking. Despite these trends, only about 10% of the region's households currently reside in transit station areas.

Value capture financing can help lower costs to develop new housing in transit station areas by allowing necessary infrastructure upgrades to be financed at lower interest rates. Lowering the cost of infrastructure improvements could allow the private market to create more units in transit station areas. A panel of technical experts from the Urban Land Institute identified the need for enhanced redevelopment tools, stating that "tax increment financing enjoyed in other states should be matched with evolving legal tools in Washington." [40]

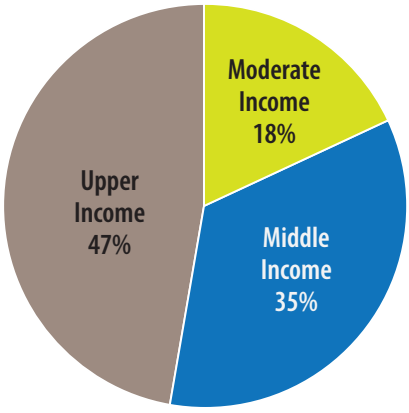
Affordable Housing Is in Demand in Transit Station Areas and the Private Market Is Not Meeting the Demand

A large public investment in high capacity transit is often a catalyst for private sector development in the transit station areas. Unfortunately, new residential development activity in these areas tends

to focus on producing units at the higher end of the economic spectrum. New market rate development in station areas is not usually affordable to very low, low, or even moderate income households.

Dupre + Scott analyzed recent market rate building activity in the station areas that were created with the opening of Sound Transit's Tacoma Link and Central Link light rail lines. They identified nearly 2,000 new units between 2006 and 2011 in buildings of 20 units or more. None of the units surveyed were affordable for low and very low income residents, and moderate income households could afford only 18% of the units (see Figure 9).[41]

FIGURE9: AFFORDABILITY OF MARKET RATE DEVELOPMENT IN CENTRAL AND TACOMA LINK STATION AREAS, 2006 – 2011



Source: Dupre + Scott Spring 2011 Apartment Survey

Even projects developed with affordable housing incentives fall short The two most recent unsubsidized projects to open in light rail station areas in the region, the Station at Othello Park and GreenHouse in Columbia City, were both developed using the City of Seattle's Multifamily Tax Exemption program. This program gives property owners a 12-year property tax exemption on residential improvements on projects that commit to affordability restrictions in 20% of the units. Even with this exemption, the Station and GreenHouse are offering affordability only for middle income households (80% – 90% AMI) for 96 of 476 total units.[42]

The most effective way of ensuring the long-term affordable housing that is necessary for equitable transit communities is through the public finance of housing. Fortunately, this region has a relatively strong history of dedicating public resources to the creation and preservation of affordable housing. Between 2006 and 2011 almost $1.4 billion of public financing has been invested in affordable housing projects in King, Pierce and Snohomish counties, or just over $230 million a year. Of the total public investment since 2006, $194 million has been allocated to 24 projects within one-half mile of a Central Link or Tacoma Link light rail station. These 24 projects created or preserved 1,699 units of housing affordable between 0% and 60% of area median income.

Strategic Economics has forecast that in the approximately 60 station areas that will be operational along the light rail corridors by 2040, the demand for housing affordable to low and very low income households will total 35,000 new units, with an additional 18,000 units needed for middle income households.[43] New financing sources are needed to meet the growing demand for affordable housing in transit station areas. A value capture financing tool could help to ensure that public financing sources for affordable housing continue to be targeted to transit station areas to meet the housing needs of the lowest income households in the region.

Land Values Increase From Improved Transit Access, Making Housing Unaffordable

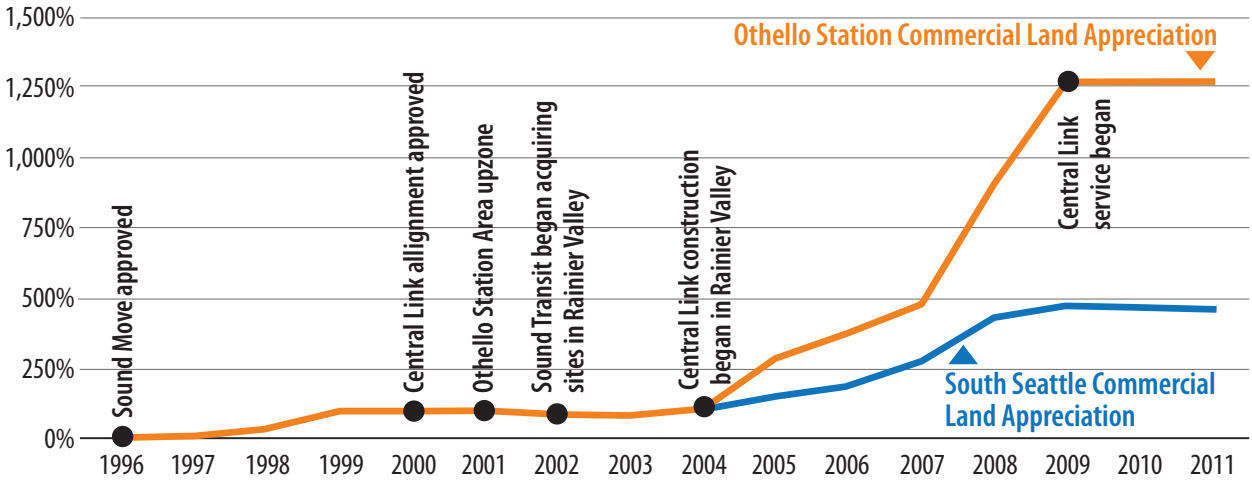
The problem the central Puget Sound region faces is twofold. First, a significant proportion of our population needs housing that is affordable at 50% and 80% of the area median income. In fact, 41% of the regional population earns below 80% of the area median income. Second, housing prices increase in transit station areas once light rail is built. There are nearly 210,000 households in the region who are severely cost burdened, meaning they pay more than half of their income

for housing costs; these households are disproportionately very-low-income and extremely-low-income.[44] There is some preliminary anecdotal data that shows that market pressures cause land values, and therefore housing prices, to rise in station areas.

Othello Station is one of 12 stations built during the first segment of the Central Link light rail funded by Sound Move. It is located in an ethnically diverse, mixed-use neighborhood adjacent to Seattle Housing Authority's New Holly HOPE VI public housing redevelopment. Construction began on the Central Link in 2004 and was completed in 2009. Over this five-year period the values of the mixed-use zoned parcels in the station's vicinity rose by 585%. This was a period of active growth in the larger real estate market, as commercial land in all of south Seattle appreciated by 180% over the same time period, but the appreciation in the Othello Station area was more than 400% higher. As Figure 10 shows, the most rapid appreciation in land values began as the light rail construction commenced, and the values did not stabilize until after construction was completed.[45]

Othello Station is an isolated example, but it is one that could be repeated in station areas in strong real estate markets across the region. In reviewing the transit-oriented development market in the region, Strategic Economics identified 20 light rail station areas as having a strong or very strong residential market.[46] Four of those stations are already served by light rail, one will open in 2016, and the remaining 15 will see light rail service begin between 2021 and 2023.

FIGURE 10: LAND VALUE APPREIATION IN SEATTLE'S OTHELLO STATION, 1996 – 2011



Source: King County Assessor data

In Washington state public funders of affordable housing have placed an increased emphasis on controlling the cost of affordable housing development. They have implemented new funding policies designed to stretch the public financing resources across more units. Unfortunately, these policies can encourage affordable developers to choose sites where land is cheaper and potentially direct them away from transit station areas. The land value appreciation in the Othello Station area has added nearly $20,000 per unit to the cost of developing housing. For example, The Station at Othello Park is a "luxury apartment" development adjacent to the train station. Rents at "The Station" have a range of $1,547-$1,944 for 2-bedroom units and $1,052-$1,725 for 1-bedroom units, while the average rent in King County for a 2-bedroom is $977 and for a 1-bedroom is $950.[47] New financing tools

should not exacerbate these problems by transferring costs from high land prices onto renters or homeowners; rather, new tools are necessary that will help pay for development for all income ranges.

By capturing the increased private property values from public transit investments, a value capture financing tool could then redistribute a portion of the increased value to subsidize affordable housing. Allowing cities to partner with the private sector to capture the value of public investments would help to ensure that a portion of housing remains affordable in station areas. A value capture tool would help ensure that low income residents reap the benefits of new development spurred by transit investments.

Challenges to Value Capture in Washington

This section provides context on the different tax sources available for capture by local governments in Washington, explains how the current property tax levy method limits the ability for local governments to capture the value of increased property values, and highlights the major legal barriers to value capture in Washington.

Tax Sources in Washington

There are some trends in taxing in Washington state that are important to understand when considering potential sources for value capture tools. One important trend is that tax collections are declining and (as of 2010) are lower than most other states (Washington has the 15th lowest tax burden in the United States).[48] Washington state and local tax collections have dropped from $105.91 per $1000 of personal income in 2005 to $96.08 in 2010, which is lower than the 2010 national average of $106.54.[49] This measure compares taxes to personal income so the decline may partly be due to changes in income rather than tax rates, but nonetheless shows that overall tax revenues are declining in Washington.

Secondly, Washington state and its municipalities rely largely on sales tax revenues. Washington relies on general and selective sales taxes at a much higher rate than other western states that have been successful in using traditional TIF (see Figure 11). Generally, sales taxes are harder to use to capture the value of an investment in a place because the increases or decreases may not have anything to do with the place, but rather to the value of the products being sold. In other words, there is less of a connection between infrastructure or other community benefits and sales tax revenues than there is with property taxes.

All state property taxes collected in Washington ($3.60 per $1,000 of assessed property value) are dedicated to fund public schools.[50] The State Supreme Court has ruled that any forgoing of state property tax increases (such as TIF) is unconstitutional.[51] In addition, local property taxing jurisdictions are limited in the amount of increases they can impose. These limiting factors have made value capture tools very difficult to create in Washington.

Each jurisdiction in Washington is different and relies on a different tax base. Some jurisdictions are more residential and rely primarily on property and utility tax revenues. Others have larger commercial bases and rely more heavily on sales and business and occupation tax revenues. Counties have fewer revenue tools to fund services. Figure 12 summarizes the primary revenue sources available to jurisdictions in Washington.

FIGURE 11: PERCENTAGE OF RELIANCE ON MAJOR STATE AND LOCAL TAXES — SELECTED STATES, FY 2009

STATE	GENERAL SALES*	SELECTIVE SALES**	PROPERTY	INCOME	OTHER***
Washington	45.7%	15.4%	30.0%	—	8.9%
Oregon	—	9.7%	35.6%	43.7%	11.0%
Idaho	26.7%	8.7%	27.8%	29.1%	7.7%
California	22.0%	7.0%	31.8%	31.8%	7.4%
All States	22.9%	11.2%	33.4%	24.9%	7.6%

* Includes retail sales/use taxes and gross receipts (B&O) taxes levied on gross sales.
** Includes taxes on specific items, e.g., gasoline, liquor, cigarettes and public utilities.
*** Includes motor vehicle licenses and all other taxes.

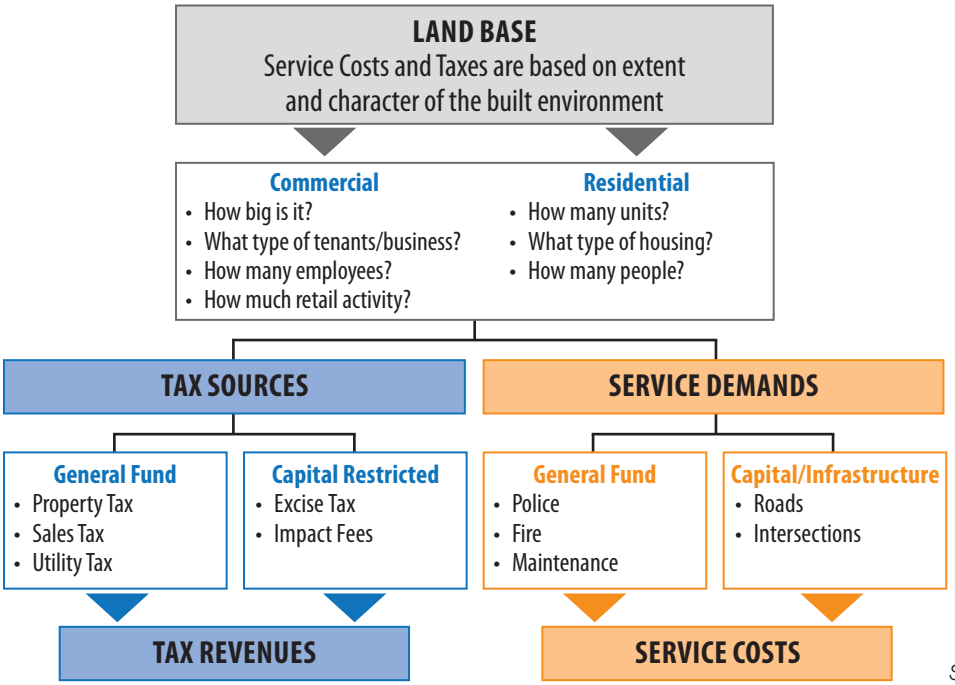
Source: Washington State Department of Revenue, Comparative State/Local Taxes Report, Fiscal Year 2009, November 2011, Other Interstate and Historical Tax Comparisons — Table 13

FIGURE 12: PRIMARY REVENUE SOURCES USED BY JURISDICTIONS IN WASHINGTON STATE

PRIMARY REVENUE SOURCES	WA STATE	COUNTY	CITIES	SPECIAL DISTRICTS
Property Tax	✓	✓	✓	✓
Sales Tax*	✓	✓	✓	✓
Utility Tax	✓		✓	
Business and Occupation (B&0) Tax	✓		✓	

Source: BERK

FIGURE 13: IMPACTS OF DEVELOPMENT AND PLANNING ON TAX REVENUES



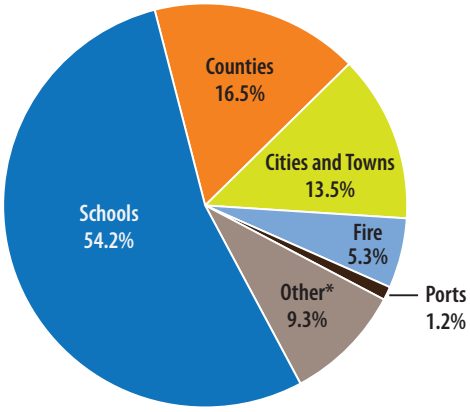
Source: BERK

The growth or decrease of tax revenues and service costs depends on the type of land uses, scale of development, types of tenants, and number of residents added (or removed) from an area. Most value capture tools use property tax because it is the tax most associated with place, as property taxes are generated within a defined geographic area. Value capture financing districts are simply one tool that a local government can use to leverage social and economic benefits from development. Additional revenues or tools may be needed to meet community needs for an area.

Property Taxes in Washington

In Washington property taxes are levied by the state, counties, cities, towns, and various other special purpose districts. State property taxes are dedicated for public schools, local maintenance and operations needs, and to retire bonds from capital projects. Property taxes levied by counties, cities, and towns typically go toward maintenance and operation and special projects. In addition, there are various special purpose taxing districts in the state such as: fire, ports, libraries, and more. There are various constitutional and statutory restrictions that are intended to limit property tax growth that act as barriers to TIF and value capture in Washington.

FIGURE 14: PROPERTY TAX REVENUE DISTRIBUTION IN WASHINGTON



* Other includes regional libraries, parks and recreation, emergency medical, and hospital districts. (Distribution of 2010 tax year.)

Source: Washington State Department of Revenue

Budget-Based Property Tax Levy in Washington Limits Ability to Capture Value of Public Investments on Private Property

Washington has a "budget-based" property tax system, so the taxing districts' budgets and voter-approved measures determine how much property owners pay. A property tax levy is derived by taking the projected spending, less aid from other governments and other local revenue. The budget-based system protects against volatility in property values and provides stability. However, the system does not allow jurisdictions to quickly capture increases in revenues from rising property values, because they are statutorily restricted from increasing their levy amount from one year to the next by more than 1% without a vote.

Uniformity Clause

The uniformity clause of the Washington State Constitution states: "All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax . . . [and] all real estate shall constitute one class." In practice this means that no real estate can be taxed at a different rate than other property within a tax district. To institute this clause, each taxing district requests a total amount, based on its budgeted revenue needs. The tax rate is simply a function of apportioning the desired levy amount to all properties, based on their assessed values. The same levy rate applies to all property, to generate the desired revenues. The uniformity clause prevents taxing districts from selectively taxing only those properties benefited by public improvements.

Property Tax Levy Limits in Washington

Cities, counties, and other junior taxing districts are authorized by the state to levy (in aggregate) up to $5.90 per $1,000 of assessed property value (RCW 84.52.043). The state levy ($3.60 per $1,000 of equalized value), city, county, and junior taxing districts all must fit within the $10.00 tax per $1,000 limit of assessed value. The state levy has top priority followed by other "senior" taxing districts, namely counties, cities, and towns. Junior taxing districts such as schools, fire, libraries, and hospitals have a designated statutory regular levy rate which, when combined in an area, may exceed the maximum rate of $5.90. When this situation occurs, the junior district rates must be prorated until the total rate falls below the maximum. The $5.90 limit represents a statutory limitation on tax levies.

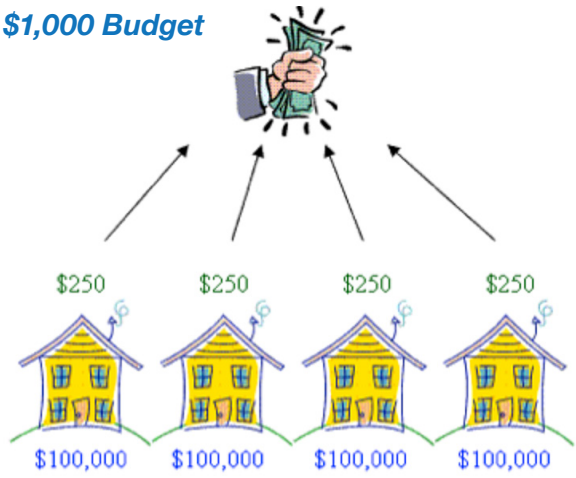
Since the 1970s voters have approved various property tax levy limits. In 1972 a constitutional limit of 1% was adopted by the voters. In other words, the maximum property tax on an individual property is 1% of market value ($10 per $1,000 of assessed value). As part of this amendment, all property is now assessed at 100% of the true and fair value of the property. This constitutional limit is rarely approached and acts as a safety net to the statutory $5.90 limit.

State law also limits the growth of levy amounts. Known as the 1% growth limit, this limit restricts regular tax levies to a 1% increase annually, unless voters in a district to approve an increased levy. The 1% growth limit is a significant statutory limit on tax levies. Excess levies are not subject to this growth limitation.

Figures 15 and 16 offer an illustration of Washington's budget-based property tax levy system compared to a tax rate based property tax levy. The illustrations and explanations were adapted from the graphics and text on the Snohomish County Assessor's website.[52] The illustration seeks to highlight how it is difficult to quickly capture the increases in property values through taxation. Under a budget-based property tax system, when assessed values go up or down, the tax revenues do not fluctuate much. In a tax rate based property tax levy system, the value of property dictates the amount of taxes collected.

FIGURE 15: WASHINGTON STATE PROPERTY TAX LEVY SYSTEM

$1,000 Budget

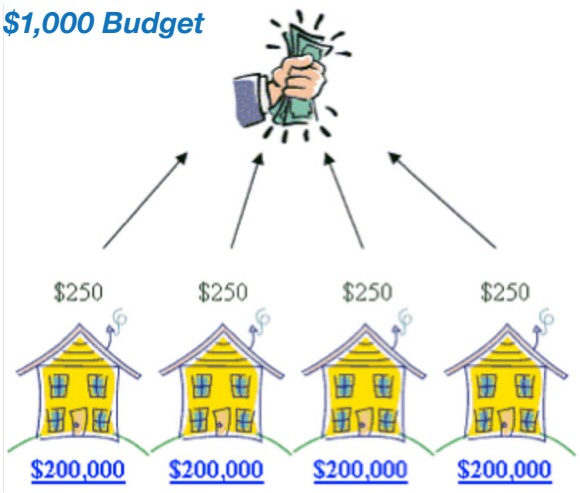


Year 1

Imagine a little city that consists of four homes, each exactly the same, and each appraised by the Assessor at $100,000. The annual city budget for the imaginary city is $1000. To raise the amount of the budget, each homeowner must pay $250. Four homes each paying $250 raises $1000. This property tax system is budget based. The property owners are taxed only enough to raise the amount in the budget.

