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Local Infrastructure Financing Tool Program (LIFT)

2014 Biennial Report

June 2014
Report to the Legislature
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Executive Summary

The Community Economic Revitalization Board (CERB) and the Department of Revenue (DOR) jointly administer the Local Infrastructure Financing Tool (LIFT) Program as authorized by Chapter 39.102 Revised Code of Washington (RCW).

LIFT allows selected local governments to use tax revenue generated by private business activity within a designated Revenue Development Area (RDA) to help finance public infrastructure improvements.

Nine jurisdictions currently participate in the LIFT Program, each eligible to receive a state contribution of up to $1 million per year for 25 years. Three LIFT projects were selected by the Legislature and the remaining six were competitively selected by CERB. There is no further authority under LIFT for additional state contributions and the program is currently closed to new designations.

The nine jurisdictions authorized to receive LIFT awards are required to report to CERB and DOR annually on the progress of their projects. CERB, in turn, reports this progress to the Legislature on a biennial basis. CERB is pleased to submit this 2014 report in accordance with the requirements of Section 39.102.140 RCW.

Introduction

Background

The Community Economic Revitalization Board (CERB) and the Department of Revenue (DOR) are authorized to administer the Local Infrastructure Financing Tool (LIFT) Program in Chapter 39.102 Revised Code of Washington (RCW).

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Outcome Reporting

The nine jurisdictions authorized to receive LIFT awards are required to report to CERB and DOR annually on the progress of their projects. CERB, in turn, reports to the Legislature on a biennial basis. These reports are required by RCW 39.102.140 to include:

- The amount of local excise tax allocation revenues, local property tax allocation revenues, other revenues from local public sources, and taxes under RCW 82.14.475 received by the sponsoring local government, co-sponsoring local government, or any participating local government during the preceding calendar year that were dedicated to pay the public improvements financed in whole or in part with LIFT authority, and a summary of how these revenues were expended.
- The names of any businesses locating within the revenue development area as a result of the public improvements undertaken by the sponsoring local government and financed in whole or in part with LIFT authority.
- The total number of permanent jobs created in the revenue development area as a result of the public improvements undertaken by the sponsoring local government and financed in whole or in part with LIFT authority.
- The average wages and benefits received by all employees of businesses locating within the revenue development area as a result of the public improvements undertaken by the sponsoring local government and financed in whole or in part with LIFT authority.
- That the sponsoring local government is in compliance with RCW 39.102.070.
- A list of public improvements financed on a pay-as-you-go basis in previous calendar years and by indebtedness issued under LIFT authority.
- The date when any indebtedness issued under LIFT authority is expected to be retired.

- Periodic updated estimates of state excise tax allocation revenues, state property tax allocation revenues, and local excise tax increments, as determined by the sponsoring local government, that are estimated to have been received by the state, any participating local government, sponsoring local government, and co-sponsoring local government, since the approval of the project award by the board (updates provided at least once every three years).

Joint Legislative Audit Review Committee (JLARC) Reports

By statute (RCW 39.102.200), JLARC is required to evaluate the effectiveness of LIFT and report to the Legislature every five years beginning in September 2013. JLARC's final recommendation on whether to expand LIFT statewide is due September 1, 2028.

JLARC's first report on the LIFT program concluded that insufficient data exists to accurately report on the economic outcomes of LIFT. JLARC further noted that "even if the necessary data was readily available, there are significant challenges to isolating the impact of LIFT projects on the surrounding economy" (JLARC, LIFT Report Summary, December 2013). The full report is available at
http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2013/documents/LIFTFinalReport.pdf

Legislative Changes in 2013

The 2013 Legislature and Governor made changes to the LIFT program through the enactment of E2SHB 1306. This legislation includes the following adjustments to the program which became effective September 28, 2013.

- Extends the expiration date of the LIFT program from June 30, 2039 to June 30, 2044.
- Requires construction to begin by June 30, 2017 in order to impose the state shared local sales and use tax.
- Removes the requirement that local governments must issue debt to receive state shared sales and use tax.
- Authorizes DOR to determine the amount of state contribution a jurisdiction receives.
- Requires the annual report to identify local revenue received by co-sponsoring and participating local governments, not just the sponsoring local government.

The LIFT Program

What is LIFT?

Created in 2006, the LIFT program is a form of tax increment financing in Washington State. Tax increment financing allows local governments to use expected future tax gains to finance public facility projects today. Under the LIFT program, nine local governments have been given the authority to finance specific local public improvement projects intended to encourage economic development. The state is a partner in these projects and provides a limited amount of funding, provided the local government has demonstrated a net gain in state tax revenues. The program is currently closed to new designations.

LIFT Components

Local governments designated under LIFT create a Revenue Development Area (RDA) in which to measure growth. The LIFT award recipient builds and finances public improvements in the RDA by issuing general obligation or revenue bonds, or by financing public improvements on a "pay-as-you-go" basis.

The public improvements in the RDA are intended to create growth in sales and property tax revenues by encouraging private development activities. This growth in tax revenue is in turn used to pay principal and interest on the bonds issued to finance the improvements. The local jurisdiction may earn a state contribution of up to $500,000 or $1 million (depending on the project) each year to help pay this debt service.

