Revenue Analysis

October 1, 2021

Introduction

The City of Seattle's Duwamish Valley Program (DVP) has been working to create real positive change in the Duwamish Valley and build a more equitable and resilient city. Current and planned significant infrastructure investments, while critical, are raising concerns about gentrification and displacement of current residents and businesses. This led to an interest in exploring land value capture tools (and other revenue generating mechanisms) to finance infrastructure in a way that will protect the residential and industrial communities from expected sea level rise impacts and fund improvements to improve health and equity outcomes for residents.

A partnership of Seattle Public Utilities, Office of Planning and Community Development, Office of Sustainability engaged BERK Consulting to explore options, including the new Tax Increment Financing (TIF) legislation adopted this past session, to understand opportunities and limitations to achieving the goals above. The full set of options explored is available in the Appendix. This memo focuses on the three options around which there was the greatest interest and/or were deemed best suited for advancement by the participating departments.

- **Tax Increment Financing (TIF)** 2021 Version and possible amendments
- Adaptation of special purpose district models for a **Resiliency District**
- **Citywide Levy** focused on a package of environmental equity projects

TIF 2021

TIF is a method of allocating a portion of property or sales taxes to finance public improvements in designated areas (Increment Areas). Typically, a local government issues bonds to finance public improvements. ESHB 1189 signed by Governor Inslee in May 2021 grants new powers of TIF to cities, counties, and port districts. TIF for Jobs Bill eliminates the one percent rule - jurisdictions can now capture nearly all of the additional local tax revenue (which increases borrowing capacity).

Seattle would be allowed two active Increment Areas at any given time with an aggregate assessed valuation of not more than $200 million or 20% of the jurisdiction's total assessed value, whichever is less. If two areas are used, this amount applies to both areas.

Given the aggregate assessed value cap, the City may want to explore partnering with King County, the Port of Seattle, or both to expand the eligible areas and thereby expand revenue.

TIF-supported public improvements can be inside or outside the increment area, as long as the improvement serves the community inside the increment area. In addition to standard infrastructure uses such as water, sewer, stormwater, streets, and sidewalks, eligible expenditures also include creating or preserving long-term affordable housing and facilities for childcare (serving vulnerable populations).

Resiliency District

We explored two models for a new type of special purpose district, authorized at the state level. The two models have distinct funding mechanisms.

Sales Tax Credit Funding Model

The first concept for a new special purpose district (Resiliency District) is based on the existing Hospital Benefit Zone (HBZ) model, which includes an infrastructure funding mechanism via a state sales tax credit. This funding mechanism was created by the State Legislature to address funding challenges faced by the Gig Harbor HBZ around St. Anthony Hospital.

Under this model, revenue comes from the incremental sales tax (additional sales tax revenues over baseline levels) generated by the new development in the HBZ. To access the funding, the local jurisdiction sponsoring the HBZ (e.g., a city) must pass a new local sales tax. The State then grants a tax credit to the local jurisdiction against the state sales tax, up to a maximum of $2 million per year, for up to 30 years. In effect, a portion of the state sales tax revenue collected from the HBZ is diverted to the local government. The City of Gig Harbor/the Gig Harbor HBZ is the only jurisdiction to have been awarded this state sales tax credit.

If the State were to authorize an identical funding mechanism for Resiliency Districts, the maximum revenue the City of Seattle could expect to collect for the Duwamish Resiliency District would be $60 million over 30 years. There a number of challenges associated with this funding mechanism:

1. **This funding mechanism is currently only authorized for HBZs,** which can only be formed in geographic zones in which there is a hospital that has received a certificate of need.
2. Extending this funding mechanism to Resiliency Districts **would require the State Legislature to allocate funding for the state sales tax credit,** which makes it more politically challenging.
3. The funding mechanism is **reliant on the certainty that the infrastructure investments will lead to increased sales tax revenue** in the increment area, which maybe be uncertain in the Duwamish.
4. The City of Seattle **might be unable to use such revenues for debt service on bonds**. While the City of Gig Harbor originally intended to use the HBZ sales tax credit to fund debt service on bonds for infrastructure financing, the novel nature of the funding mechanism and the skittishness of the municipal bond market at the time (the mechanism was created in 2011, during the Great Recession) meant the City was unable to bond and instead used the sales tax credit as a pay-as-you-go funding mechanism.

Expanded TIF Funding Model

This concept for a new special purpose district (Resiliency District) is based on the new 2021 TIF legislation, but with the potential for an increment area with an assessed value of greater than $200 million. Because the State Legislature has been cautious about TIF mechanisms, we assume that a new mechanism that allowed for increments of greater than $200 million in AV would likely need to have a narrow scope, such as only being permitted for funding infrastructure investments that mitigate sea level rise or climate change impacts.