Year 1 Calculation: *$100,000 (AV)/$1,000 (tax rate is based per thousand of AV) x $2.50 (tax rate needed to get budget) = $250 per home*

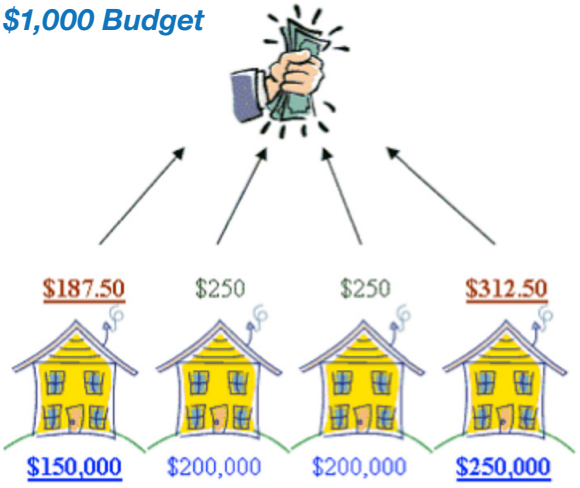
FIGURE 15: WASHINGTON STATE PROPERTY TAX LEVY SYSTEM (continued)



Year 2 (Scenario 1)

The next year's budget remains at $1000, but the Assessor doubles the assessed value of all the homes to $200,000 each. The tax on each of the homes does not change. To raise the budgeted amount, each must still pay $250. In this example, the assessed value of each home doubled, but the tax didn't change.

Year 2 (scenario 1) Calculation: *$100,000 (AV)/$1,000 (tax rate is based per thousand of AV) x $1.25 (tax rate needed to get budget)= $250 per home*



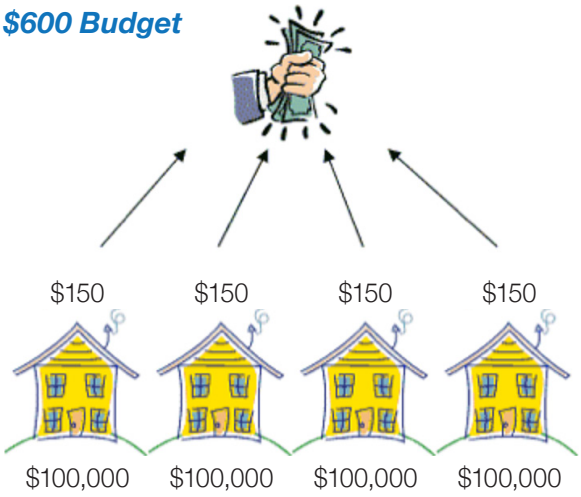
Year 2 (Scenario 2)

Suppose that the values on the homes change differently. One home goes from $100,000 to $150,000. Two homes double in value to $200,000 and the last home jumps up to $250,000. Now what happens to the taxes? Well, the average value of the four homes is still $200,000. So the taxes on the two homes that go to $200,000 are unchanged. They are at the average and they each still pay $250. The lowest valued home sees its tax go down to $187.50, even though the assessed value goes up 50 percent. The home that jumped 150 percent to $250,000 in value sees its property tax go up to $312.50, a 25 percent increase. In the end, we still only raise $1000 total to meet the budget.

Source: Snohomish County Assessor

FIGURE 16: TAX RATE BASED PROPERTY TAX SYSTEM

$600 Budget

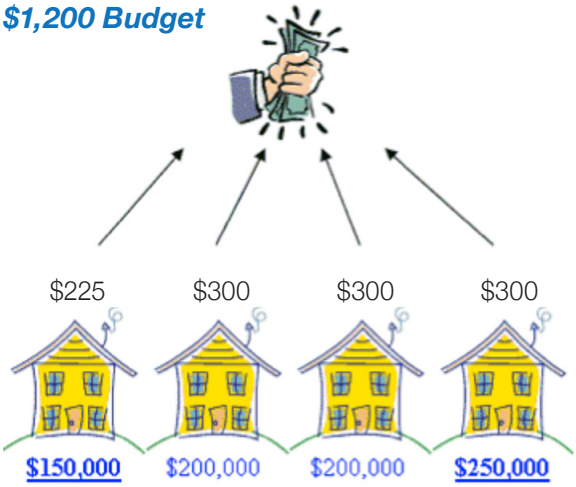


Year 1

Let's look at how property taxes work in a system that is dictated by property values and not the city budget. The tax rate is 1.5% or $1.50 per thousand dollars of assessed value. If all the homes are worth $100,000 then the city receives $600 for its budget.

The amount of budget depends on property values. This creates uncertainty for municipalities, but allows for these jurisdictions to quickly capture the value of investments.

$1,200 Budget



Year 2

Suppose that the property values increase in the next year. One home goes from $100,000 up to $150,000. Two homes increase to $200,000 and one home up to $250,000. The tax rate remains at 1.5% or $1.50 per thousand dollars of AV.

The amount of revenue going to the city has doubled based on the increases in property values. Taxing based on property values can be volatile, but allows for value capture.

Source: Snohomish County Assessor

Traditional Tax Increment Financing Has Been Ruled Unconstitutional in Washington State

Traditionally, Tax Increment Financing (TIF) relies on tax revenues being redirected from multiple jurisdictions to one TIF authority to finance public improvements. This often includes state, county, and city/town property taxes. Currently, there is nothing preventing a jurisdiction from creating a TIF district that simply allocates its own revenues to be spent in the district. However, that does not result in increased revenues for the jurisdiction and only results in moving money around within the budget. TIF is most effective and lucrative when it directs all the property tax revenues collected by all jurisdictions encompassing that district to pay for improvements. In the 1980s, Washington attempted to allow jurisdictions to use TIF.

The Community Redevelopment Financing (CRF) Act was created in 1982 for the purpose of allocating a portion (increment) of regular property taxes (including the state portion of property taxes) to pay for public improvements within a designated district. Accompanying this bill was a Senate

Joint Resolution (SJR 143) to enable the financing described in the act. The voters of Washington did not approve the resolution to amend the constitution on the 1982 ballot. A similar resolution to enable TIF was defeated by general election of Washington voters on the 1985 ballot.

In 1993, the City of Spokane created an apportionment district to redevelop part of its downtown, using the CRF. However, a property owner within the newly formed district sued on the grounds the CRF authority was unconstitutional because it violated Article IX, section 2 of the State Constitution. This section of the State Constitution states, "the entire revenue derived from the common school fund and the state tax for common schools shall be exclusively applied to the support of the common schools." Because all state property taxes are dedicated to the common schools, the State Supreme Court held in ***Leonard v. Spokane***, 127 Wash.2d 194, 897 P.2d 358 (1995), that the CRF funding mechanism diverted taxes to public improvements and away from common schools, in violation of the State Constitution. This landmark case essentially rendered unconstitutional any TIF or value capture tool that includes state property taxes needed to support schools.

Debt Capacity Limits Imposed by the State Make Value Capture Difficult

In addition to the constitutional and statutory barriers, the ability of municipalities to issue debt also presents a challenge to implementing financing tools like TIF. Washington state limits the amount of debt that a city can use without a vote of the people to 1.5% of the assessed value of the total assessed value of the city (RCW 39.36.020). For most large cities the debt limit is not an issue; however, many smaller- and medium-sized cities are less likely to take on too much debt or encroach on their limit.

TIF and value capture tools rely on the ability of the city (or other municipality) to take on debt and issue bonds to pay for improvements in a district. In many states improvements made with value capture revenues are financed by revenue bonds that are based solely on the revenue generated in the district, rather than general obligation bonds which are backed by all taxpayers in a jurisdiction. Typically the improvements financed with value capture tools are intended to benefit a specific district and not necessarily the jurisdiction as a whole. Cities do not typically take on debt that requires a vote of the entire jurisdiction to finance infrastructure that is targeted or has limited direct beneficiaries. Therefore, the ability of smaller- and medium-sized cities to use value capture financing in Washington is constrained by the debt limits imposed by the state.

Value Capture Tools in Washington State

There are several opinions about why traditional TIF is not feasible in Washington state. The various constitutional and statutory limitations are outlined in the previous section of this report. Despite these significant barriers, there are various forms of value capture tools available to jurisdictions in Washington.

The following section provides a brief description of a selection of existing and recently proposed value capture tools in Washington. The list of tools is not comprehensive of all potential value capture or infrastructure financing tools, but focuses on tax increment financing and special assessment

tools with the most potential to provide financing in transit station areas for infrastructure and affordable housing. Furthermore, the intent of these descriptions is not to evaluate the tools, but to introduce the reader to the different tools that the Value Capture Financing Subcommittee considered relevant. The comparison chart, following the descriptions, offers a high-level comparison of the various tools and their ability to meet the goals of the Growing Transit Communities Partnership.

Tools Using a TIF Approach to Value Capture Financing

The Local Infrastructure Financing Tool (LIFT) approved by the Legislature in 2006, and Local Revitalization Financing (LRF) approved by the Legislature in 2009 and 2010, allow jurisdictions to receive a state sales tax credit if increases in sales and property tax values in a district matched or surpassed the state contribution. Most recently, the state approved the Local Conservation and Local Infrastructure Program (LCLIP) in 2011, which allows cities over 22,500 in population plus employment in the central Puget Sound region to do TIF with city and county property taxes in return for agreeing to conserve rural lands in the region. Therefore, contrary to popular belief, value capture tools (not traditional TIF, though) have been and continue to be available to cities in Washington.

Community Revitalization Financing (CRF)

In 1982 the Community Redevelopment Financing Act was passed (Chapter 39.88 RCW). However, the accompanying constitutional amendment (Senate Joint Resolution No. 143) did not receive approval. A similar TIF-enabling constitutional amendment was defeated in the 1985 state general election. The Act was ruled unconstitutional in Spokane v. Leonard, 127 Wn.2d 195 (1995) on the grounds that it diverted tax revenue from the common schools since all state property taxes are used to fund the schools.

In 2001, new Community Revitalization Financing (CRF) legislation was passed (Chapter 39.89 RCW). The legislation enables cities, towns, counties, and port districts to capture local (in most cases city and county) incremental property tax revenues, but not state taxes. A local government enacting CRF can capture 75% of new construction assessed value plus 75% of any other increase in assessed value. There is no tax increase to rate payers through CRF. To capture the incremental property tax growth from other entities, the local government implementing CRF must obtain approval of local governments imposing 75% of the aggregate regular property tax in the increment area (i.e., TIF district — where revenues are collected and spent) and the approval of any fire districts in the increment area. There are no size limitations or other restrictions on the geography of CRF increment areas. The tool offers complete flexibility to local governments in siting, size, and purpose of forming an increment area. The only significant condition on formation of an increment area for a local jurisdiction is that public improvements financed by the tool are expected to increase private investment within the area.

CRF is not a widely used tool, likely due to the difficulties for counties to agree on terms which would sacrifice the county's portion of property tax revenues within the designated increment area of a city. However, the tool has been used in a few jurisdictions in Spokane County with the intent of supporting projects that create jobs and/or increase the local tax base.

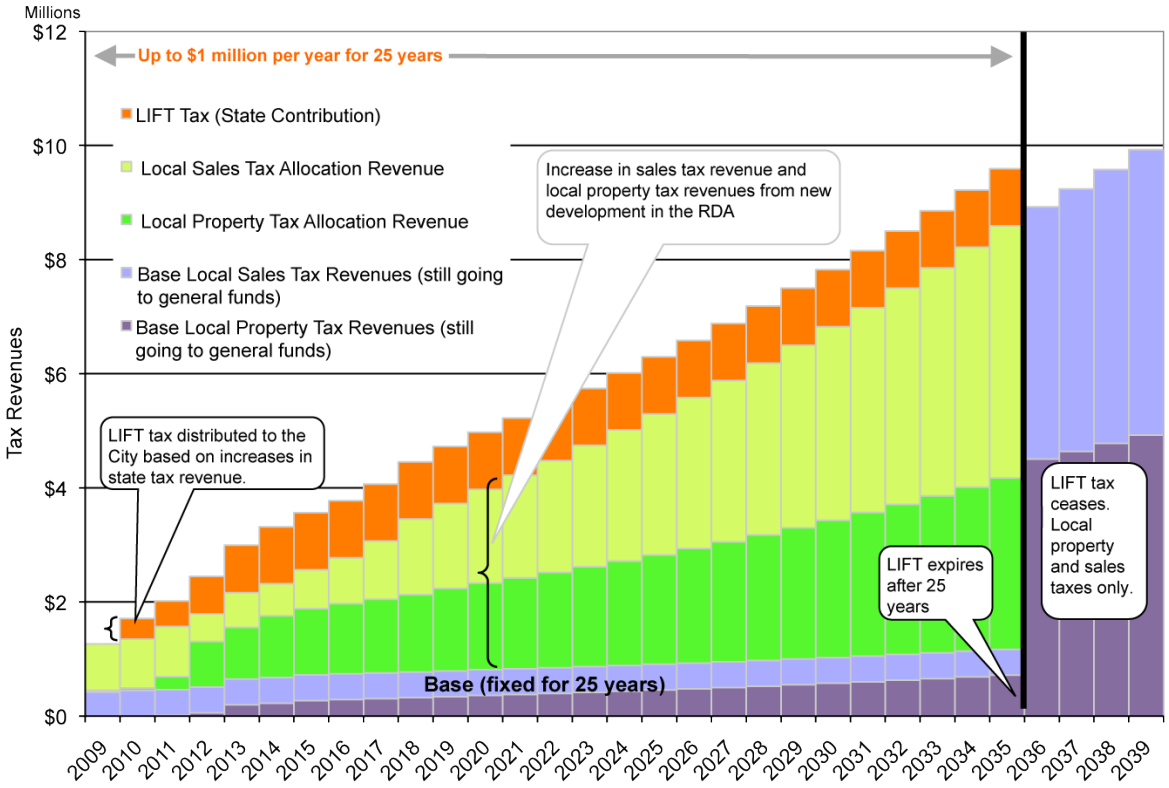
Limited to local property taxes, CRF is unlikely to provide as much revenue as tools created and proposed in subsequent years. In addition, the CRF could potentially bring about legal and political

opposition from taxing jurisdictions that are unable to opt out of forgoing incremental revenues (those tax districts representing less than 75% of the aggregate property tax). A newer tool, the Local Conservation and Local Infrastructure Program (LCLIP — also known as TIF/TDR) passed in 2011, allows cities to draw the same proportion of revenues from local property taxes and also requires that counties participate in the TIF. With a more politically feasible alternative in LCLIP (albeit, only available to eligible cities within the central Puget Sound region) to capture the same amount of potential revenue, the CRF tool seems an unlikely fit for purposes of financing infrastructure, affordable housing, and other public benefits in transit station areas.

Local Infrastructure Financing Tool (LIFT)

In 2006 the Local Infrastructure Financing Tool (LIFT) program was created and made available to cities, towns, counties, port districts, and federally recognized Indian tribes for financing local public improvement projects identified in local comprehensive plans that are intended to encourage economic development or redevelopment. As part of the LIFT program, the sponsoring jurisdiction creates a revenue development area (RDA) from which annual increases in revenues from local sales taxes and local property taxes are measured. Increases in revenues and any additional funds from other local public sources are used to pay for public improvements in the revenue development area and match a limited state contribution of up to $1 million per year for 25 years (see Figure 17). The Legislature appropriated funds for the state sales tax credit not to exceed $7.5 million in pay out per year or $75 million in aggregate, which culminated in nine projects across the state with a maximum of one RDA per county (Chapter 39.102 RCW).

FIGURE 17: LIFT FINANCING STRUCTURE



Source: PSRC

Figure 17 depicts the revenues available to a city or other jurisdiction using LIFT over a 25-year borrowing period starting in 2010. New revenues to the city are created by the LIFT Tax or State Contribution (orange) and the full $1,000,000 state contribution is only available in years when the local sales and property tax allocation revenues exceed $1,000,000 (in the chart the full amount is achieved for years 2014-2035). The chart highlights the gap between local property and sales tax incremental growth (green and yellow) and the limited state contribution of $1,000,000 (orange).

Under the LIFT, other taxing jurisdictions were able to opt out of having incremental tax revenues captured by the local government that established the RDA. In 2009, only one of the cities using LIFT had used another local property tax source to match state contributions and that was from county revenues from an existing CRF increment area. Therefore, the LIFT is commonly conceived as a city plus state TIF tool that is unlikely to capture the entire value created from public investments made in an area.

Unlike CRF, and likely because state funds were involved, jurisdictions permitted to use the tool had to provide evidence and plans of the benefits of proposed projects to the state Community Economic Revitalization Board (CERB). CERB approved the creation of revenue development areas that were in areas with less than $1 billion assessed value (up to 25% of the jurisdiction's total assessed value) with land values averaging less than $70 per square foot. RDAs were approved within urban growth areas where existing urban infrastructure exists and planned development was consistent with countywide and local planning policies. In the application to the CERB, jurisdictions were required to make findings that the proposed public improvements were likely to increase private residential and commercial development, employment, the viability of urban mixed-use centers, and increase revenues to the state.

In addition, a finding was required that the LIFT would not relocate businesses from elsewhere in the state and would support existing businesses and residents in the RDA. Annual reports to the State Department of Revenue and periodic reports to the Legislature on the progress of RDAs provide clawback provisions (i.e., language that authorizes state to force a jurisdiction to return revenues if the legislative intent is not met) for the state against misuse of the tool, but make investment in bonds issued for financing public improvements somewhat risky for investors. For the first time in Washington state, LIFT provided local governments with the ability to capture a portion of state incremental tax revenues for reinvestment in priority locations.

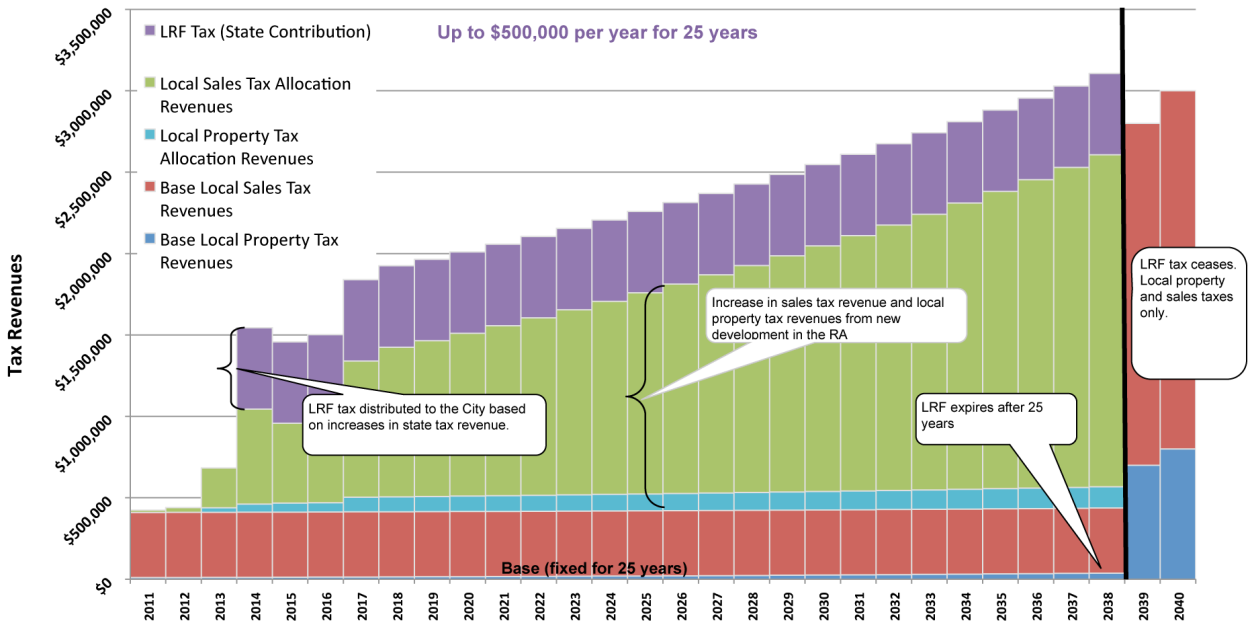
The LIFT program paved the way for other TIF-like tools in the state, but proved unsustainable with an effort to provide more state funding for the program rejected in the 2012 legislative session (HB 2785). Since the program is still relatively new and many RDAs are just now beginning to receive the state contribution, an analysis of the effectiveness in achieving the economic development goals intended by the legislation is difficult and unlikely to produce meaningful results. There are, however, some provisions in LIFT which require a mitigation plan for the displacement of local businesses and residents (RCW 39.102.080). Specifically, the legislation calls for the jurisdiction to complete an inventory and identify those most at risk of displacement for existing low-income housing units, and business and retail activity in the RDA. In smaller jurisdictions, because of state limits on a city's debt, the LIFT is unlikely to produce the kind of large scale infrastructure projects needed to catalyze development. In instances where debt capacity is an issue, the tool is more likely to be used for smaller scale projects that are unlikely to attract large scale private investment. The LIFT program was succeeded by a similar effort in 2009 that required more proof that the state contribution would leverage net revenues to the state.

Local Revitalization Financing (LRF)

The LRF program was created in 2009 (by 2SSB5045 and now RCW 39.104). The state allocated $2.25 million to fund five different projects that sought to increase private development and jobs within a redevelopment area (RA). In 2010, the Legislature allocated $2.5 million for projects that met criteria but were not funded in the 2009 effort. The cities awarded use of LRF in 2010 were required to pass a test proving that the state contribution would leverage new net revenues. Similar to LIFT, the LRF tool allows local governments to receive a state sales and use tax credit contingent on matching increases in local property and sales tax revenues within the redevelopment area. The jurisdiction does technically create a new tax, but the tax does not increase the tax rate paid by consumer. Rather, it diverts state sales and use tax revenue to the local government. The 2010 revision to the legislation required the University of Washington to evaluate proposals on several economic criteria, including the jurisdictions showing proof that the new development would provide: net new revenues to the state, new jobs that were not present in the state previously, and that the jurisdiction would have agreement from a private developer.

LRF was based on the LIFT model and allows local governments to allocate up to 75% of incremental growth on local property and sales tax revenues within a district in order to receive a state contribution of up to $500,000 annually over the life of the LRF (maximum of 25 years). The local property and sales taxes (up to 75% of incremental growth) must be used to fund improvements in the district to receive the state contribution. For example, if the award was for the maximum $500,000, the city would be required to match the state's $500,000 in the LRF district to receive the state contribution.

FIGURE 18: LRF FINANCING STRUCTURE



Source: PSRC

Figure 18 depicts the revenues available to a city or other jurisdiction using LRF over a 25-year borrowing period starting in 2012. New revenues to the city are created by the LRF Tax or State Contribution (purple) and the full $500,000 state contribution is only available in years when the local sales and property tax allocation revenues exceed $500,000 (in the chart the full amount is achieved for years 2014-2038). The chart highlights the gap between local property and sales tax incremental growth (green and teal) and the limited state contribution of $500,000 (purple).

The LRF program is the most widely used of the tools targeting state revenues. However, state budget concerns and skepticism from legislators about the actual fiscal impact of this tool make it politically challenging to obtain more funding from the state. Despite these challenges, some city officials continue to argue that ultimately the investment made by the state to a city through LRF can leverage new revenues to the state over the course of the 25-year lifespan of the tool. LRF also imposes the same challenges as LIFT to local governments with limited debt capacity and includes similar clawback provisions, making bonding a challenge.

Housing Everyone Financing Tool

In 2009 the Housing Everyone Financing Tool (HEFT) bill (SB 5856 and HB 1973) was proposed to finance the development, rehabilitation, and acquisition of housing affordable to households making 80% of the area median income or less. Cities and towns could also use the financing for infrastructure to support affordable housing development and preservation. Similar to LIFT and LRF, the financing was proposed to come from imposition of a local sales and use tax that would be credited against state sales and use taxes for the area. A state contribution was proposed totaling $15 million per year to be distributed to projects that met certain criteria. The criteria prioritized areas within urban growth areas that had high-capacity transit service, higher residential density, and a mix of land uses.

The HEFT would have closely aligned with the goals of the Growing Transit Communities Partnership, but ultimately did not pass. It can be assumed that opposition to the bill stemmed from the limited state budget and limitations on the use of funds for affordable housing and not other types of infrastructure. The policy intent and some provisions of the HEFT bill regarding annual reporting requirements of cities and initial approval to form a district have helped inform recommendations in this report.

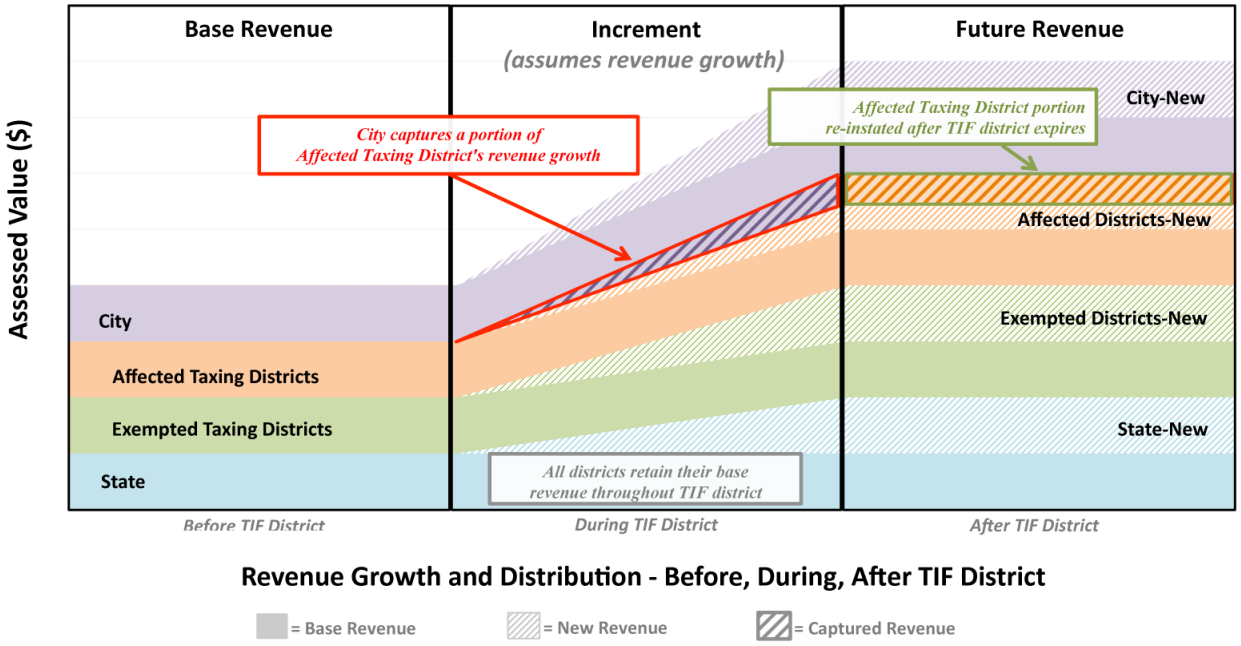
Landscape Conservation and Local Infrastructure Program (LCLIP)

The Landscape Conservation and Local Infrastructure Program (RCW 39.108) was enacted into law in 2011 when the Washington State Legislature passed Engrossed Substitute Senate Bill 5253 (ESSB 5253). This program provides a voluntary infrastructure financing tool for eligible cities that is predicated upon accepting transferable development rights (TDRs) from designated natural resource and some rural lands. The program allows cities with population plus employment over 22,500 in eligible counties within the central Puget Sound region (King, Pierce, and Snohomish counties) to capture a portion of city and county property taxes contingent on accepting an allocated portion of TDR credits.

Regional TDR Allocation: King, Pierce, and Snohomish counties reported to PSRC the total number of development rights available on eligible lands. PSRC took this data and recently released the allocated share of TDRs to eligible cities based on data from the counties, established growth management processes, and other relevant factors determined by eligible cities and counties.

TIF: A minimum threshold of TDRs (one quarter of a city's allocation) must be placed (i.e., acquired by the city or a developer) in order to begin accessing the TIF. In later years, more of the allocated TDRs must be placed from the county in order to access the TIF for the full 25 years. The TIF draws only from city and county property tax revenues. The tool is currently available to eligible cities. Similar to LRF, with LCLIP the city is able to capture up to 75% of the incremental increase in assessed value of all property in the district. Accepting the full allocated share of TDRs would allow for a city to capture the entire 75%, but a lesser portion would mean that the city can only capture a corresponding ratio of the incremental increased assessed value in a district. With a minimum of 25% of incremental local property taxes continuing to go to general funds, this program allows the city to still benefit from increased assessed values. However, this tool does not allow for a state contribution.

FIGURE 19: THEORETICAL LCLIP FINANCING DIAGRAM



Source: PSRC

Heartland, BERK, and Forterra recently completed a fiscal analysis of LCLIP for South Lake Union, Seattle.[53] The report, *South Lake Union TDR Economic Analysis Report*, highlights several key program considerations that help to understand the tool better. First, the report acknowledges the tradeoffs a city must take to use LCLIP by dedicating revenues for a period of time to a specified district and that a commitment to a regional TDR program must precede a commitment to LCLIP. Next, the report highlights another tradeoff between land conservation and other incentives that a city could procure from allowances for additional density (e.g., affordable housing). The city must determine if it can place or acquire the allocated TDR in return for higher revenues. In other words, the TIF revenues from the county portion of property taxes are performance based. While the TIF is focused on a sub-area (within eligible cities) the allocated share of TDR refers to the entire city and may need to be allocated in multiple sub-areas throughout a city. Perhaps the most important consideration is that LCLIP revenue streams depend on TDR use and may present a cost to the

city if the TDRs are not purchased privately or resold by the city to private developers. Lastly, the report highlights the sensitivity of the LCLIP analysis to TDR price. For example, a city could invest in TDRs upfront and see the price of TDRs fall before they are resold to the private market, resulting in a net loss to the city.

The *South Lake Union TDR Economic Analysis Report* goes on to highlight three key considerations for cities in implementing LCLIP: (1) Geographic size of the LCLIP district will impact the market capacity for TDRs and the cumulative value of new construction that is apportioned to LCLIP. (2) The determination of the "specified portion" or portion of a city's total TDR allocation that it will take on will impact the amount of potential city and county property tax revenues that a city can capture. (3) The priority of regional TDR within an incentive zoning program. In other words, the city must choose whether other costly public amenities (e.g., affordable housing) must be provided to reach desired density before TDRs can be used to meet incentive zoning requirements.[54]

The LCLIP is an innovative tool that will potentially conserve many valuable natural and resource lands outside urban areas and provide financing for improvements to areas that are targeted for more growth. However, the legislation leaves the issue of affordable housing up to the jurisdiction. The LCLIP is generally targeted in high-growth areas, but not specifically to areas where transit investments have been made. Also, the eligibility requirements prevent the use of LCLIP outside of the central Puget Sound region, although there is potential to expand the tool elsewhere in the state in the future.

Tools Using the Special Assessment Approach to Value Capture Financing

Local Improvement District (LID)

In Washington, cities, towns, and other local taxing jurisdictions are enabled by state law (RCW 35.43 — 35.56) to create local improvement districts (LID). A LID is an area where a special assessment is applied to properties based on the "special benefit" that will accrue to that property from a public infrastructure improvement. Special benefit refers to a benefit that is unique to that property owner, rather than the benefit that all members of the public receive. For example, proximity to a transit station confers a certain benefit on the nearby properties that is different in character than the benefit to the public of simply having a transit stop available. Like TIF, LIDs are typically formed to finance debt from the construction of capital improvements. Rather than the jurisdiction taking on the full costs of the improvements, costs are passed onto property owners in the district benefiting from the improvements. The benefit to the LID is that the jurisdiction takes on the debt and uses the special assessment for debt service.

There are multiple procedural steps for the formation of a LID, which can be expensive and cumbersome:

- First, a local government identifies the improvement(s), the properties expected to receive a "special benefit" and the preliminary cost estimate and preliminary assessment roll. The assessment roll is developed by an appraiser hired by the city, and consists of a methodology for estimating the future benefits that will accrue to each parcel within the district, based on the plans and designs for the public improvement. This methodology is then used to determine how the cost is to be shared out among those property owners. A public hearing is held and an ordinance is adopted. If, within 30 days after this ordinance is adopted, owners of property

subject to 60% or more of the special assessments (as reflected in that preliminary assessment roll) protest in writing, the local government is divested of the authority to proceed.

- Next, assuming the local government can proceed, it typically will construct the improvements (using relatively expensive "construction" financing) and then determine the actual total project cost (which includes the legal fees, construction financing costs, appraiser fees, etc.). Once all costs that are going to be charged to the LID are known, the local government works with an appraiser to revise the preliminary assessment roll and produce a final assessment roll. Property owners have the opportunity to object to their particular special assessment and may ask to have it reduced by arguing that their future benefit is less than the appraiser estimated.
- Finally, after all disputes have been resolved regarding the assessments, the local government provides an opportunity for each property owner to pay up front in full. If a property owner elects not to pay in full, he or she has the opportunity to pay in annual installments until the full assessment is paid off. This obligation bears interest (based on the interest rate on the bonds that the local government must issue in order to front the obligation). A lien for the unpaid assessment amounts is placed on the property, which is behind the general lien for taxes but ahead of any other commercial mortgage, deed of trust or other property lien.

LIDs thus require a narrowly defined public improvement project and require that the affected property owners generally be in agreement to implement in order to establish the assessment district. A huge variety of public infrastructure improvements have been financed in Washington over the past century using this method. They are typically available only for capital expenditures and would not be available, for example, to pay for operating costs of increased transit service to a neighborhood.

LIDs are designed to capture value from existing properties near public improvements, but are easiest to implement where the special benefit to a set of property owners is clearly defined. In many cases, the public improvements financed by the assessment will make development possible where it otherwise would not be. Examples might include: providing new utility service to properties not previously served, constructing new roads to parcels previously inaccessible by public road, or constructing new transit corridors in areas not previously served. More recently, creative local governments have partnered LIDs with other financing tools to share the cost between the local government's general fund resources and the property owners most specially and directly benefited. An example of this is the financing of Seattle's South Lake Union Streetcar, in which the city assessed only a portion of the cost — agreed upon with the property owners in advance — against the LID and paid the remainder of the cost from the general fund and other resources.

Community Redevelopment Financing Act of 2011 (CRFA)

In 2011 a bill was proposed that revised the original Community Redevelopment Financing Act of 1982. The bill is commonly referred to as the Community Redevelopment Financing Act (CRFA). The CRFA functions more like a Local Improvement District (LID) than a traditional TIF. With CRFA, property owners would agree to tax themselves based on increased property values from infrastructure improvements in order to finance the costs of infrastructure improvements in the area. The CRFA would allow a special additional tax levy on property within a district, capped at 1% of the incremental growth of assessed value above a base value. The bill, which set limits on where and how the financing tool could be used, was proposed in 2011 (Senate Bill 5705 and House Bill 1881) and received hearings in both houses, but did not make it to the floor. The bill included a

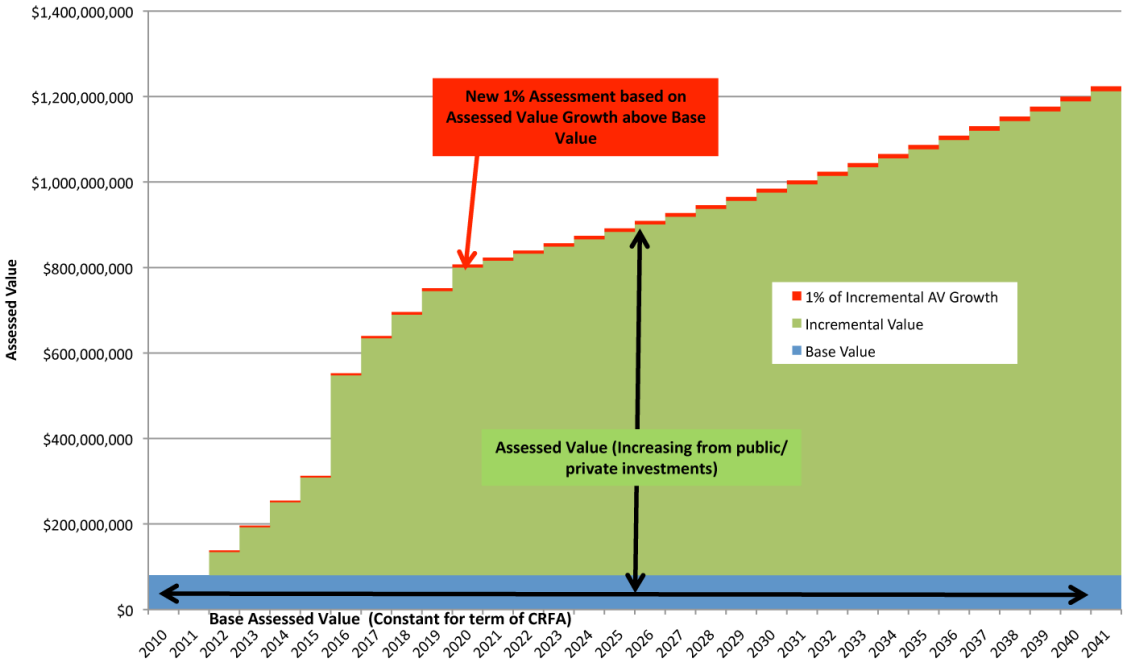
companion proposal to amend the State Constitution (Senate Joint Resolution 8213) to enable eligible jurisdictions to use the financing mechanism.

The CRFA financing mechanism sought to address the largest political and legal challenges associated with TIF. CRFA would seek to tax incremental assessed value growth rather than capture the revenues going to other state and local governments. If enacted, it would not divert state property tax revenues or operate like other currently available economic development mechanisms that rely on the authorization of state sales tax credits. The 2011 bill would allow port districts, cities, and counties to create an apportionment district for purposes of financing public improvements within or serving the district. Generally, the district would be required to be located within an urban growth area (city or county). Any debt that is solely backed by revenues from the apportionment district does not need to be backed by the full faith and credit of the city (or county or port district) that created the apportionment district.

The proposed constitutional amendment (introduced in 2011 as Senate Joint Resolution 8213) is necessary to allow the CRFA to function. It has three purposes:

1. The amendment allows properties within an apportionment district to be taxed at a different rate than properties across the city as a whole. Without the amendment, the uniformity clause would prevent a city or county from levying taxes only within the apportionment district.
2. The amendment ensures that the CRFA tax does not impact other taxes that are subject to the constitutional aggregate tax rate limitations.
3. The amendment permits debt issued to finance improvements in an apportionment district to be issued outside the debt capacity of the city or county, unless the city or county wishes to support the bonds with a financial guaranty.

FIGURE 20: CRFA FINANCING STRUCTURE



Source: PSRC

While the proposed CRFA bill functions much like a local improvement district (LID), the CRFA model is easier for local governments to use. The process to implement the CRFA is similar to a LID, though significantly streamlined. Similar to an LID, protests by property owners representing at least half of the assessed value in a proposed CRFA district would halt its formation. This ensures that CRFA districts would likely be targeted, with smaller boundaries than other infrastructure tools that are on the books, and also ensures that there is support from those properties that will carry the burden of the special taxation. To mitigate the district size issue, the bill was written to allow revenues to be spent for public facilities that serve the apportionment district (i.e., outside the revenue collection area).

Comparison of Value Capture Tools Considered in Analysis

The following table summarizes key differences among the value capture financing tools analyzed.

FIGURE 21: VALUE CAPTURE FINANCING TOOL COMPARISON

	LRF	LCLIP	CRFA
Available to:	Cities, towns, counties and port districts	Cities	Cities, towns, counties and port districts
Revenue Source(s):	Property tax and sales tax	Property tax only	Property tax only Through excess levy
Other District Participation:	Overlapping districts must opt-out	Property tax only	Property tax only through excess levy
State Contribution:	Up to $500,000 per year through state sales tax credit	No	No
Current Status:	Closed to new applicants, pending state funding	Open	Did not make it out of session in 2011
Lifespan:	Typically 25 years — subject to state funding allocation	Up to 25 years — minimum 10 years	Not specified
Size Limitations:	Districts cannot exceed 25% of citywide assessed value (AV)	Districts cannot exceed 25% of citywide assessed value	None — requires 50% of property owners to sign protest to deny use of tool
Multiple Districts:	Yes	Yes, but aggregate AV may not exceed 25% of citywide AV	Yes
Types of Development:	Must be consistent with CPP and Local Comp Plan	Area must be able to accommodate TDR	Must be consistent with CPP and Local Comp Plan
Preference for T.O.D.:	None	None	None
Affordable Housing:	Housing is not an eligible use of funds	Indirect support (for community facilities and improvements)	Housing is not an eligible use of funds
Land Conservation Requirements (TDR):	None	Yes. Must accept regional development right allocation (in most, but not all cases)	None

Source: PSRC, Department of Revenue, Foster-Pepper

Value Capture Tool Analysis

In order to fully understand the potential for a value capture tool to meet objectives of the Growing Transit Communities Partnership, PSRC contracted with BERK (planning and economic development consultants) who assisted in analyzing existing and potential value capture financing tools in Washington to understand the revenue potential in a scenario based on circumstances in the Bel-Red Corridor. This analysis focused on answering the question: How much money could be available from value capture tools for affordable housing? Of course, the answer to this question is only part of a full policy analysis of the tools. To answer this, staff and consultants worked with the City of Bellevue to conduct a case study of an actual light rail station area (130th Ave NE in Bellevue — see Figure 22 for specific focus area) to understand the revenue potential for several different value capture tools. The case study location benefits from solid plans for growth for the next 25 years. Growing Transit Communities Partnership and City of Bellevue staff have worked together to create projections for growth in the station area and to input into models for various value capture tools.

The case study model's main function is to process the potential revenues if the selected programs were applied to the 130th Ave NE station. Per suggestions of the Value Capture Financing Subcommittee, and analysis of the aforementioned existing and proposed value capture tools, the following programs were selected for the analysis:

- Local Revitalization Financing (LRF) 2SSB 5045
- Land Conservation and Local Infrastructure Program (LCLIP) ESSB 5253
- Community Revitalization Act of 2011 (CRFA) SB 5705 and HB 1881
- Traditional TIF (as available in other states)

This is an abstract analysis and not done with the intent of specifically supporting implementation of a financing mechanism by the City of Bellevue. For more details on the value capture tool analysis at the 130th Ave NE, see Appendix C: Detailed Value Capture Tool Analysis — 130th Ave NE Case Study.