Under this model, revenue would come from property taxes generated from the incremental value of real property in the increment area. In this case, we assume the increment area to be the full Duwamish Resiliency District. The incremental value is the increase in real property values in the area over the base year. Under the 2021 TIF legislation, property tax revenues for state schools, voted excess property tax levies, and some port district property tax revenues are exempt, but property tax revenues from other overlapping jurisdictions are not exempt. Under these parameters, we estimate that an increment area that encompassed the full Duwamish Resiliency District could collect up to $500 million (roughly $20 million/year, on average) in real dollars over 25 years. The City would very likely be able to use that revenue to pay debt service on bonds to fund capital projects.

The major limitation of this option is that it would require authorizing legislation by the State Legislature, and the Legislature might be reluctant to authorize TIF for increment areas with AVs of this size. In total, the Duwamish has an AV of more than $4.4 billion (in 2021) and represents nearly 2% of the total AV in Seattle. If the City were to implement TIF for the area and extract the maximum revenue, it would have significant revenue implications for the affected overlapping jurisdictions, including King County, the Port of Seattle, Sound Transit, and Seattle Public Schools.

Environmental Equity Levy

This mechanism is a voted, citywide property tax levy to fund climate resilience and environmental equity-focused projects. This could create a dedicated funding source for large capital projects (bond levy) or operations and smaller capital projects (levy lid lift). While the City could raise funds from all property taxpayers and limit spending to one area of the City, expanding it to include other projects around the City would make it more attractive to voters. Levies can raise significant funds but need to be considered within the context of what other levies are already in place and what might be proposed. Since Seattle taxpayers are also subject to levies from King County, the Port of Seattle, and the School District, the current and proposed levies of these taxing districts should also be considered.

Two most likely mechanisms are:

1. Unlimited tax general obligation (UTGO) bond levy
    - Requires 60% voter approval
    - Best option for major capital projects
    - Can ONLY be used for capital projects
    - Capital revenue collected by City upfront (bonds), paid back over time with levy revenues
    - Example: Alaskan Way seawall (2012)
2. Levy lid lift
    - Requires 50% voter approval
    - Typically used for operational purposes OR a series of smaller scale capital projects
    - Can fund operations OR capital projects
    - Capital revenue collected over time via levy
    - Example: Move Seattle levy (2015)

UTGO bond levies are a rarely-used funding mechanism for the City of Seattle – in the last 10 years, the City has put only one such levy before voters: the $290 million Alaskan Way seawall replacement bond levy, which voters approved in 2012. While UTGO bond levies are well-suited to fund large scale infrastructure projects, the City has been cautious about using this funding mechanism in the past, so early feasibility conversations would need to include the City Budget Office, City Attorney's Office, and Mayor's Office.

The City has used levy lid lifts more frequently – in the last 10 years, the City has put nine levy lid lifts to voters, eight of which were approved. The majority of these levies have funded operations, including education support services, library services, affordable preschool, publicly funded City elections, and homelessness prevention and reduction programs. However, levy lid lifts can fund capital projects, and the City has occasionally used them to fund groupings of smaller scale capital projects. One such example is the 2015 Move Seattle levy lid lift, a 9-year, $930 million funding package that includes funding for repaving roads, constructing bike lanes, adding ADA ramps, and implementing RapidRide bus lines. The primary limitation of levy lid lifts is that they only provide pay-as-you-go funding, so are generally not well-suited to fund large scale capital projects.

Next Steps

The table below identifies estimated revenues (see note) and next steps in terms of who to involve and what is needed for the three potential revenue mechanisms.

Tool	Estimated Revenue*	Who to Involve	Next Steps
TIF (2021)	$6 million - $11 million over a 25-year period	**Seattle:** City Budget Office, City Attorney, Office of Intergovernmental Relations **Potential Partners:** King County, Port of Seattle	• Identify potential increment areas • Identify list of projects/expenditures • Coordinate with City and potential partners • Draft project analysis • Notify public and hold public hearings • Draft ordinance
Resiliency District	HBZ Model: Up to $60 million over 30 years Expanded TIF Model: Up to $500 million over 25 years	**State Legislature:** Use of either of these funding mechanisms is dependent on authorizing legislation at the state level. **Seattle:** City Budget Office, City Attorney, Office of Intergovernmental Relations **Overlapping, Affected Jurisdictions:** King County, Port of Seattle, Sound Transit, Seattle Public Schools	• Identify list of projects/expenditures and their costs • Coordinate with other City departments • Draft project analysis • Develop legislative agenda
Environmental Equity Levy	Varies, potentially up to $1 billion	**Seattle:** City Budget Office, City Attorney, Mayor's Office	• Understand existing and proposed levies for City of Seattle and King County • Identify list of projects/expenditures and their costs • Coordinate with other City departments • Draft project analysis • Draft ordinance

Notes: * Revenue estimates are not fully modeled. These figures are intended to demonstrate a range of ***possible*** outcomes. Projected TIF revenues are based upon average in assessed property value and levy rates between 2010-2020 for 16 separate areas in Georgetown and South Park that have area-wide 2021 assessed values of roughly $200 million.