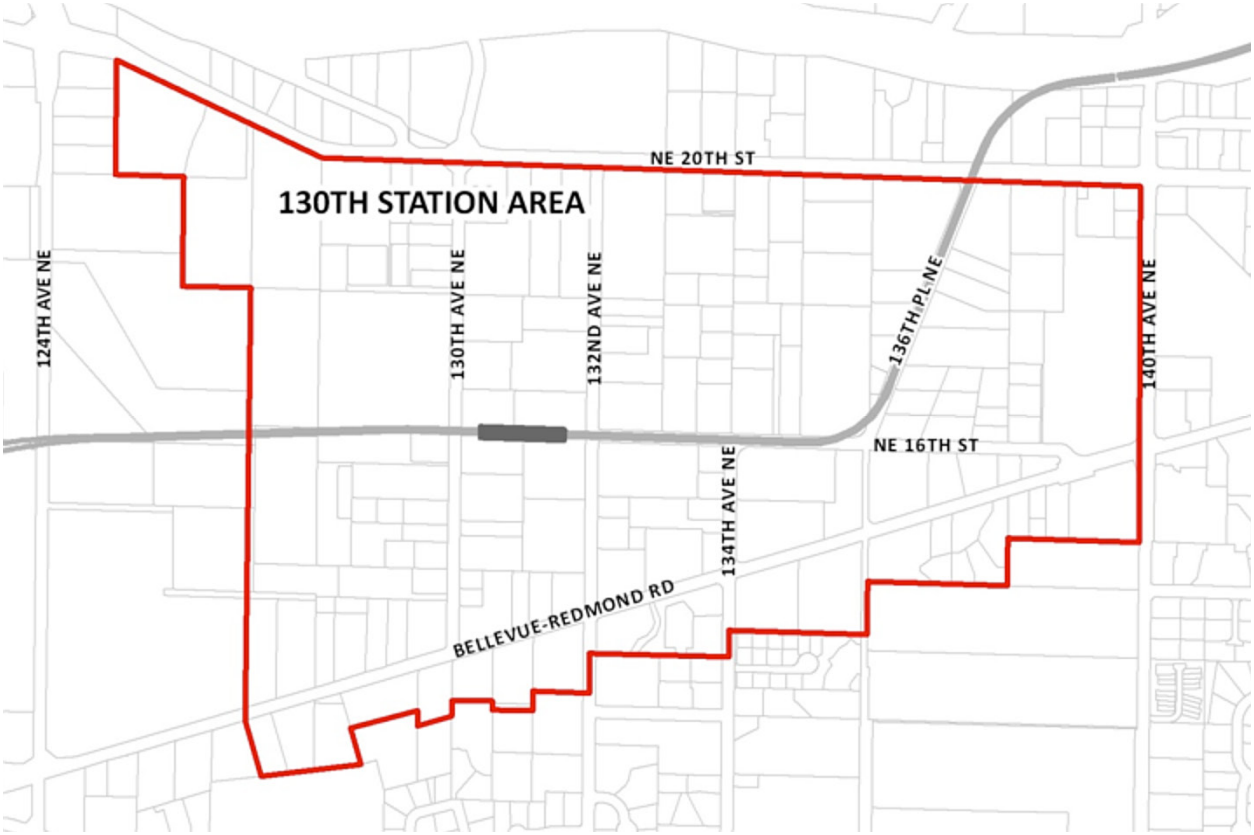
Later, staff worked with the cities of Mountlake Terrace and Tacoma to conduct this analysis for existing or planned light rail station areas. Like Bellevue's 130th Ave NE Link Light Rail station area, the Mountlake Terrace's Freeway Tourist District and Town Center, and Tacoma's South Downtown and Dome District benefit from solid plans for growth for the next 25 years. The summaries from Mountlake Terrace and Tacoma are provided in this section, but more background and details are provided in the appendix.

For more details on the value capture tool analysis at Mountlake Terrace's Freeway Tourist District and Town Center, see Appendix D: Mountlake Terrace Freeway Tourist District and Town Center Case Study.

For more details on the value capture tool analysis at Tacoma's South Downtown and Dome District, see Appendix E: Tacoma South Downtown and Dome District Case Study.

Value Capture Financing Tools Case Study in the Bel-Red Corridor, 130th Ave NE, Bellevue Link Light Rail Station Area

FIGURE 22: 130TH AVE NE LINK LIGHT RAIL STATION AREA IN BELLEVUE



Source: City of Bellevue

130th Ave NE Bellevue Light Rail Station Area

The Bel-Red Corridor is anticipated to grow significantly over the next 20-30 years, aided by the development of the planned East Link light rail extension running from downtown Seattle through the Bel-Red area to Redmond. Specifically, the 130th Ave NE area is planned to transform from an area of primarily large-scale commercial land uses to one of more mixed residential and retail uses. There are planned improvements to the natural environment and additions of park space, as well. The Bel-Red Subarea Plan was adopted in 2009 to provide the vision and policies to guide development at the 130th Ave NE station and surrounding areas. To summarize, the subarea plan envisions a mix of housing, retail and services, with an emphasis on housing, and a pedestrian-oriented retail area along 130th Avenue NE. Potential heights in the center of this node may reach 125 to 150 feet, and up to 70 feet in the perimeter.[55]

Development Assumptions

The case study focuses on potential growth around the planned Sound Transit light rail station at 130th Ave NE in Bellevue. Each value capture tool under analysis was applied to the "station area" outlined in Figure 22, the 130th Station Area Map, or roughly the half-mile mile radius around the

planned station location. Figure 23 shows the planned residential, retail, and office growth between 2015 and 2040 (i.e., the same 25-year value capture district lifespan used for the case study for all value capture tools). The assumptions were based on projected growth in the area following logical cycles of development in conjunction with possible infrastructure (i.e., limited development in 2015-2022 before light rail service begins, increase in development activity in 2023 and after light rail service begins) rather than assuming steady incremental growth throughout the 25-year value capture district lifespan. The development assumptions remain constant for each value capture tool analyzed in the model. While the analysis uses the development forecast for the 130th Ave NE station area for modeling purposes, the model uses a generalized development scenario that is not calibrated to Bellevue-specific incentives and fees.

FIGURE 23: GROWTH ASSUMPTIONS FOR 130TH AVE NE STATION AREA, 2015 – 2040

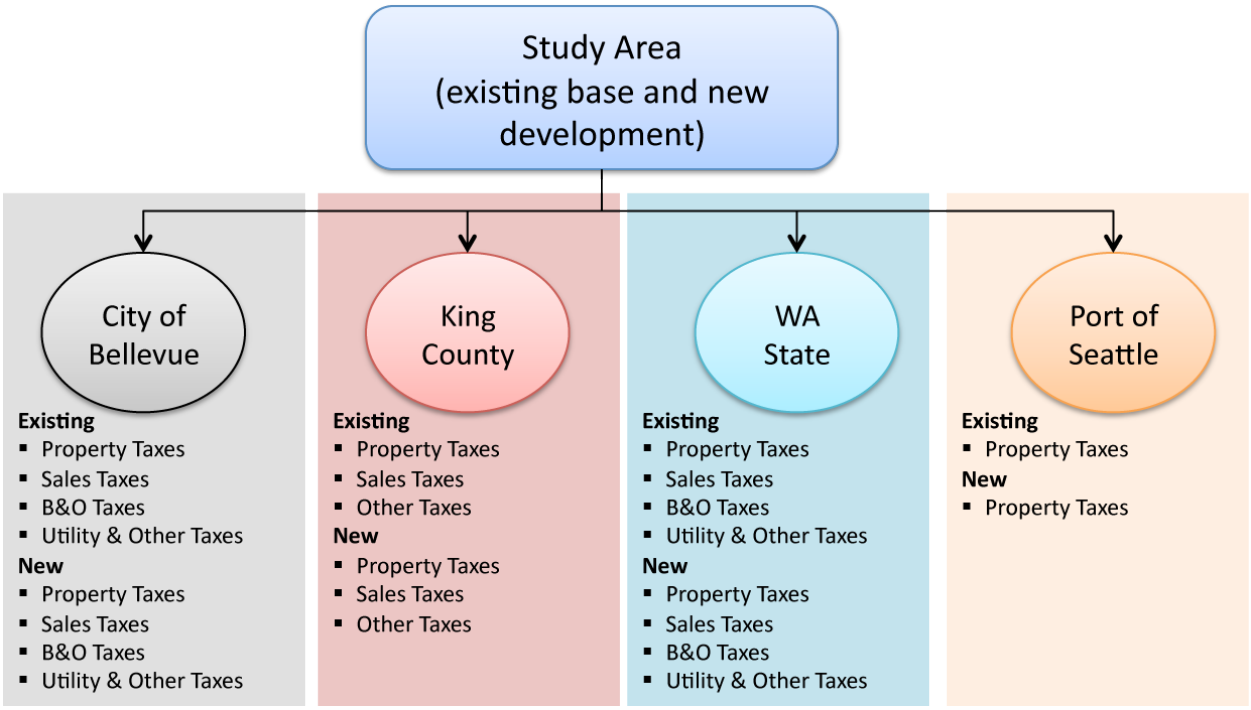
Housing	2,250 units
Net New Retail	312,500 sq ft
Net New Office	250,000 sq ft

Source: PSRC and City of Bellevue

Tax Revenue From Growth

The value capture financing model was designed to analyze future theoretical tax revenues that would accrue to state and local governments as a result of the proposed development program within the 130th Ave NE Station Area. Figure 24 identifies, by jurisdiction, the tax revenues that are available within the case study area.

FIGURE 24: EXISTING AND POTENTIAL NEW TAX REVENUES AVAILABLE IN 130TH AVE NE STATION AREA



Note: Also impacts other taxing districts such as KC Flood, EMS, Library, etc. The TIF model projects these revenues, but the TIF tools likely would not use these to fund infrastructure.

Source: BERK

For most value capture tools (except special assessment districts, like CRFA) the potential revenue available to fund improvements in a value capture district is limited to the maximum tax revenues

from development. The revenues projected from the development program are defined in Figure 25. Again, these represent the potential gross incremental revenues (total incremental revenues) available for capture, not what is actually captured from the various tools (see Figures 26 and 27 for the actual revenue potential for the tools).

FIGURE 25: TOTAL INCREMENTAL REVENUES RESULTING FROM DEVELOPMENT ASSUMPTIONS IN 130TH AVE NE STATION AREA BY JURISDICTION AND SOURCE (all dollar figures in thousands)

REVENUE SOURCE	CITY	COUNTY	STATE	PORT	OTHER DISTRICTS	TOTAL
Property Taxes	$3,500	$3,000	$8,700	$400	$20,700	$36,300
Sales Tax on Construction*	$3,300	$4,500	$25,200	N/A	$3,500	$36,500
Ongoing Sales Tax*	$12,500	$16,900	$95,300	N/A	$13,200	$137,900
B&O on Construction**	–	N/A	$7,000	N/A	N/A	$7,000
Ongoing B&O Tax**	–	N/A	$16,800	N/A	N/A	$16,800
Utility Taxes	$1,500	N/A	$700	N/A	N/A	$2,200
Total Incremental Revenues	**$20,800**	**$24,400**	**$153,700**	**$400**	**$37,400**	**$236,700**

* County portion includes 0.9% transit sales tax.
** City's B&O tax does not show due to rounding (~$4 M per year).
Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

Findings

Figure 26 shows that there are different levels of investment a city is required to make within the district to maximize the potential leverage from other participants. For example, in LCLIP, the city is required to invest $2.6 million of incremental property tax revenues in order to maximize the allocation of county property tax revenues. The percent of total available revenues in the case study area accessible by each value capture tool shows the relative success at capturing the value of the new development. However, because the CRFA is a new tax, it does not rely on the city allocating any threshold amount of revenues to access the new funds.

FIGURE 26: MINIMUM LOCAL REVENUES ALLOCATED TO DISTRICT NECESSARY TO MAXIMIZE VALUE CAPTURE TOOL LEVERAGE IN 130TH AVE NE STATION AREA

VALUE CAPTURE TOOL	TOTAL INCREMENTAL REVENUES FROM FIGURE 25 (CITY)	MINIMUM ALLOC. REVENUES NECESSARY TO MAX VCF LEVERAGE	% OF TOTAL INCREMENTAL REVENUES FROM FIGURE 25 (CITY)	REVENUE SOURCE
LRF	$20,800	$5,800	28%	Property and/or Sales Taxes
LCLIP	$20,800	$2,600	13%	Property Taxes
CRFA	$20,800	–	–	1% Excess Levy
Traditional TIF	$20,800	$4,900	24%	Property Taxes

Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

FIGURE 27: VALUE CAPTURE TOOL LEVERAGE AT BELLEVUE'S 130TH AVE NE LIGHT RAIL STATION AREA — NEW ALLOCATED REVENUES TO SPONSORING JURISDICTION (all dollar figures in thousands)

VALUE CAPTURE TOOL	MINIMUM ALLOCATED REVENUES NECESSARY TO MAX VCF LEVERAGE	NEW ALLOCATED REVENUES BY SOURCE					TOTAL VCF TOOL LEVERAGE	LEVER. RATIO	% OF TOTAL REVENUES CAPTURED	REVENUE SOURCE
		CITY	COUNTY	STATE	PORT	OTHER DIST.				
LRF	$5,800	N/A	–	$5,800	N/A	N/A	$11,600	2	5%	State Sales Tax Credit
LCLIP	$2,600	N/A	$2,200	N/A	N/A	N/A	$4,800	1.85	2%	Country Property Taxes
CRFA	–	$78,200	–	N/A	–	N/A	$78,200	N/A	33%	1% Excess Levy
Traditional TIF	$4,900	N/A	$4,200	$12,300	$500	–	$21,900	4.47	9%	Property Taxes

Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

Figure 27 shows the revenue potential for each value capture tool (Total Value Capture Tool Leverage). The results of the analysis show that CRFA provides the largest revenue potential and LCLIP the least. Traditional TIF has the highest leverage ratio for city taxes.

The model is useful in understanding the financing mechanisms and the benefits to various taxing districts. However, it does not account for costs associated with each value capture tool to local governments, the state, property owners, or the community. In addition, the model alone should not be used to evaluate the effectiveness of the value capture tools to meet the objectives of financing affordable housing within transit station areas. Each of the value capture tools analyzed was created with a different purpose and does not address all the issues identified as important by cities, developers, affordable housing developers, and environmental and equity advocates.

After review of these findings, the Value Capture Financing Subcommittee concluded that none of the value capture tools would produce enough revenue to completely finance the desired benefits of any stakeholder group (i.e., city infrastructure needs, costs of infrastructure passed onto developers, or number of affordable housing units/affordable housing set-aside fund). The fiscal analysis is only one piece to a comprehensive look at the policy, equity, and political variables in considering a new value capture tool. When both policy and fiscal implications are considered, the Value Capture Financing Subcommittee concluded that the CRFA tool provides the most potential for a starting point for new legislation going forward.

The same analysis was completed for districts in City of Mountlake Terrace and City of Tacoma where plans for growth and existing or planned transit access make conditions attractive for value capture financing. The detailed results are provided in Appendix D: Mountlake Terrace Freeway Tourist District and Town Center Case Study and Appendix E: Tacoma South Downtown and Dome District Case Study. However, the summary tables (Figure 28 and Figure 29) are provided

below and show that the CRFA tool provides the most revenue potential across three different districts around the central Puget Sound region.

FIGURE 28: VALUE CAPTURE TOOL LEVERAGE IN MOUNTLAKE TERRACE'S FREEWAY TOURIST AND TOWN CENTER DISTRICT — NEW ALLOCATED REVENUES TO SPONSORING JURISDICTION (all dollar figures in thousands)

VALUE CAPTURE TOOL	MINIMUM ALLOCATED REVENUES NECESSARY TO MAX VCF LEVERAGE	NEW ALLOCATED REVENUES BY SOURCE					TOTAL VCF TOOL LEVERAGE	LEVER. RATIO	% OF TOTAL REVENUES CAPTURED	REVENUE SOURCE
		CITY	COUNTY	STATE	PORT	OTHER DIST.				
LRF	$5,800	N/A	–	$5,800	N/A	N/A	$11,600	2	3%	State Sales Tax Credit
LCLIP	$3,900	N/A	$2,200	N/A	N/A	N/A	$9,300	2.38	2%	Country Property Taxes
CRFA*	–	$37,200	–	N/A	–	N/A	$37,200	N/A	20%	1% Excess Levy
Traditional TIF	$5,700	N/A	$4,200	$12,300	$500	–	$24,100	4.23	6%	Property Taxes

* CRFA is based on the smaller Freeway Tourist District only and does not assume any revenues from the Town Center.
Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

FIGURE 29: VALUE CAPTURE TOOL LEVERAGE IN TACOMA'S SOUTH DOWNTOWN AND DOME DISTRICT — NEW ALLOCATED REVENUES TO SPONSORING JURISDICTIONS (all dollar figures in thousands)

VALUE CAPTURE TOOL	MINIMUM ALLOCATED REVENUES NECESSARY TO MAX VCF LEVERAGE	NEW ALLOCATED REVENUES BY SOURCE					TOTAL VCF TOOL LEVERAGE	LEVER. RATIO	% OF TOTAL REVENUES CAPTURED	REVENUE SOURCE
		CITY	COUNTY	STATE	PORT	OTHER DIST.				
LRF	$5,800	N/A	–	$5,800	N/A	N/A	$11,600	2	1%	State Sales Tax Credit
LCLIP	$26,300	N/A	$2,200	N/A	N/A	N/A	$42,800	1.63	3%	Country Property Taxes
CRFA*	–	$78,200	–	N/A	–	N/A	$60,100	N/A	11%	1% Excess Levy
Traditional TIF	$38,300	N/A	$4,200	$12,300	$500	–	$95,700	2.5	6%	Property Taxes

* CRFA is based on the smaller Tacoma Dome District only and does not assume any revenues from the larger South Downtown Area.
Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

Lessons Learned and Innovative TIF Programs in Other States

Value capture financing mechanisms have been used widely across the United States for the last 50 years or more. Examples of the use and misuse of value capture financing are provided here. The following section provides a brief description of different value capture financing approaches and uses across the country, as well as lessons learned. Most of the examples draw on the use of TIF with some examples of special assessment districts. Following the program descriptions are the lessons learned from each program.

California Redevelopment Agencies — TIF

California was the first state to enable the use of TIF in 1952 and had already enabled the formation of redevelopment agencies (RDAs) in 1945 to combat blight, degraded buildings, and a lack of housing in urban areas.[56] TIF was the means of funding redevelopment and implementing communities' redevelopment plans. RDAs proliferated across the state until 2011 when legislation was passed that dissolved RDAs and effectively ended TIF. RDAs could capture state, county, and local property taxes within TIF districts to fund public improvements that sought to revitalize deteriorated or blighted areas. It is estimated that there were over 400 RDAs in California before they were disbanded in 2011.[57] Facing a large budget deficit in 2011, Governor Brown sought to eliminate RDAs to return an estimated $3 billion per year to the state that had previously been directed to RDAs through TIF.[58] The move to cut RDAs and TIF is widely believed to have been an effort to shift state revenues from financing development to supporting schools and public safety.

Oregon (City of Portland) Urban Renewal Areas — TIF

Oregon Revised Statute Chapter 457 authorizes cities and counties to set up urban renewal areas (URAs) where TIF can be used to fund plans and projects to remove blight. Cities and counties are authorized to capture local, county, and state property tax revenues within the urban renewal area. Urban renewal areas are overseen by urban renewal agencies that are authorized to manage the TIF process, given special powers to buy and assemble property, and to work with private parties to complete development projects. Urban renewal was authorized in the early 1960s in Oregon and has remained an effective tool for local governments to revitalize urban areas since. Oregon's TIF laws have endured various efforts to limit property taxes. Most recently, in 1997, Measure 50 lessened the potential for new TIF district revenues, but allowed already existing urban renewal areas to continue under the old system.[59] In fiscal year 2006-2007 there were over 55 urban renewal areas in Oregon.[60] There are currently 11 urban renewal areas in the City of Portland.

Georgia (Atlanta) Tax Allocation Districts — TIF

Georgia enabled cities in 1985 to use TIF in tax allocation districts (TADs) to finance infrastructure and other costs identified in a redevelopment plan.[61] Prior to 2008, tax allocation districts were able to collect any state, local, and county property and sales tax revenues to finance improvements. However, in 2008 the Georgia Supreme Court ruled it unconstitutional to divert school taxes for economic development purposes.[62] Later that same year the Education Taxes for Redevelopment Act was approved by voters to amend the Georgia State Constitution to allow tax allocation districts to utilize property taxes for schools.[63] The City of Atlanta has 10 tax allocation districts that

have been created to support various economic development goals. In most TIF districts, the city has provided TIF to developers as gap financing in growing areas. However, in the Beltline TAD, TIF revenues have been used to catalyze private development rather than support it.[64]

Illinois (Chicago) Tax Increment Allocation Redevelopment — TIF

Since 1977 TIF districts formed in Illinois have been able to divert local, state, and county property tax revenues for 23 years with the possibility of renewal for an additional 12 years.[65] There are over 1,000 estimated TIF districts in the Illinois.[66] A municipality may use TIF in Illinois when one of three criteria are met: presence of blight, conservation of historic areas, or in areas with high unemployment.[67] If one of these criteria is met (called blighting conditions) a finding must be made that the development within the TIF district would not reasonably be anticipated without the use of TIF.[68] Many academics and researchers point to Chicago, Illinois, as the poster-child for TIF abuse. In 2011 the Chicago Sun Times reported that Chicago has 165 TIF districts encompassing 10% of the city's property tax base and 30% of its geographic area.[69] In Chicago, TIF revenues can be "ported" or transferred to adjacent TIF districts at the City Council's discretion.[70]

Tax Increment Financing for Affordable Housing

TIF relies on increasing property values to generate increasing incremental property tax revenues used to pay down debt from financing infrastructure and other public improvements. By its very nature, TIF may gentrify neighborhoods and displace low income residents and small businesses. The following states and municipalities have created programs that direct revenues from TIF proceeds to affordable housing development, rehabilitation, and preservation. There are over a dozen states and municipalities that have TIF programs that address affordable housing. Programs in California, Oregon, and Georgia are highlighted.

California TIF Setaside for Affordable Housing ("low-mod funds"): In 1976, after over 20 years of TIF in California, the state passed legislation that required 20% of all TIF revenues to be set aside for the development and preservation of housing affordable to low to moderate income households. In addition, housing units affordable to low and moderate income households that had been demolished in TIF districts had to be replaced.[71] To ensure that adequate affordable housing was created in TIF districts, the legislation required that 15% of all housing units in the district not developed by the redevelopment agency (RDA) be affordable to low and moderate income households and of those, 40% must be affordable to very low income households.[72] For publicly developed housing, the requirement was for 30% of the housing units produced to meet needs of low and moderate-income households and that 50% of these units must be for very low income households. Under extreme circumstances affordable housing setaside monies could be used to develop affordable housing outside the TIF district, but within the jurisdiction of the RDA sponsoring city or county.[73] Every two units of affordable housing constructed outside the RDA counted for one unit towards the 15% affordable housing requirement in the RDA.[74]

Outcomes of California TIF Setaside for Affordable Housing: In FY 2009-2010 over $1 billion was directed from TIF districts to affordable housing that funded the construction of 6,716 affordable housing units.[75] This represents a decrease from the 9,697 affordable housing units constructed in FY 2008-2009. Including new construction, rehabilitation, preservation, and assistance to households for FY 2009-2010, over 17,000 low income housing units were created and households assisted through the TIF setaside funds.[76]

Lessons Learned from California TIF Setaside for Affordable Housing:

- 20% Affordable Housing Setaside produced a great deal of affordable housing.
- Requirement that 15% of all new housing affordable in TIF district ensures that private development is affordable to low income households.

Portland, Oregon TIF Setaside for Affordable Housing: In 2006, the Portland City Council and Portland Development Commission adopted a TIF setaside policy that requires at least 30% of TIF revenues generated in urban renewal areas (URAs) be dedicated to affordable housing. The concept was initiated to help implement the city's 10-year plan to end homelessness. The bulk of the setaside revenues in each URA is targeted for housing for families making 0-30% of median family income. The income guidelines for housing in each URA vary, but a minimum of 30% must be set aside for affordable housing development, rehabilitation, preservation or community facilities serving residents making below 100% of median family income in every URA.

Outcomes of Portland, Oregon Affordable Housing Setaside: Nearly $42 million was spent on affordable housing FY 2009-2010.[77] Between 2006 and 2009, it was estimated that $67 million of TIF setaside funds resulted in 3,398 affordable housing units, with 3,129 of the units affordable to those making 60% or less of median family income.[78]

Lessons Learned from Portland, Oregon TIF Setaside for Affordable Housing:

- 30% Affordable Housing Setaside produced great deal of affordable housing.
- Targeting funds for very low income housing has been effective.

Atlanta, Georgia TIF Setaside for Affordable Housing: In Atlanta, seven of the ten tax allocation districts (TADs) have an affordable housing requirement that at least 20% of the units in TIF financed projects be affordable to households at or below 80% of the area median income (AMI). Georgia TIF legislation allows for use of TIF revenues to construct or rehabilitate rental housing affordable to households making 60% AMI or less and homeownership units affordable to households making 115% AMI or less.[79]

Outcomes of Atlanta, Georgia Affordable Housing Setaside: In 2007 it was reported that 2,463 of 10,224, or about 25% of all new housing units were affordable in the city's tax allocation districts.[80]

Lessons Learned from Atlanta, Georgia TIF Setaside for Affordable Housing:

- 20% Affordable Housing Setaside produced a great deal of affordable housing.

FIGURE 30: TIF PROGRAMS WITH AFFORDABLE HOUSING SETASIDE IN OTHER STATES AND MUNICIPALITIES

JURISDICT.	TOD PREFERENCE	TIF REVENUE FOR AFFORDABLE HOUSING	AFFORDABILITY STANDARD FOR TIF FUNDED UNITS	AFFORDABLE HOUSING REQUIREMENT	AFFORDABILITY STANDARD FOR REQUIREMENT
California	No	20%	50%, 80%, 120% AMI	15% of units	120% AMI (40% @ 50% AMI)
Maine	No	100%	120% AMI	33% of units	120% AMI
Massachusetts	No			25% of units	80% AMI
Atlanta	Yes	20%	Rental: 60% AMI H/O: 115% AMI	20% of units	80% AMI
Dallas	Yes	10 — 20% (by district)	80% AMI	20% of units	80% AMI
Portland	No	30%	Rental: 30%, 60% AMI H/O: 80%, 100% AMI		
San Antonio	Yes			20% of units	Rental: 80% AMI H/O: 120% AMI

Source: Afford housing and TIF, various sites for these programs

Impact of TIF on Schools

Similar to Washington state, many states rely on a significant proportion of property taxes to fund schools. When these property taxes are diverted for 20-30 years to finance public improvements in TIF districts, the local schools are impacted. TIF investments can actually lead to more residential growth, which puts more burden on local schools while depriving schools of additional property tax revenues created from the development. Diverting state and local property tax revenues from schools through TIF has proved problematic as seen most prominently in Chicago, Illinois, and the state of California, highlighted below.

Chicago, Illinois TIF and Schools: In 2010 the City of Chicago collected $510 million in TIF revenues. Meanwhile, Chicago Public Schools (CPS) faced a deficit of $700 million.[81] A recent report estimates that CPS could have received $267 million in 2010 to put towards the deficit had the property tax revenues not been diverted through TIF.[82] Public dissatisfaction with TIF in Chicago is not limited to the negative fiscal impact of TIF on schools and other tax districts but also the lack of public involvement in developing plans for TIF revenue expenditures. The recent strike led by the Chicago Teachers Union (CTU) was partly fueled by the use of TIF for projects that seem to benefit well-connected property owners and developers. For example, prior to the teachers strike CTU picketed a Hyatt hotel within a city TIF district that received an estimated $5.2 million benefit from public improvements financed by TIF.[83] The picketing teachers carried signs saying “Silly Rich Guy TIFs are for Kids!” [84] While TIF was only one part of the Chicago Teachers Strike of 2012, the strike brought public attention to the lack of accountability in TIF and lack of support for diversion of property tax revenues for schools.

Lessons Learned from Chicago, Illinois TIF and Schools:

- Diverting revenues from schools is unpopular and controversial.
- Transparency and accountability is needed in process.

California TIF and Schools: One major downfall of the California TIF model was the deprivation of funds from education that occurred through TIF. Legislation attempted to mitigate this by requiring that a portion of TIF revenues pass through to fund local schools. According to the Legislative Analysts Office in California, about 22% of revenues were required to "pass through" from the redevelopment agency to affected tax districts such as schools, counties, and special districts that had revenues diverted from TIF.[85] RDA legislation required that the state back fill gaps between the pass through and incremental revenues withheld from state property taxes that go to fund local schools. However, this left a gap in the state educational resources that were coming from TIF districts. Current estimates are that $991 million will be directed back to schools from RDAs that were using TIF in FY 2012-2013.[86]

Lessons Learned from California TIF and Schools:

- Diverting revenues from the state and local schools is unsustainable.

Misuse of TIF

TIF was conceived during the early 1950s when cities across the United States sought ability to finance urban renewal projects. Urban renewal provided limited legal basis (under the "police-power" granted to states to protect the general welfare of citizens) for cities to clear slums, demolish structures, relocate people, and take private property for public projects. TIF, therefore, was eligible to be used in areas where this "blight" was present. In the late 1930s the definition of blight included areas where dilapidation, obsolescence, over-crowding, poor arrangement or design, lack of ventilation, light or sanitary facilities, or a combination of these factors occurred and, "are detrimental to the safety, health, morals, and comfort of the inhabitants thereof." [87] Many states' TIF laws still contain such definitions of blight that define where TIF is eligible. At its outset, TIF was designed to improve conditions in urban slums. However, the definition of blight has since been loosened and interpreted to apply to areas far from urban areas including undeveloped sites known as "greenfields." Various studies show that incentivizing development in areas far from population and employment centers increases the costs to provide public services and are harmful to the environment.[88]

In addition to a finding of blight, cities are often required to pass an ordinance that includes a finding that, but for the improvements funded by TIF, the development would not happen. This is commonly known as the "but for" test. The "but for" test has proved similarly weak in ensuring the use of TIF for revitalizing decaying urban areas. A couple of the most egregious abuses of TIF are highlighted below, but there are many more examples of TIF being used in greenfield and suburban locations.

Missouri and Misuse of TIF: Missouri law (Missouri Revised Statutes 99.800 – 99.865) allows cities to capture property taxes and a portion of sales taxes for TIF districts where findings of blight and the "but for" test are passed. One example of misuse was in a suburb of St. Louis, the City of Des Peres. A real estate investment trust looking to expand an upscale suburban mall asked for $29 million in TIF revenues to expand the mall to include Nordstrom and Lord & Taylor. The city

declared the mall blighted despite the mall having nearly 100% occupancy and grossing more than $100 million per year in sales.[89]

> *Missouri Definition of Blight:* "Blighted area," an area which, by reason of the predominance of defective or inadequate street layout, insanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use.
>
> *Missouri "But For" Test:* The City of St. Louis summarizes the "but for" test as follows, "but for the adoption of the redevelopment plan, the redevelopment area would not reasonably be anticipated to be developed. The TIF Act requires the developer to provide an affidavit of this determination." [90]

Wisconsin and Misuse of TIF: Wisconsin has enabled cities and villages to use TIF since 1975. Aside from findings of "blight" and "but for" test, the only restriction is that jurisdictions cannot put more than 12% of total property value in TIF districts.[91] A report from 1000 Friends of Wisconsin found that almost half the TIF districts in Wisconsin have been used to develop open space land, resulting in more than 30,000 acres of open land converted to development with the aid of TIF.[92]

> *Wisconsin Definition of Blight:* The presence of a substantial number of substandard or deteriorating structures or site improvements: inadequate street layout or faulty lot layout in relation to size, adequacy, accessibility or usefulness, or conditions which endanger life or property by fire and other causes, or any combination of such factors that impairs or arrests the sound growth of a city. This definition also includes an area that is predominantly open and which because of obsolete platting, diversity of ownership or deterioration of structures, impairs the sound growth of the community. Designation of blight also includes inappropriate use of land. This could include buildings in the flood plain, residential use in a commercial district, commercial use without appropriate parking and land use that is not compatible with the final use plan of an area.
>
> *Wisconsin "But For" Test:* The State of Wisconsin Department of Revenue highlights the importance of the rule reporting that "as part of all creation resolutions, a municipality must find that the desired development would not happen but for the use of TIF… This is very important to making sure that TIF assists development projects that need help, but that it isn't a give-away of tax dollars to private developers or property owners." [93]

Lessons learned from states requiring findings of "blight" and using the "but for" test for TIF:

- Definitions of "blight" and "but for" test are too weak and can lead to incentivizing growth outside urban areas or areas where market forces already make development attractive.

Value Capture for Transit-Oriented Development

In order to support large public investments in transit, some states and cities are using TIF to attract private investment to station areas. Dallas, Texas, and the state of Pennsylvania and others have programs that target the use of TIF to transit station areas. The intent is to increase ridership of the transit systems and encourage dense, mixed-income communities surrounding the transit

stations. This targeted approach to incentives seeks to both catalyze investments in weak market areas and ensure dense and affordable development in stronger market areas.

Pennsylvania Transit Revitalization Investment District (TRID) Act: In 2004 the state of Pennsylvania enacted the TRID Act (HB 994) to encourage transit-oriented development and economic development, foster collaboration between cities, counties, and transit agencies, promote the use of value capture mechanisms to spur infrastructure investment, increase ridership for transit agencies, with community involvement in the planning process.[94] The program is distinct from traditional TIF because it does not require a finding of blight, but rather focuses on capturing the value of transit improvements on private property and using the funds to support the transit investments. TRID districts are limited to a half-mile mile radius of transit stations, but allow capture of local and state property tax increases in the district.[95] Only one TRID has been developed to date partly because the districts require state and local taxing district approval to capture property taxes in the TRID. Also, TRIDs are unlikely to provide enough revenue to fund multiple projects.[96] However, TRIDs provide an innovative example of a focused tool to facilitate transit-oriented development.

Lessons Learned from Pennsylvania TRID Program:

- State and local taxing districts are unlikely to give up revenues for financing public improvements in a sub-area of a city.
- Other states are implementing innovative value capture programs to support transit-oriented development.

Dallas, Texas TOD TIF District: In 2008, the Dallas City Council approved a 558-acre Tax Increment Financing district linking the neighborhoods around eight Dallas Area Rapid Transit (DART) stations. The formation of this giant district was not consistent with the state's enabling TIF legislation, but the legislation was amended to allow for creation of TIF districts when the use of the land within the district is in connection with and beneficial to the operation of a mass transit rail system.[97] The district is split into four subareas surrounding eight DART stations and allows revenue-sharing from more prosperous neighborhoods to less-developed areas. At least 40% of revenues from the prosperous districts will go to the fund improvements in the less-developed areas. Prosperous districts will set aside 20% of all revenues for affordable housing development, and less-developed areas are required to include mixed-income developments.[98] As of 2011, the TOD TIF district had brought in $98 million in private investment resulting in 845 new households in transit station areas.[99]

Lessons Learned from Dallas, Texas TOD TIF District:

- Targeting TIF in TOD areas can attract private investment across a corridor.
- Setaside of TIF revenues for affordable housing can help ensure that new development will benefit low income residents.

Conclusion

The Growing Transit Communities Partnership workplan called for an analysis of the potential for existing tools to provide financing for infrastructure and affordable housing in transit station areas. There are various benefits to local communities, the region, and state in creating equitable transit communities. One way to support equitable transit communities is by providing new financing sources. These can lower the costs of development, and provide revenues for affordable housing development and preservation, as well as other public benefits.

Although TIF and other value capture financing tools have a checkered political and legal history in Washington state, these tools should continue to be pursued. Constitutional limits on property taxes, the budget-based property tax levy system, city debt-capacity limits, and political perception of TIF have all proved to be considerable challenges to creating robust value capture financing tools in Washington. Value capture financing tools have had limited success in working around these issues by getting credits from the state sales tax, asking other taxing districts to participate in value capture districts, and ensuring that counties participate in city value capture districts by paying for rural land conservation in counties. Given state budget constraints, traditional TIF is not feasible in Washington, but innovative special assessment districts like the Community Reinvestment Act of 2011 offer a good alternative to TIF.

Value capture financing programs in other states and municipalities provide a roadmap for how to incentivize growth equitably by setting aside revenues to develop and preserve affordable housing. Similarly, Washington can learn from the lessons of other states to develop sustainable incentives that do not divert revenues from schools and are transparent. Broad eligibility of value capture incentives in other states has led to sprawl, but places like Pennsylvania and Dallas, Texas, are trying new tools that limit the use of value capture financing tools to transit-accessible locations.

It is imperative that a new value capture financing tool be created to deal with the unique challenges facing communities with transit stations such as the displacement of low income residents and businesses. The new tool should provide local governments and communities with another way to help finance necessary public improvements that maximize the utility of the transit investment. In other areas of the state, a tool is needed to help bring development to priority areas sooner. Previous value capture tools in Washington and experiences in other states should inform the new tool. Washington has a chance to get value capture financing right from the start rather than amend the legislation after years of gentrification and displacement have occurred.

The Value Capture Financing Subcommittee discussed several strategies, both short and longer-term, for creating a new value capture tool. Rather than include very specific legislative goals, this report outlines the higher level principles that may be carried forward, whether next year or in 10 years. The Subcommittee overwhelmingly supported a constitutional amendment in the near future for a special assessment district tool like the Community Reinvestment Act of 2011. However, if the state budget situation should change or other dynamics should make traditional TIF more attractive, the principles developed by the Growing Transit Communities Partnership can be applied for that type of legislative effort, too.

Recommendations

The Value Capture Financing Subcommittee of the Growing Transit Communities Partnership's Affordable Housing Steering Committee developed the following guidance for developing new or revising existing value capture financing tools. The Principles are broad and applicable to both the current Growing Transit Communities Partnership effort and to future legislative efforts in developing financing tools.

Intent of Value Capture Financing Tool: Provide infrastructure and affordable housing financing to create equitable transit communities.

Need for Value Capture Financing Tool: Value capture financing tools help growth pay for growth and should be structured to maintain social equity goals in a community. A financing tool is needed that provides funds for jurisdictions to create infrastructure that is needed in proximity to rapid and high-capacity transit stations where costs to develop, displacement risks, and property values are highest. The tool shall be narrowly crafted to address all these issues and be easy to monitor. The majority of the revenues shall go to infrastructure costs, but a portion of the revenues shall go to addressing social equity issues in the area. A new financing tool will help achieve the type, scale, timing, and social benefits of development desired by communities served by transit and/or planning under the Growth Management Act (GMA). The needs of existing communities and plans should be considered, and the use of a new financing tool should constitute a partnership of private and public interests.

The tool will generally address the needs of the state, city, counties, property owners, low income residents, environment, workers, and community. An equitable financing tool targeted to areas with or planning for transit service will help:

- The state, counties, and cities implement GMA policies.
- Developers capitalize on development potential near rapid and high-capacity transit.
- Ensure that displacement of low income residents and small and minority-owned businesses does not occur in areas served by transit.
- Ensure that housing is available to all economic segments of the population in areas served by transit.
- Preserve and create community gathering places as density increases in these areas.

The following principles are put forth for a basis to develop model legislation for a new value capture tool. The principles are organized by the key issues of: revenues, expenditure of revenues, affordable housing/social equity, location/growth management, and effectiveness.

Legislative Principles for Value Capture Financing

Revenues

1. Provide local governments with authority to use financing tool that enables partnering with private sector when opportunity presents itself.
2. The new tool will utilize a financing mechanism that provides maximum revenue potential.

Expenditures of Revenue

3. The majority of the revenue produced by the tool will go to financing the physical infrastructure that is likely to increase private investment and employment within the value capture district. (Principle #4 discusses remaining revenues.)
4. A percentage of revenue will be set aside for affordable housing (rehabilitation, financing, and development costs) within the district and, if desired, to meet community goals for the conservation and support of rural working and resource lands.
5. This incentive will not be used for the purpose of relocating a business from areas within the state to the value capture district.

Affordable Housing/Social Equity

6. Jurisdictions using value capture tool will be required to set a target for a portion of all new residential units in the boundaries of the value capture district to meet affordability standards.
7. Displacement of affordable housing units and small businesses will be mitigated and assessed periodically.
8. Jurisdictions using the new financing tool will be encouraged to use innovative fair and equitable labor practices and required to meet existing requirements.

Location/Growth Management

9. The new financing tool will be available for use in urban areas designated as regional or countywide growth centers and/or areas with existing or planned frequent/high-capacity transit service and/or transit-supportive density (planned + existing).

Effectiveness

10. Regular reporting to the state will ensure transparency and effectiveness.
11. A new financing tool will not pay for the entire infrastructure, affordable housing, or other improvements necessary within a district. Therefore, the new tool should work in conjunction with existing infrastructure financing tools like the Local Infrastructure Financing Tool (LIFT), Local Revitalization Financing (LRF), Landscape Conservation and Local Infrastructure Program (LCLIP), and existing affordable housing incentives like the Multi-family Tax Exemption (MFTE).

Appendix A: Glossary of Terms

Assessed Value (AV) — The dollar value assigned to a property for purposes of measuring applicable taxes. Usually lower than true market value. This is a proxy for the amount of taxes/revenues that will be derived from a property.

Base — The amount of AV continuing to go to taxing jurisdictions other than the sponsor jurisdiction within a value capture district. Typically, the base AV is capped at the level for taxing jurisdictions in the year that the value capture district is established.

Bond — A certificate that acknowledges the indebtedness of the bond issuer to the holder. The holder of the bond is the lender (creditor), the issuer of the bond is the borrower (debtor).

Clawback — A recapture provision that allows a local government to get money back from a private company for failure to meet the intent for which the subsidy or incentive was provided.

Increment — The amount of AV above the base. With TIF, the increment goes to the TIF Authority.

Tax Levy — The amount of taxes to be collected to fund taxing districts' operations and amortize capital improvements. A levy is the projected spending minus aid from other governments and other local revenue. Usually a state has statutory restrictions on the levy rate.

Tax Liability — The amount of taxes owed on a property.

Tax Rate — Percentage or fixed dollar amount which is used to determine how much tax is owed. Tax rate is expressed in terms of dollars per $1,000 of assessed value. For a property with an AV of $100,000 at a tax rate of $1.00 the following equation would be used: $100,000/$1,000 x $1.00 = $100 tax liability.

TIF Authority — A city, town, county, or port tax district that has authority to create a TIF district. In most states this authority is delegated to a quasi-public agency that is authorized by the municipality to perform redevelopment or urban renewal functions.

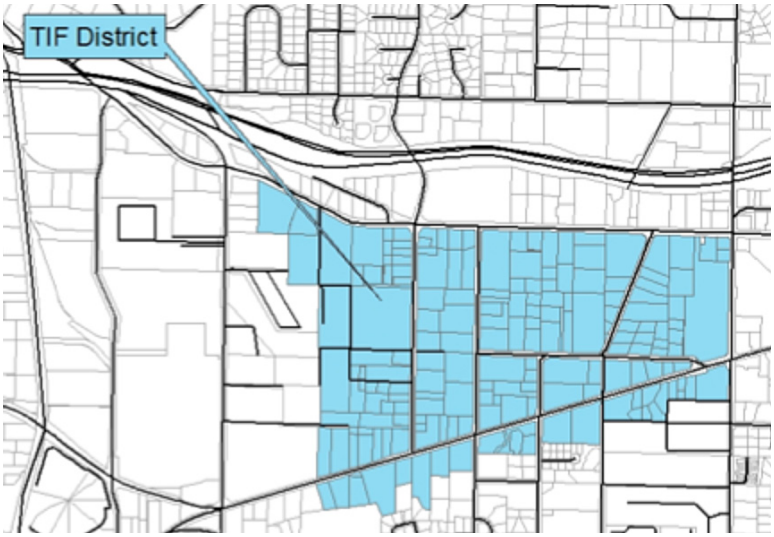
Sponsoring Local Government — A city, town, county responsible for establishing and administering a value capture financing district.

Appendix B: More About Tax Increment Financing

How TIF Works

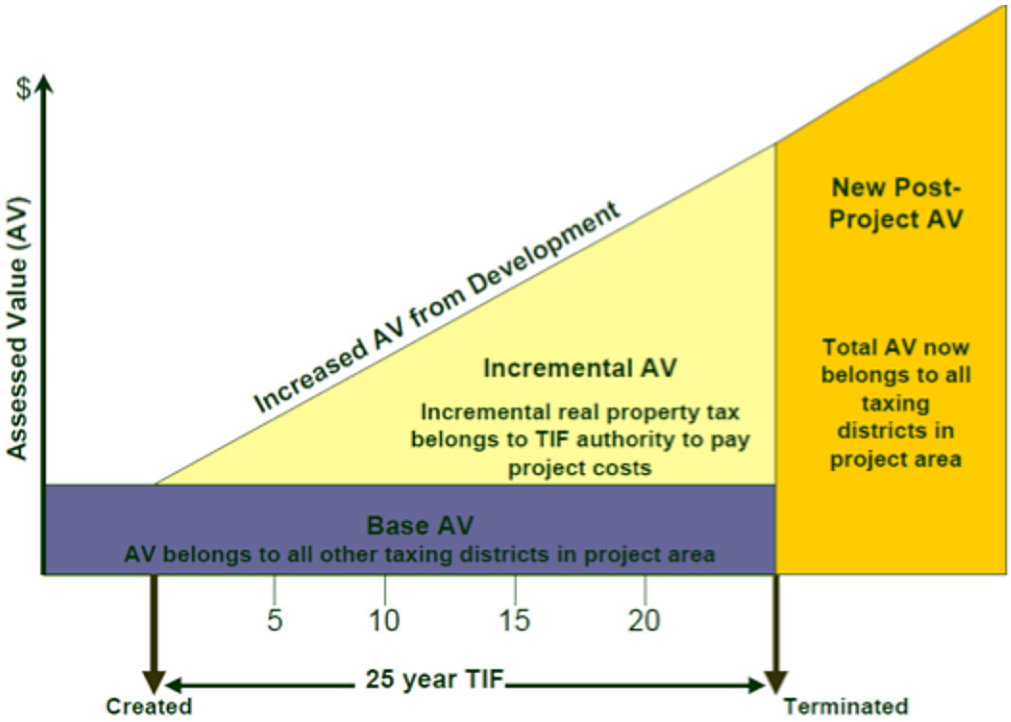
1. Determine **"TIF district"** — typically an urban area that would not receive new private development investments but for a public subsidy or investment (draw a boundary). An agreement from majority of property owners within boundary is usually required to start TIF.
2. Set **"base"** assessed value amount within the district. This is typically called the base year tax since it refers to the tax revenues at a particular point of time.

FIGURE 31: TIF DISTRICT EXAMPLE MAP



Source: PSRC

FIGURE 32: TIF REVENUE DIAGRAM



Source: National Association of Realtors

3. TIF authority and district is established (typical lifespan for TIF district is 25 years). Develop plan for public improvements.
4. Public improvements are made within the district. Typically, the improvements are debt financed (bonds are issued, to be repaid with TIF revenues).
5. New development takes place in the TIF district (benefiting from the new infrastructure) and property values increase.
6. TIF authority receives all property tax revenues over the "base" amount. A certain proportion of growth in assessed value may continue to be allocated to schools so as not to deprive them of needed increases in revenues as new development potentially attracts more students.
7. TIF expires after set time period (typically 25 or 30 years) and total assessed value now belongs to all taxing jurisdictions in TIF district. TIF authority may be dissolved.

A Brief History of TIF

TIF originated in California in 1952 in response to federal programs for urban renewal that required local matching funds. The use of TIF spread slowly through the 1970s when only a handful of states allowed the use of TIF. In the 1980s and 1990s, TIF use expanded to nearly every state as federal urban renewal funds declined drastically. The anti-property tax movement starting with Proposition 13 in California in 1978 also spurred the proliferation of TIF in the United States. One analyst documented the rise of TIF use during these times writing that, "TIF provides a way of supporting redevelopment projects without increasing taxes, without requiring a popular vote, and, usually, without impacting a city's debt limit or financial stability." During this time more states adopted TIF-enabling legislation and many states loosened requirements for using the tool given the lack of other financing sources for urban renewal. In the 1990s and 2000s the volume of TIF bond issuance dramatically increased.

Although every state has enabling legislation for TIF, except Arizona, the implementation and use of TIF varies. Some states have loosened requirements and limitations on TIF. In places like Atlanta and Portland the city has attempted to correct for gentrification in TIF districts by requiring that a portion of TIF revenues be used for the development of affordable housing in the district. California revised its TIF legislation in the 1970s to set aside 20% of TIF revenues for the production and preservation of affordable housing in TIF districts (and in some cases the entire city that contained the TIF district). Recently, California effectively ended the ability of municipalities to use TIF by dissolving the Urban Renewal Agencies — which are the designated TIF authority in that state (more information on this in the Lessons Learned and Innovative TIF Programs in Other States, page 43).

Common Arguments Against TIF

With the historic perspective on the use of TIF in mind, it is important to understand the perceived and real pitfalls of TIF. There has been much research on the pros and cons of TIF across the nation and this section will draw heavily on these resources. Many of the challenges and opposition to TIF apply generally to the use and misuse of TIF around the country and are therefore applicable to Washington.

A recent report from the U.S. Public Information Reasearch Group Education Fund, *Tax-Increment Financing: The Need for Increased Transparency and Accountability in Local Economic Development Subsidies*, Fall 2011, highlighted the most common arguments against TIF. Some common arguments, identified in that report and other sources, are summarized below:

- TIF diverts funds from important services like schools, parks, and cultural services.
- TIF is a subsidy for well-connected developers.
- TIF encourages urban sprawl because the definition of "blight" and the "but for" test is too permissive in most legislation.
- TIF lacks transparency.
- TIF often lacks accountability.
- TIF encourages gentrification/displacement since the financing is dependent on increasing property values.
- TIF is used for "retail raiding" where a city lures a company to move across the state or region to receive the incentive.
- Community opposition to being deemed a "blighted" community.
- Property owners often perceive TIF as a new tax.

Appendix C: Detailed Value Capture Tool Analysis — 130th Ave NE Case Study

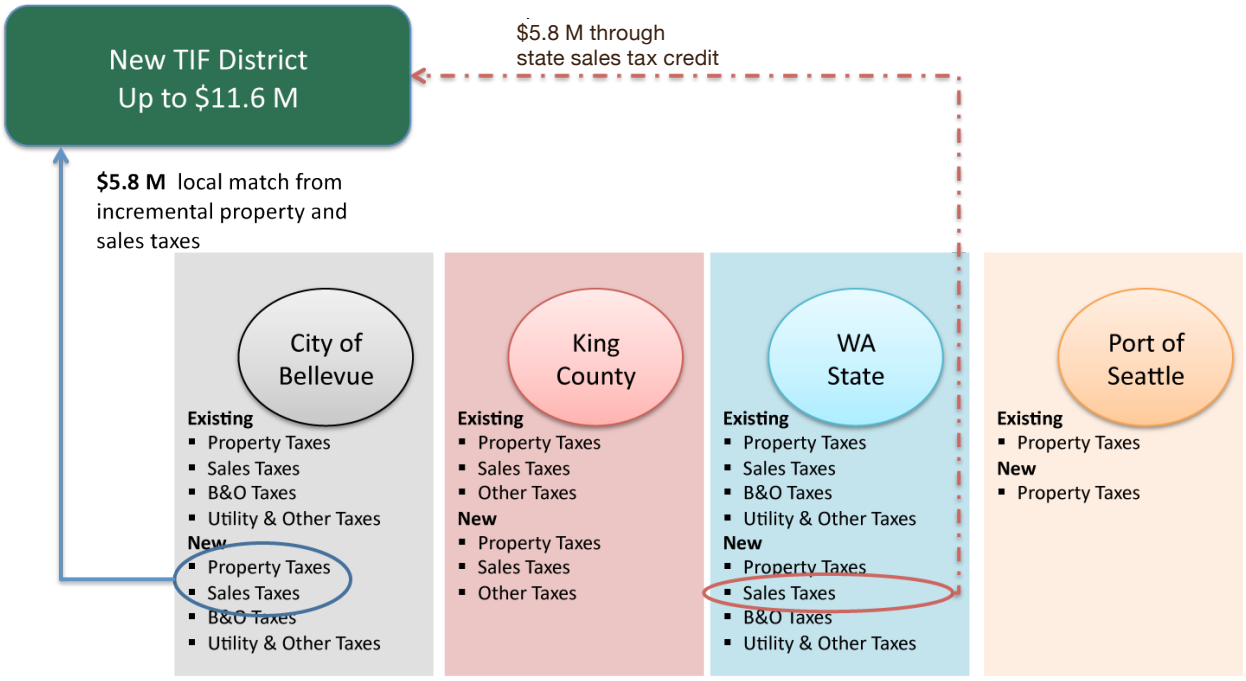
Local Revitalization Financing (LRF)

LRF is a form of TIF that allows local governments to allocate up to 75% of incremental growth on local property and sales tax revenues within a district in order to receive a state contribution of up to $500,000 annually over the life of the LRF (maximum of 25 years). The local property and sales taxes (up to 75% of incremental growth) must be used to fund improvements in the district to receive the state contribution. For example, if the award was for the maximum $500,000, the city would be required to match the state's $500,000 in the LRF district to receive the state contribution.

Key Assumptions of LRF for Case Study:

- *State Contribution:* Assumes that the state has funded this existing program (currently not funded). Also assumes full state contribution of $500,000 per year over 25 years.
- *Participation of other taxing districts:* Assumes that county general expense property tax and sales tax are not included.
- *Property tax allocation value:* Assumes the full 75% of incremental increase in assessed value is dedicated for improvements within the case study area (in order to quickly maximize the state contribution).

FIGURE 33: LRF REVENUE POTENTIAL IN 130TH AVE NE STATION AREA



Note: Revenues in table above are 25-year present values in 2012 dollars using a 5.0% discount rate

LRF BENEFITS	LRF DRAWBACKS
Could be modified to include affordable housing requirements.	Provides lesser potential revenues than CRFA and Traditional TIF.
Could be modified to prioritize use in transit station areas.	No current provisions for affordable housing or TOD priority.
Existing tool — passed by Legislature.	Currently not funded by the state.
	Does not require land conservation (TDRs).

Landscape Conservation and Local Infrastructure Program (LCLIP)

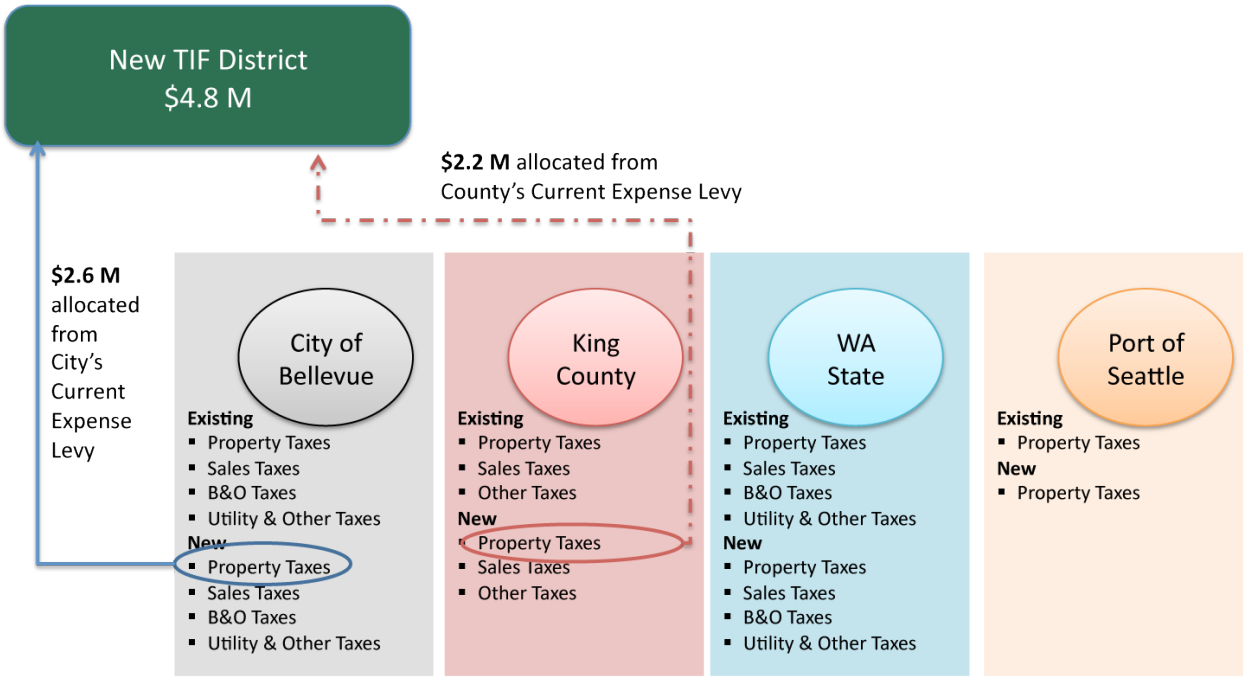
LCLIP allows the use of TIF for cities with population plus employment over 22,500 in the central Puget Sound region (available in King, Pierce, and Snohomish counties) contingent on accepting an allocated portion of transferable development rights (TDR). A minimum threshold of TDR (one quarter of allocation) must be used in order to begin accessing the TIF. In later years, more of the allocated TDRs must be accepted from the county in order to access the TIF for the full 25 years. The TIF draws only from city and county property tax revenues. Similar to LRF, with LCLIP, the city is able to capture 75% of the incremental increase in assessed value of all property in the district. However, this tool does not allow for a state contribution.

Key Assumptions of LCLIP for Case Study:

- *County funds:* The county is required to participate (i.e., allocate incremental revenues to the case study area). Assumes 75% of county general expense property tax increment and 75% of incremental city property tax within district will be allocated to LCLIP district.

- *Property tax allocation value:* Assumes the full 75% of incremental increase in assessed value is dedicated for improvements within the case study area.
- *City-specified portion and sponsoring ratio:* Assumes that the city will accept 100% of its specified allocation of TDR credits (i.e., purchase the TDR and sell them to the private market or take on the added cost of the TDR). In order to maximize the allocation of county property tax revenues the city is assumed to place 100% of its specified portion. In other words, the city will find some way to meet programmatic TDR thresholds. Additionally, the model does not assume any cost to the city for taking on the allocated TDR.

FIGURE 34: LCLIP REVENUE POTENTIAL IN 130TH AVE NE STATION AREA



Note: Revenues in table above are 25-year present values in 2012 dollars using a 5.0% discount rate

LCLIP BENEFITS	LCLIP DRAWBACKS
Could be modified to include affordable housing requirements.	Lowest potential revenue of all TIF tools.
Could be modified to prioritize use in transit station areas.	No current provisions for affordable housing or TOD priority.
Existing tool — passed by Legislature.	Only available in central Puget Sound region.
Requires land conservation (TDRs).	Cost of securing regionally allocated TDRs imposed on city and/or developer.

Community Revitalization Act of 2011 (CRFA)

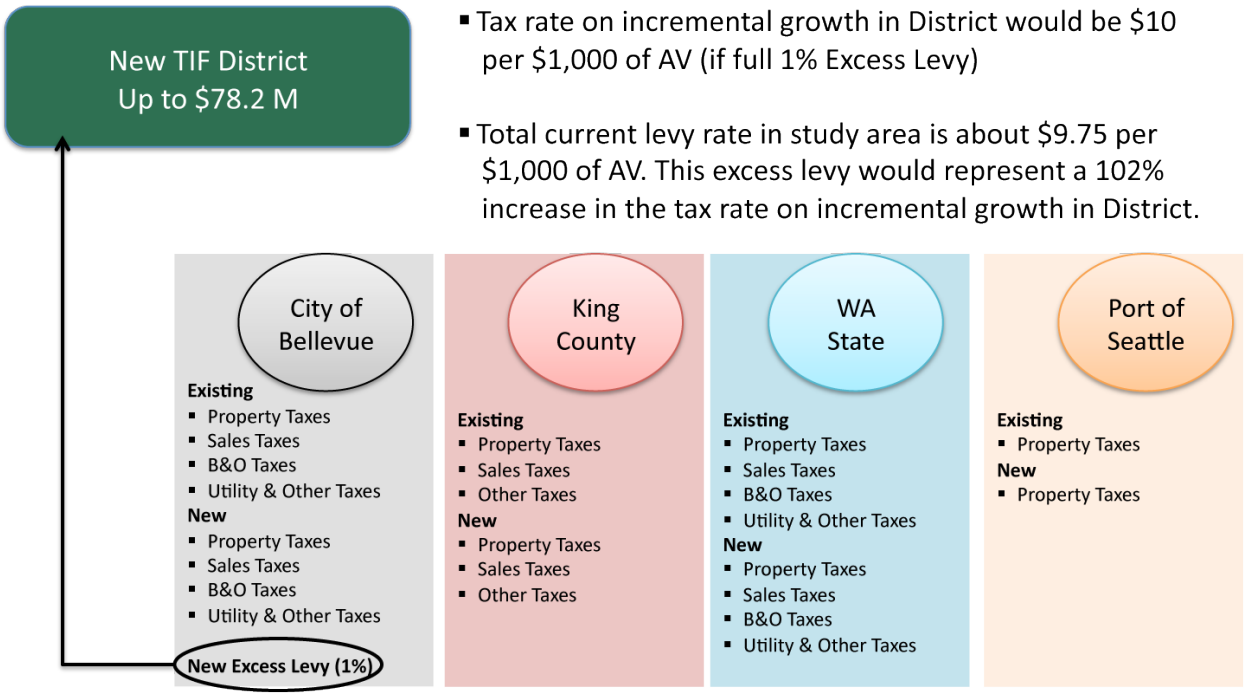
The CRFA functions the least like traditional TIF of any tools analyzed. In fact, the CRFA functions more like a Local Improvement District (LID) where property owners elect to tax themselves in order to finance the cost of infrastructure improvements in the area that are passed on from the

city to developers. The proposed legislation would allow an excess levy on property owners within a district of up to 1% of the incremental growth of assessed value above a base value. The bill was proposed in 2011 and did not pass.

Key Assumptions of CRFA for Case Study:

- *Legal Issues:* Assumes that a required constitutional amendment was passed to allow for an excess levy to exceed the constitutional limit of 1% over a previous years levy (see Article 7, Section 2 of the Washington State Constitution and RCW 84.52.050).
- *Maximum leverage:* The assessed value within the case study area is frozen once the district is formed in 2015. Any increases to the base and from new development are assessed a full 1% excess levy.

FIGURE 35: CRFA REVENUE POTENTIAL IN 130TH AVE NE STATION AREA



Note: Revenues in table above are 25-year present values in 2012 dollars using a 5.0% discount rate

CRFA BENEFITS	CRFA DRAWBACKS
Could be modified to include affordable housing requirements.	New tax on property owners in district. Because property owners are agreeing to a new tax it is less likely to be politically feasible to allow funds to go toward affordable housing or other social benefits.
Could be modified to prioritize use in transit station areas.	No current provisions for affordable housing or TOD priority.
Provides largest revenue potential.	Does not require land conservation (TDRs).
	Not existing or legal. Legislation and constitutional amendment are required.

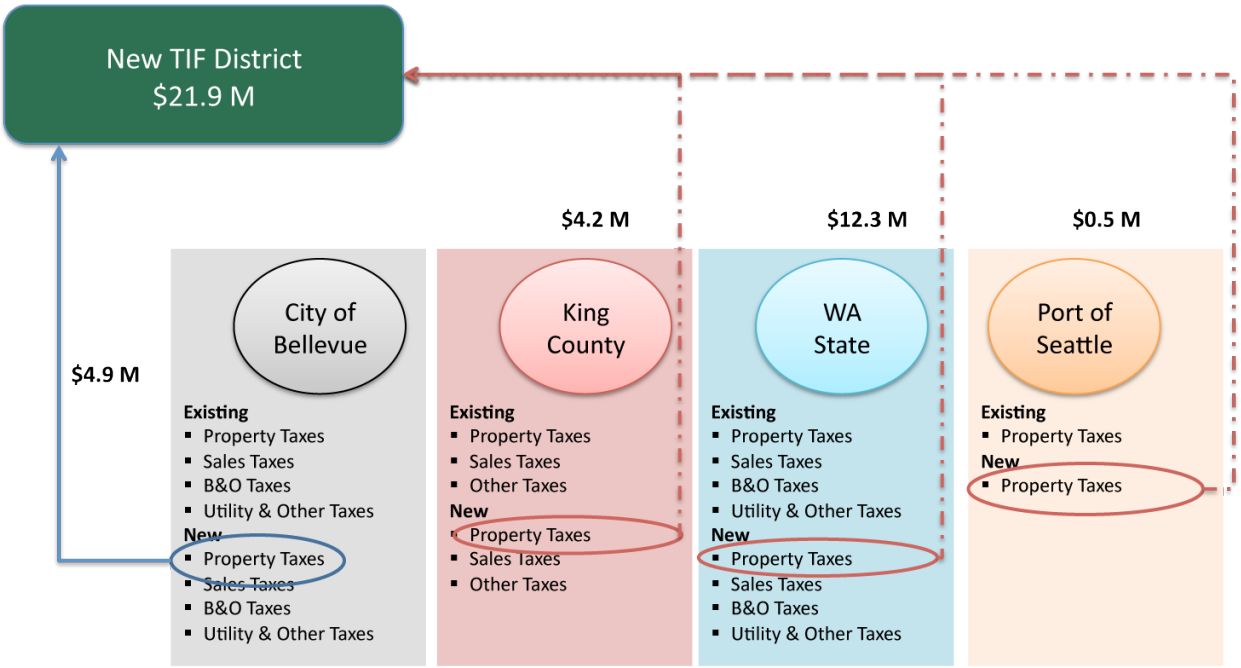
Traditional TIF

Traditional TIF allows for a local government to capture the increased property tax revenues that stem from rising property values after infrastructure investments are made in a district. In most states, once a TIF district is established, the base assessed value is frozen and any property tax revenues generated from increases to assessed value over the base accrue to the district. This implies that all taxing districts would receive no additional property tax revenues beyond what is generated from the base prior to the district being established. Traditional TIF is currently not available in Washington and was ruled unconstitutional by the Washington State Supreme Court in 1995 after the City of Spokane used the original Community Revitalization Act (of 1982). The Court ruled that the Traditional TIF violated article 9, section 2, of the State Constitution.

Key Assumptions of Traditional TIF for Case Study:

- *Legal Issues:* Assumes that a required constitutional amendment was passed to allow for taxing properties within a jurisdiction at different rates.
- *Maximum leverage:* The assessed value within the case study area is frozen once the district is formed in 2015. Any increases to the base and from new development are allocated to the TIF district.
- *Participation of other taxing districts:* All other current expense levies (state, county, and port) are allocated to the TIF district. Excess and special district levies are assumed to not be allocated to the TIF district.
- *Property tax allocation value:* Assumes 100% of any incremental increase in assessed value is dedicated for improvements within the case study area.

FIGURE 36: TRADITIONAL TIF REVENUE POTENTIAL IN 130TH AVE NE STATION AREA



Note: Revenues in table above are 25-year present values in 2012 dollars using a 5.0% discount rate

TRADITIONAL TIF BENEFITS	TRADITIONAL TIF DRAWBACKS
Could include affordable housing, prioritization of transit station areas or TDR requirements.	Legislation and constitutional amendment are required to use. This tool was specifically ruled unconstitutional.
Provides second largest revenue potential.	

Limitations of the Value Capture Financing Tool Analysis

The value capture financing case study model provides only one portion of a full analysis and should not be viewed without consideration of political and social impacts of the different value capture tools.

Case study area: The 130th Ave NE light rail station represents only one potential area of many across the region and the state. 130th Ave NE and the majority of the Bel-Red Corridor are anticipated to experience high levels of redevelopment due to coming light rail investments. This type of broad scale redevelopment is not necessarily the same magnitude or type of development that may occur in other potential value capture districts.

Size of TIF District: Each value capture tool analyzed was developed with different limitations on the size and number of districts available to a city. A city implementing a tool that can extend beyond the boundaries used in this case study may find additional benefits in doing so. This is particularly true in the comparison of LCLIP to LRF. The LRF is limited to a set amount of state contribution per year provided local taxes match or exceed the amount of the state contribution. In the LCLIP, the city can capture county property taxes with no set limit per year. Therefore, a larger district would maximize the LCLIP's potential for revenue.

Financial Situation of Bellevue: The City of Bellevue has a different budget and financial approach than other areas of the region or state. Thus the outcome of the value capture model in other locations may vary. However, by keeping the geography the same for the analysis of all the value capture tools considered, this limitation is somewhat controlled.

Cost Implications: The model does not account for costs to cities or developers for the various tools. However, two of the tools do add specific costs. CRFA is a new tax that would be borne by property owners in the district for the life of the district. The LCLIP program requires the purchase of Transfer of Development Rights, which could be borne by either developers or the city, or a combination of the two.

Using Value Capture in conjunction with Multi-family Property Tax Exemption (MFTE): Value capture financing, by design, captures increases in property tax values in an area. When value capture financing is used concurrently with property tax exemptions, the revenue potential for a city goes down. This could reduce the revenue potential of all tools equally. In this case study, when half the residential development was projected to receive the maximum length of the MFTE (12 years) the revenue potential shrank for each tool, except the LRF (which relies on local property and sales taxes to meet a threshold of $500,000 increase each year of the value capture tool to receive the state's sales tax credit). The maximum value capture tool leverage is compared in Figure 37 on the next page with and without the MFTE (with the MFTE assuming that half the residential units built over the 25 year value capture district are exempt for 12 years).

FIGURE 37: VALUE CAPTURE TOOLS AND THE MULTIFAMILY PROPERTY TAX EXEMPTION (MFTE)

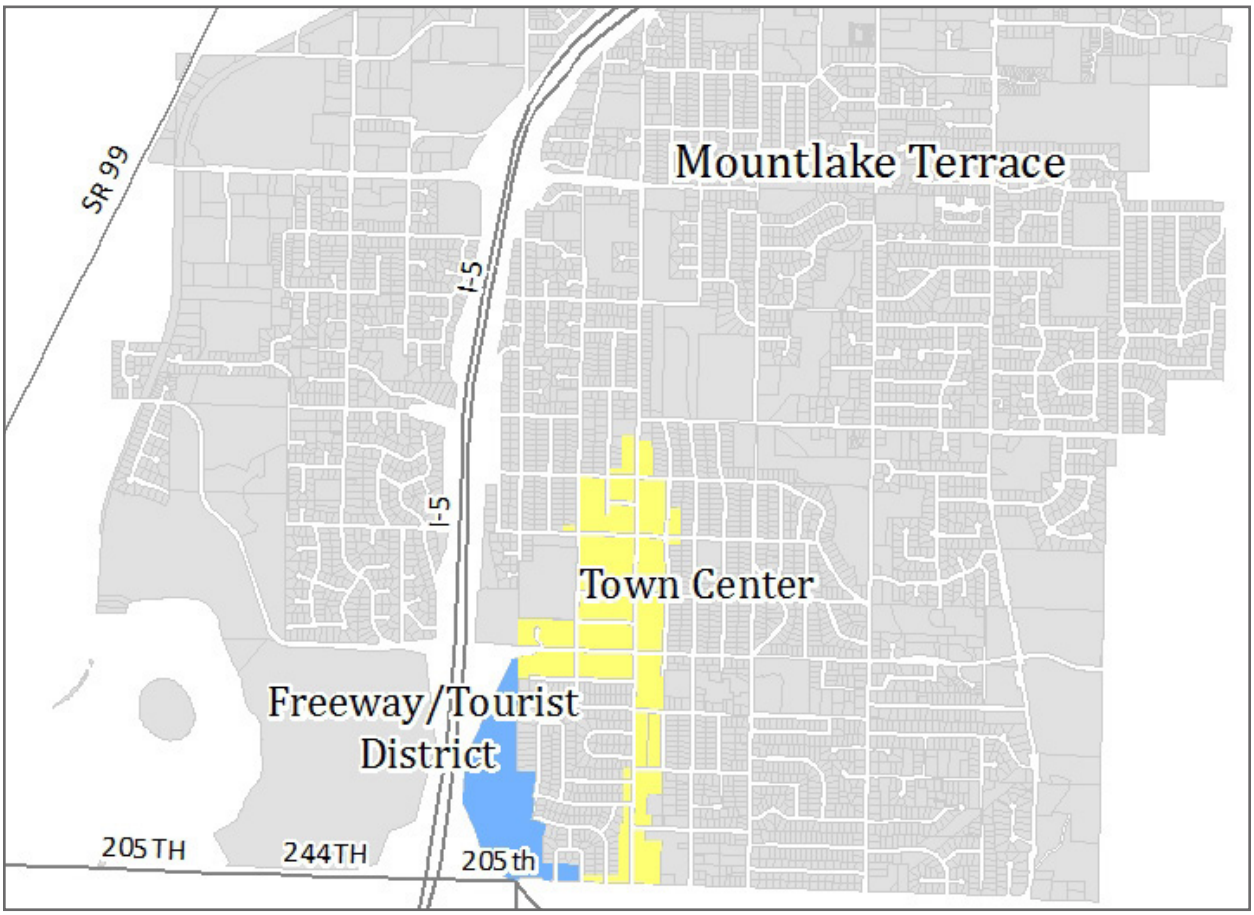
VALUE CAPTURE-TOOL	VALUE CAPTURE TOOL LEVERAGE WITHOUT MFTE	VALUE CAPTURE TOOL LEVERAGE WITH MFTE	% DECREASE
LRF	$11.6 Million	$11.6 Million	0%
LCLIP	$4.8 Million	$3.3 Million	31%
CRFA	$78.2 Million	$61.5 Million	21%
Traditional TIF	$21.9 Million	$17 Million	22%

Note: Revenues in table above are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

Appendix D: Mountlake Terrace Freeway Tourist District And Town Center Case Study

FIGURE 38: CITY OF MOUNTLAKE TERRACE FREEWAY/TOURIST DISTRICT AND TOWN CENTER MAP



Source: PSRC and City of Mountlake Terrace

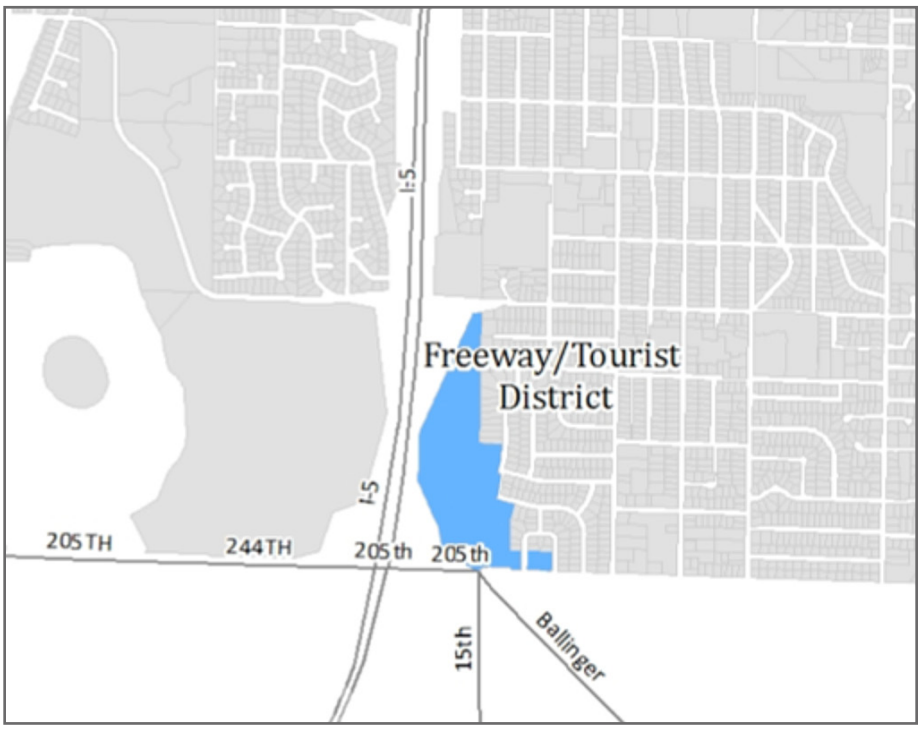
Town Center

In 2007 Mountlake Terrace adopted the Town Center Plan with a vision to transform the area into a more pedestrian-oriented mixed use center.[100] The adopted plan includes improvements to the streetscape, making sidewalks wider and more comfortable for pedestrians, and additions of park space. Land uses adopted in the plan include a mix of residential, retail and services. Potential heights in the center and most intensive section of the area can reach as high as seven stories.[101] Mountlake Terrace Transit Center is a short walk from the Town Center.

Freeway/Tourist District

A Final Environment Impact Statement (FEIS) was completed in December 2012 to evaluate environmental impacts of a No Action Alternative and a Proposed Alternative/Proposed Action that would amend the Mountlake Terrace zoning code to provide modified heights and construct a new road improvement within the Freeway/ Tourist District. The proposed action would allow developers to build higher in return for purchasing Transfer of Development Rights (TDR) and or using Low-Impact Development techniques. Potential development could bring significant growth in over a 13-year period.[102] Currently the area has limited development, in part because much of the area is not accessible by roads. The Mountlake Terrace Transit Center is located just north of the Freeway/Tourist District and will include a light rail stop by 2023.[103]

FIGURE 39: CITY OF MOUNTLAKE TERRACE FREEWAY/TOURIST DISTRICT MAP



Source: PSRC and City of Mountlake Terrace

Study Sites

Due to the implementation characteristics of the Community Revitalization Act (CRFA) the Freeway/Tourist District was chosen to evaluate CRFA. CRFA is not likely to be implemented in areas as large as LRF, LCLIP and traditional TIF since CRFA is an additional property tax and more than 50% of property owners must agree to the additional tax to be implemented. Additionally, for those reasons, it is unlikely the tool could be implemented in areas characterized by areas designated for single family or similarly low density land uses. The Freeway/Tourist District is characterized by few single family homes and fewer property owners. Figure 38 shows the study area for VCF

tools, LRF, LCLIP and Traditional TIF. Figure 39 displays the smaller Freeway/Tourist District study area for CRFA, which constitutes only about 2% of the total assessed value in Mountlake Terrace. Together, both the Freeway/Tourist District and Town Center make up about 6% of the total assessed value in Mountlake Terrace.

Development Assumptions

Value Capture Finance tools LRF, LCLIP and traditional TIF were applied to both the Town Center and Freeway/Tourist District. Figure 40 shows the planned residential, retail and office growth between 2015 and 2040 for both Town Center and Freeway/Tourist District. The CRFA value capture financing tool was applied to all properties in the Freeway/Tourist District. Figure 41 shows the planned residential, retail and office growth between 2015 and 2040 for the Freeway/Tourist District. While the analysis uses the development forecast for the Freeway/Tourist District and Town Center planning areas for modeling purposes, the model uses a generalized development scenario that is not calibrated to Mountlake Terrace-specific incentives and fees.

FIGURE 40: GROWTH ASSUMPTIONS FOR FREEWAY/TOURIST DISTRICT AND TOWN CENTER DISTRICT COMBINED

Housing	1,655 units*
Net New Retail	361,700 sq ft
Net New Office	1,715,960 sq ft

*Total Residential Square Footage estimated at 1,121,750.

PSRC and City of Mountlake Terrace

FIGURE 41: GROWTH ASSUMPTIONS FOR FREEWAY/TOURIST DISTRICT ALONE

Housing	373 units*
Net New Retail	45,000 sq ft
Net New Office	755,000 sq ft

* Total Residential Square Footage estimated at 326,375.

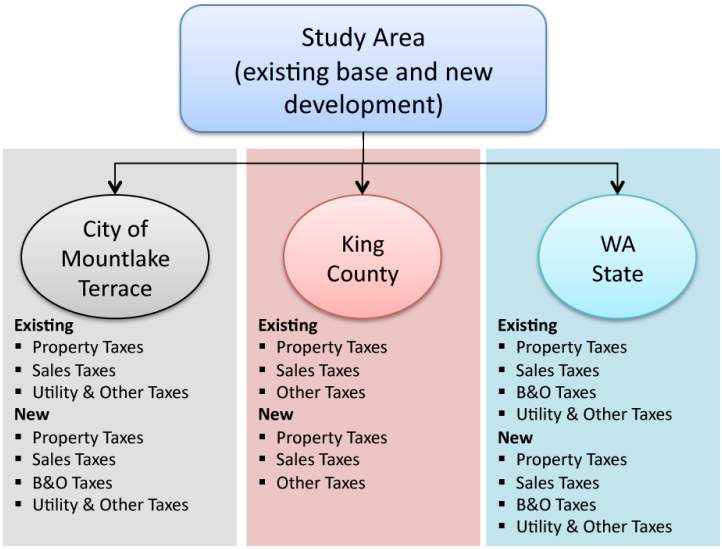
PSRC and City of Mountlake Terrace

Tax Revenue From Growth

The value capture financing model was designed to analyze future theoretical tax revenues that would accrue to state and local governments as a result of the proposed development program within the study areas in Mountlake Terrace. Figure 42 identifies the tax revenues by taxing jurisdiction that are available within the case study area.

For most value capture tools (except special assessment districts, like CRFA) the potential revenue available to fund improvements in a value capture district is limited to the maximum tax revenues from development. The revenues projected from the growth assumptions are defined in Figure 43 and Figure 44.

FIGURE 42: EXISTING AND POTENTIAL NEW TAX REVENUE SOURCES IN FREEWAY/TOURIST DISTRICT AND TOWN CENTER



* Development also impacts other taxing districts such as Library. The VCF model projects these revenues, but the VCF tools likely would not use these to fund infrastructure.

Source: PSRC and City of Mountlake Terrace

Again, these represent the potential gross incremental revenues (total incremental revenues) available for capture, not what is actually captured from the various tools (see Figure 45 for the actual revenue potential for the tools).

FIGURE 43: TOTAL INCREMENTAL REVENUES RESULTING FROM DEVELOPMENT, BY JURISDICTION AND SOURCE FOR TOWN CENTER AND FREEWAY/TOURIST DISTRICT COMBINED

REVENUE SOURCE	CITY	COUNTY	STATE	PORT	OTHER DISTRICTS	TOTAL
Property Taxes	$5,200	$7,200	$9,500	N/A	$31,600	$53,500
Sales Tax on Construction	$3,700	$3,700	$23,900	N/A	$3,300	$34,600
Ongoing Sales Tax	$18,300	$18,300	$118,900	N/A	$16,500	$172,000
B&O on Construction	–	N/A	$6,600	N/A	N/A	$6,600
Ongoing B&O Tax	–	N/A	$105,300	N/A	N/A	$105,300
Utility Taxes	$2,000	N/A	$700	N/A	N/A	$2,700
Total Incremental Revenues	**$29,200**	**$29,200**	**$264,900**	**–**	**$51,400**	**$374,700**

Notes: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.
Not applicable to CRFA because uses a different study area.

Source: BERK

FIGURE 44: TOTAL INCREMENTAL REVENUES RESULTING FROM DEVELOPMENT, BY JURISDICTION AND SOURCE FOR FREEWAY/TOURIST DISTRICT ALONE

REVENUE SOURCE	CITY	COUNTY	STATE	PORT	OTHER DISTRICTS	TOTAL
Property Taxes	$2,800	$3,900	$5,100	N/A	$16,700	$28,500
Sales Tax on Construction*	$1,700	$1,700	$11,300	N/A	$1,600	$16,300
Ongoing Sales Tax*	$5,100	$5,100	$33,300	N/A	$4,600	$48,100
B&O on Construction**	–	N/A	$3,100	N/A	N/A	$3,100
Ongoing B&O Tax**	–	N/A	$85,600	N/A	N/A	$85,600
Utility Taxes	$1,200	N/A	$400	N/A	N/A	$1,600
Total Incremental Revenues	**$10,800**	**$10,700**	**$138,800**	**–**	**$22,900**	**$183,200**

Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

Findings

Figure 45 shows that the CRFA tool has the most revenue potential in Mountlake Terrace's planning areas, despite the smaller district size from which revenues are generated.

FIGURE 45: VALUE CAPTURE TOOL LEVERAGE IN MOUNTLAKE TERRACE'S FREEWAY/TOURIST AND TOWN CENTER DISTRICT — NEW ALLOCATED REVENUES TO SPONSORING JURISDICTION (all dollar figures in thousands)

VALUE CAPTURE TOOL	MINIMUM ALLOCATED REVENUES NECESSARY TO MAX VCF LEVERAGE	NEW ALLOCATED REVENUES BY SOURCE					TOTAL VCF TOOL LEVERAGE	LEVER. RATIO	% OF TOTAL REVENUES CAPTURED	REVENUE SOURCE
		CITY	COUNTY	STATE	PORT	OTHER DIST.				
LRF	$5,800	N/A	–	$5,800	N/A	N/A	$11,600	2	3%	State Sales Tax Credit
LCLIP	$3,900	N/A	$2,200	N/A	N/A	N/A	$9,300	2.38	2%	Country Property Taxes
CRFA*	–	$37,200	–	N/A	–	N/A	$37,200	N/A	20%	1% Excess Levy
Traditional TIF	$5,700	N/A	$4,200	$12,300	$500	–	$24,100	4.23	6%	Property Taxes

* CRFA is based on the smaller Freeway Tourist District only and does not assume any revenues from the Town Center.
Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

Appendix E: Tacoma South Downtown and Dome District Case Study

South Downtown Tacoma Subarea

South Downtown Tacoma anticipates significant growth in the next 20 to 30 years, aided by the expansion of the University of Washington Tacoma campus. The 2008 University of Washington Tacoma Campus Master Plan estimates nearly doubling the number of current employees and tripling the number of student enrolled by 2018.[104] Current planning efforts build on previous plans to continue the revitalization of downtown, create transit-oriented neighborhoods, and connect cultural resources.[105] Efforts include an area-wide SEPA process to pre-approve 30 million square feet of new development space to encourage new development and streamline the environmental review process.[106] South Downtown Tacoma is served by significant transit infrastructure, the Sounder, a commuter rail line running from Tacoma to Everett, and the Tacoma Link, a 1.6-mile street car. Cultural and event centers are located in the South Downtown Tacoma subarea, including the Tacoma Dome and the Museum of Glass.

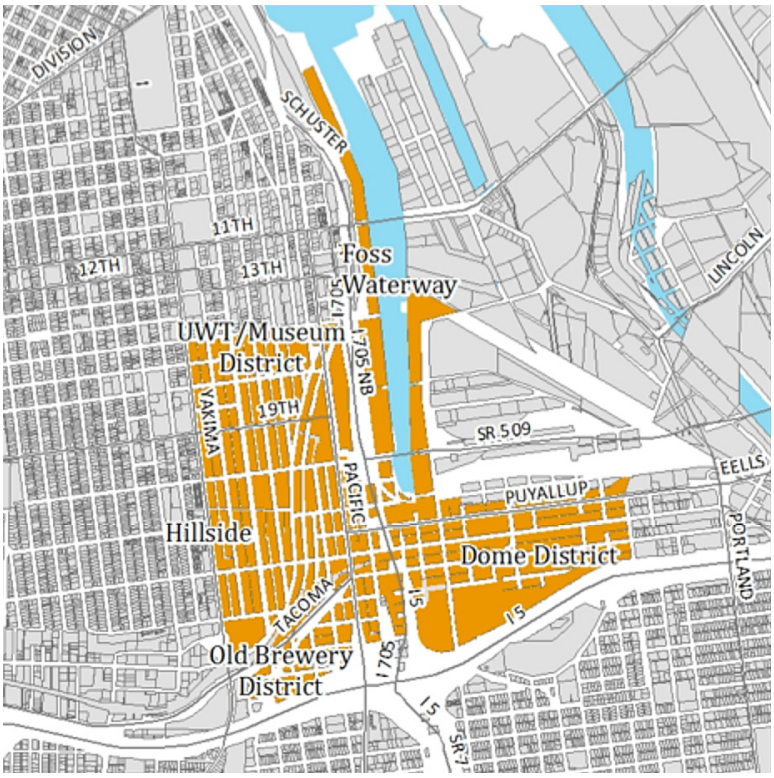
Dome District

Planning for the Dome District supports a "transit rich walkable neighborhood." [107] The Tacoma Dome District Development Strategy Update was completed in 2008 and forwards a mix of housing, retail and services, while maintaining the important industrial uses nearby. Building heights could reach as high 225 feet surrounding the Tacoma Dome and 75 feet towards the water front and north end of the district.

Study Sites

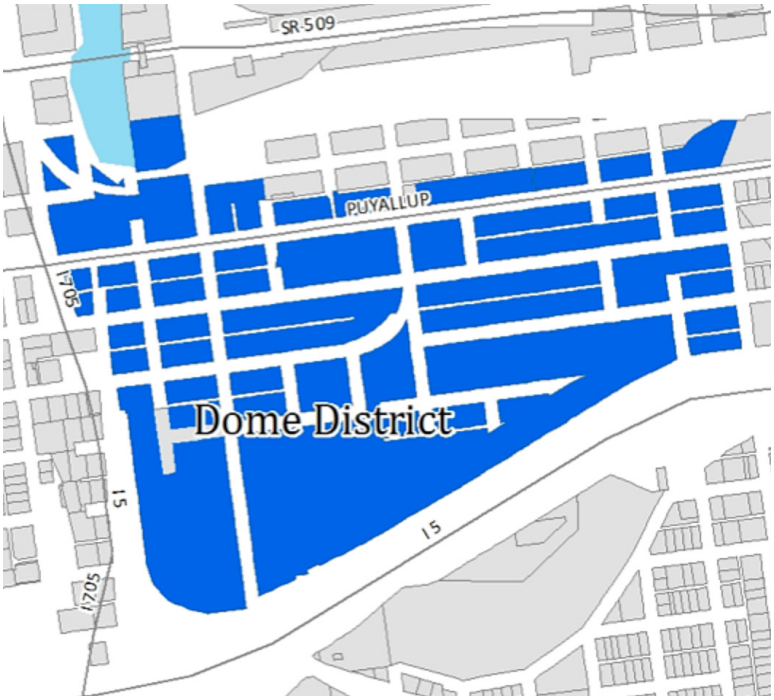
Due to the implementation characteristics of the Community Revitalization Act (CRFA) the Dome District was chosen to evaluate CRFA. CRFA is not likely to be implemented in areas as large as LRF, LCLIP and traditional TIF since CRFA is an additional property tax and more than 50% of property owners must agree to the additional tax to be implemented. Additionally, for those reasons, it is unlikely the tool could be implemented in areas predominantly zoned for single family homes. The Dome District chosen to study the results of the CRFA tool is characterized by few single family homes and fewer property owners. Figure 46 shows the study area for VCF tools, LRF, LCLIP and Traditional TIF. Figure 47 displays the study area for CRFA. Note within the CRFA study area the additional 1% tax was applied only to properties that are most likely to redevelop as determined in the Tacoma Dome District Development Strategy

FIGURE 46: CITY OF TACOMA'S SOUTH DOWNTOWN SUB-AREA MAP



Source: PSRC and City of Tacoma

FIGURE 47: CITY OF TACOMA'S DOME DISTRICT MAP



Source: PSRC and City of Tacoma

Update and discussions with a consultant group working on the South Downtown Subarea plan.[108] The selected properties for the analysis in the Dome District constitute only about .5% of the total assessed value in Tacoma. The entire South Downtown study area, which includes the Dome District, makes up about 4% of the total assessed value in Tacoma.

Development Assumptions

Value Capture Finance tools LRF, LCLIP and traditional TIF were applied to the entire South Downtown Tacoma Subarea. Figure 48 shows the planned residential, retail and office growth between 2015 and 2040 for the entire South Downtown Subarea. The CRFA value capture financing tool was applied to redevelopable properties in the Tacoma Dome District. Figure 49 shows the planned residential, retail and office growth between 2015 and 2040 for the Tacoma Dome District. Assumptions for both the entire South Downtown Tacoma Subarea and Tacoma Dome District were based on projected growth in the area following logical cycles of development in conjunction with possible infrastructure improvements. Figure 51 and Figure 52 show the available tax revenues for capture, not what is actually captured from the various tools (See Figure 53 for the actual revenue potential for the tools). While the analysis uses the development forecast for the South Downtown Subarea and Dome District planning areas for modeling purposes, the model uses a generalized development scenario that is not calibrated to Tacoma-specific incentives and fees.

FIGURE 48: GROWTH ASSUMPTIONS FOR SOUTH DOWNTOWN AND DOME DISTRICT COMBINED

Housing	8,464 units*
Net New Retail	2,565,000 sq ft
Net New Office	4,663,000 sq ft

* Total residential square footage is 7,406,000.

Source: PSRC and City of Tacoma

FIGURE 49: GROWTH ASSUMPTIONS FOR DOME DISTRICT ALONE

Housing	3,305 units*
Net New Retail	1,487,000 sq ft
Net New Office	751,704 sq ft

* Total residential square footage is 2,891,875.

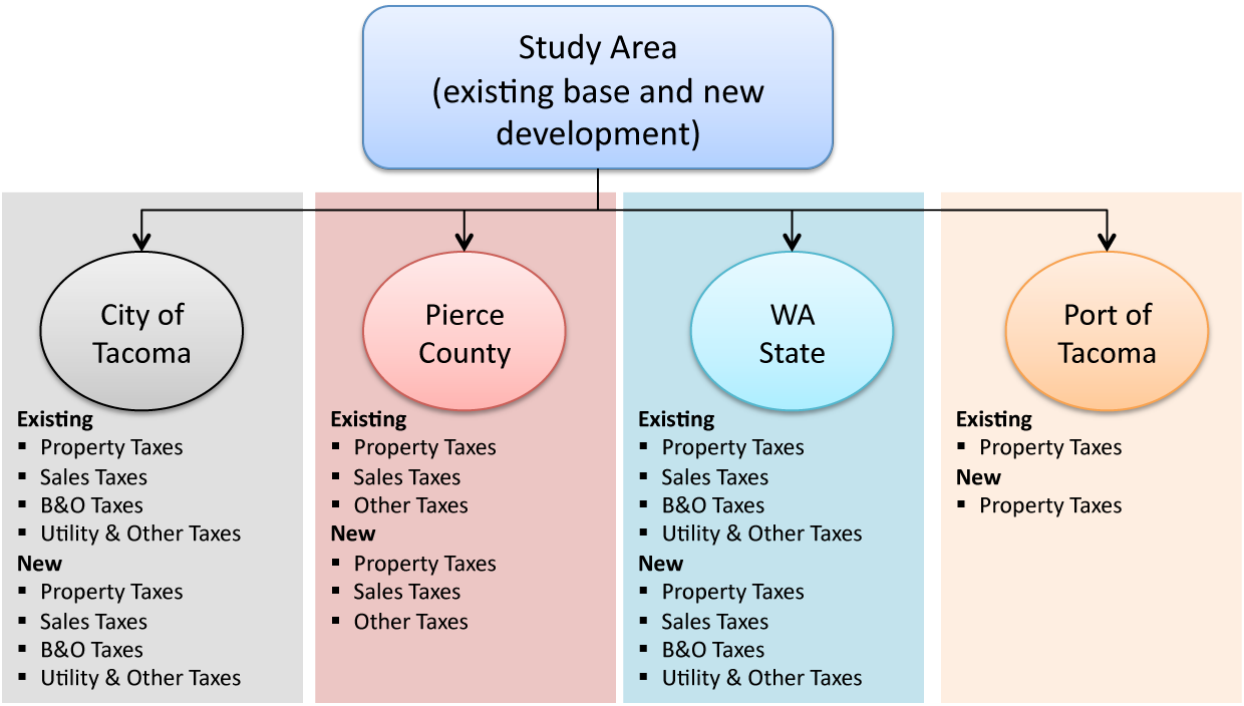
Source: PSRC and City of Tacoma

Tax Revenue From Growth

The value capture financing model was designed to analyze future theoretical tax revenues that would accrue to state and local governments as a result of the proposed development program within the study areas in Tacoma. Figure 50 identifies the tax revenues by taxing jurisdiction that are available within the case study area.

For most value capture tools (except special assessment districts, like CRFA) the potential revenue available to fund improvements in a value capture district is limited to the maximum tax revenues from development. The revenues projected from the growth assumptions are defined in Figure 51 and Figure 52. Again, these represent the potential gross incremental revenues (total incremental revenues) available for capture, not what is actually captured from the various tools (see Figure 53 for the actual revenue potential for the tools).

FIGURE 50: EXISTING AND POTENTIAL TAX REVENUES IN SOUTH DOWNTOWN AND DOME DISTRICT



* Development also impacts other taxing districts such as PC Flood, EMS, PC Ferry, etc. The VCF model projects these revenues, but the VCF tools likely would not use these to fund infrastructure.

Source: PSRC and City of Tacoma

FIGURE 51: TOTAL INCREMENTAL REVENUES RESULTING FROM DEVELOPMENT BY JURISDICTION AND SOURCE FOR SOUTH DOWNTOWN AND DOME DISTRICT COMBINED

REVENUE SOURCE	CITY	COUNTY	STATE	PORT	OTHER DISTRICTS	TOTAL
Property Taxes	$35,100	$22,000	$28,600	$2,200	$158,200	$246,100
Sales Tax on Construction	$16,900	$22,900	$129,300	N/A	$17,900	$187,000
Ongoing Sales Tax	$76,500	$103,400	$584,700	N/A	$81,000	$845,600
B&O on Construction	$12,200	N/A	$35,800	N/A	N/A	$48,000
Ongoing B&O Tax	$89,200	N/A	$264,100	N/A	N/A	$353,300
Utility Taxes	$19,700	N/A	$8,500	N/A	N/A	$28,200
Total Incremental Revenues	**$249,600**	**$148,300**	**$1,051,000**	**$2,200**	**$257,100**	**$1,708,200**

Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

FIGURE 52: TOTAL INCREMENTAL REVENUES RESULTING FROM DEVELOPMENT BY JURISDICTION AND SOURCE FOR DOME DISTRICT ALONE

REVENUE SOURCE	CITY	COUNTY	STATE	PORT	OTHER DISTRICTS	TOTAL
Property Taxes	$10,800	$6,700	$8,800	$700	$48,300	$75,300
Sales Tax on Construction	$5,800	$7,900	$44,600	N/A	$6,200	$64,500
Ongoing Sales Tax	$22,700	$30,700	$173,400	N/A	$24,000	$250,800
B&O on Construction	4200	N/A	$12,400	N/A	N/A	$16,600
Ongoing B&O Tax	32300	N/A	$95,600	N/A	N/A	$127,900
Utility Taxes	$6,500	N/A	$2,800	N/A	N/A	$9,300
Total Incremental Revenues	**$82,300**	**$45,300**	**$337,600**	**$700**	**$78,500**	**$544,400**

Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

Findings

Figure 53 shows that the CRFA tool has the most revenue potential in Tacoma's planning areas, despite the smaller district size from which revenues are generated.

FIGURE 53: VALUE CAPTURE TOOL LEVERAGE IN TACOMA'S SOUTH DOWNTOWN AND DOME DISTRICT — NEW ALLOCATED REVENUES TO SPONSORING JURISDICTION (all dollar figures in thousands)

VALUE CAPTURE TOOL	MINIMUM ALLOCATED REVENUES NECESSARY TO MAX VCF LEVERAGE	NEW ALLOCATED REVENUES BY SOURCE					TOTAL VCF TOOL LEVERAGE	LEVER. RATIO	% OF TOTAL REVENUES CAPTURED	REVENUE SOURCE
		CITY	COUNTY	STATE	PORT	OTHER DIST.				
LRF	$5,800	N/A	–	$5,800	N/A	N/A	$11,600	2	1%	State Sales Tax Credit
LCLIP	$26,300	N/A	$2,200	N/A	N/A	N/A	$42,800	1.63	3%	Country Property Taxes
*CRFA	–	$78,200	–	N/A	–	N/A	$60,100	N/A	11%	1% Excess Levy
Traditional TIF	$38,300	N/A	$4,200	$12,300	$500	–	$95,700	2.5	6%	Property Taxes

* CRFA is based on the smaller Tacoma Dome District only and does not assume any revenues from the larger South Downtown Area.

Note: Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

Source: BERK

Endnotes

1 Projections based on development assumptions created by PSRC in conjunction with city staff and inputted into value capture model developed by BERK. Revenues are 25-year present values in 2012 dollars using a 5.0% discount rate.

2 VISION 2040, Puget Sound Regional Council 2008, p. 65

3 Ibid., p. 67

4 Ibid., p. 12

5 Cox 1999

6 Canty 2012

7 Puget Sound Partnership 2008, p. 15

8 Northwest Environment Watch 2002, p. 5

9 Strategic Economics, Demand Estimates 2012, p. 31

10 Adair 2010, p. 1

11 Puget Sound Regional Council 2010, p. 35

12 Puget Sound Clean Air Agency 2008, p. 3

13 Schrank 2011, p. 24

14 U.S. Department of Transportation Federal Highway Administration 2009

15 Transporation Research Board 2009, p. 4

16 GB Arrington 2008, p. 80

17 O'Brien 2011

18 Wykowski 2012, p. 21

19 Jonathan Rose Companies 2011, p. 14

20 Jonathan Rose Companies 2011, p. 13

21 Sound Transit 2011, p. 6

22 Cervero 2004, p. 139

23 GB Arrington 2008, p. 5

24 Pollack 2010, p. 34

25 Williams-Derry 2012

26 Center for Transit-Oriented Development 2009, p. 3

27 U.S. Census Bureau 1983, p. 1-2; 1993, p. 1420; 2007; Table DP04 2012

28 U.S. Department of Housing and Urban Development 2012

29 Littman 2006, pp. 2-3

30 American Public Transportation Association 2012

31 BERK, 2012

32 Smith, Gihring, & Litman, 2012

33 Center for Transit-Oriented Development, 2008, p. 15-19

34 Center for Transit-Oriented Development, 2008, p. 18-19

35 Ibid

[36] Association of Washington Cities, 2011

[37] Ibid

[38] Puget Sound Regional Council, 2005

[39] PSRC Forecasts and Strategic Economics, Demand Estimates, 2012

[40] Urban Land Institute, 2012

[41] Dupre + Scott Apartment Advisors 2012

[42] Seattle Office of Housing 2012

[43] Strategic Economics, Demand Estimates 2012, p. 36

[44] US Census American Community Survey, 2005-2007

[45] King County Assessor 2011

[46] Strategic Economics, Market Study 2012, p. 91

[47] Dupre + Scott Apartment Advisors, 2012

[48] Economic and Revenue Forecast Council, 2012, p. 20

[49] Washington State Department of Revenue, 2013, Table 1, State and Local Taxes, All States, 2005-2010

[50] Senate Ways and Means Committee Staff and Legislative Evaluation and Accountability Program (LEAP), 2011, p. 15

[51] Leonard v. Spokane, 127 Wash.2d 194, 897 P.2d 358 (1995)

[52] Snohomish County Assessor, 2012

[53] Heartland LLC, BERK, and Forterra, 2012

[54] Ibid, p. 12

[55] City of Bellevue, Washington, 2009

[56] Public Policy Institute of California, 1998

[57] Ciria-Cruz, 2012

[58] Tahoe Daily Tribune, Cities Challenge California's Redevelopment Law, September 25, 2012

[59] Oregon State Department of Revenue, 2007

[60] Ibid

[61] Georgia Municipal Association, Tax Allocation Districts Q&A, 2008

[62] Ibid

[63] Sutherland Asbill & Brennan LLP, 2008

[64] Invest Atlanta

[65] Bruno, 2011

[66] Jacob & Klein, Ltd, 2012

[67] Illinois Tax Increment Allocation Redevelopment Act

[68] Teplitz, 2006

[69] Brown, 2011

[70] University of Illinois at Chicago, 2011

[71] Fleissig, 2002

[72] Creswell, 2006

[73] Council of Development Finance Agencies and International Council of Shopping Centers, 2007

[74] Creswell, 2006

[75] Campora, 2011

[76] Ibid

[77] Portland Development Commission and Portland Housing Bureau, 2011

[78] People Trust, 2011

[79] Invest Atlanta

[80] Bleakly Advisory Group, 2007

[81] Bruno, 2011

[82] Ibid

[83] Good Jobs First , 2012

[84] Ibid

[85] California Legislative Analysts Office, 2011

[86] Ibid, p. 25

[87] Gordon, 2003

[88] BURCHELL, et al., 2002

[89] LeRoy, 2008

[90] St. Louis Regional Chamber & Growth Association

[91] Kovari, 2009

[92] 1000 Friends of Wisconsin, 1999

[93] Wisconsin Department of Revenue, 2012

[94] Center for Transit Oriented Development (CTOD), 2011

[95] Ibid

[96] Campisi, 2011

[97] City of Dallas, 2010

[98] Ibid

[99] City of Dallas, 2011

[100] City of Mountlake Terrace, Washington , 2012

[101] Ibid

[102] City of Mountlake Terrace, Washington, 2012

[103] Sound Transit

[104] University of Washington Tacoma, 2008

[105] City of Tacoma, Washington, 2010

[106] City of Tacoma, Washington, 2010

[107] City of Tacoma, Washington, 2008

[108] Ibid, p. 4

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