Competitive Criteria

Three LIFT projects were selected by the Legislature and six were selected by CERB through a competitive process. Criteria used to select projects included:

- Potential to enhance regional and/or international competitiveness.
- Ability to encourage mixed-use development and redevelopment.
- Jobs created and net employment change expected from the project.
- Net property tax and sales and use tax change expected from the project.
- A balanced statewide geographic distribution of project awards.

RDA boundaries were established by local government ordinance as part of the CERB application requirements. A signed developer agreement between the local government and a private partner was also required.

State Contributions

At the time of project selection, each LIFT designee received a "project award" which identifies the maximum amount of state contribution they may receive per fiscal year for up to 25 years.

The actual distribution of state funds is determined by DOR annually based on local progress reports. These annual “caps” and the amount distributed to date are shown in Table 1.

Table 1: Annual State Contributions

LIFT Recipient	Award Year	LIFT Tax Implementation Year	Annual State Award Cap	Amount of State Award Distributed*
City of Bellingham	2007	2013	$ 1,000,000	$744,866
City of Bothell	2008	July 2014	$ 1,000,000	$0
City of Everett	2008	Not yet implemented	$ 500,000	$0
City of Federal Way	2008	2013	$ 1,000,000	$653,916
City of Mount Vernon	2009	Not yet implemented	$ 500,000	$0
City of Puyallup	2009	2010	$ 1,000,000	$4,000,000
Spokane County	2008	2010	$ 1,000,000	$3,053,170
City of Vancouver	2008	Not yet implemented	$ 500,000	$0
City of Yakima	2009	2011	$ 1,000,000	$1,757,194
Totals			$ 7,500,000	$10,209,145

**Distributions as of December 31, 2013.*

Project Profile: City of Mount Vernon Downtown Revenue Development Area

LIFT award: Up to $500,000 per year for 25 years
Year LIFT tax imposed: n/a

The City of Mount Vernon has a distinct and historic downtown which is ideally poised for redevelopment. The Downtown Mount Vernon Revenue Development Area (RDA), as adopted by Ordinance 3410, is located west of Interstate 5 and is bordered to the east by the Skagit River. The city is constructing a flood control project to permanently protect the downtown area from the base 100-year flood as defined by the Federal Emergency Management Administration (FEMA). Once downtown is no longer at risk for flooding and development constraints associated with building in a flood plain are removed, the downtown will be primed for redevelopment and new development.

Certain privately owned properties have been purchased by the city in order to construct the permanent flood wall and river walk. Once the flood control system is in place, the city will have substantial land, bordering the scenic Skagit River which will become prime real estate for mixed use commercial and high density residential development. The current use of the majority of this land that abuts the river is a surface parking structure that provides 355 essential parking spaces to downtown employees and visitors. The flood control project will displace this needed downtown parking which will be replaced with a combination of solutions that include a new parking facility in another downtown location.

The city intends to create a vibrant, attractive, and safe waterfront and downtown with enhanced public access to the shoreline and river, new and improved public amenities, and mixed-use redevelopment that will generate new jobs providing an area for both housing and business development to occur in a manner that helps preserve the character of downtown.

Although the flood control project is not eligible for LIFT financing, other significant and related projects in the downtown are eligible for financing under the LIFT program as outlined in the following section.

Structured Parking
Construction of a 350 to 600 stall parking facility. The structured parking facility will replace the displaced parking along the riverfront for our downtown business community and will provide parking for future downtown redevelopment needs. The parking facility will be strategically located near the core of downtown within walking distance of Skagit Station (the county's regional multi-modal station). The necessity of the parking structure will become time-critical once the flood project is fully constructed with the flood project final phase of construction beginning in 2014 and completing in 2016. Preliminary work on the parking garage, land

acquisition, and preliminary design will be complete in 2015, with construction of the parking structure beginning in 2016.

Waterfront River Walk, Urban Trail and other Park Facilities
A 25-foot pedestrian river walk is being constructed along the river adjacent to downtown with expansive views of the river on one side and shops and pedestrian attractions on the other. At the north and south ends it will connect to a multi-purpose trail continuing north and south along the east side of the river. Other park amenities include a new public plaza along the riverfront, permanent public restrooms, and facilities to accommodate the farmers market. The river walk, plaza and restrooms are currently under construction and will be completed in 2014. Although these elements are LIFT eligible costs, the city has funded these capital components with other funding to keep the primary focus of the LIFT financing on the structured parking facility.

Street Improvements
Street improvements in the master plan include a realignment of Division Street, South First Street and Freeway Drive, streetscape improvements north and south on First Street, and improved pedestrian connection between Skagit Station and downtown along Gates Street. Planned updates also include clear and attractive pedestrian connections between the downtown riverfront and the downtown core, and an improved pedestrian walkway on the Division Street Bridge.

Private Sector Project Description
Mount Vernon has already invested in a downtown transit center (Skagit Station) that provides bus and passenger rail service within the region. The major public amenity downtown is the Skagit River. The river has provided more obstacles to downtown development with its flood threat than attractions. Phase II of the flood control project including the riverwalk, park plaza and restrooms is currently underway and the final phase will begin later in 2014. Once the final phase (Phase III) is completed, conditions will be ripe for facility infrastructure improvements and amenities to attract additional residential and commercial development. The flood control project creates a significant opportunity for the city to revitalize and redevelop its downtown.

Developers have indicated strong interest in moving forward with private development of mixed-use construction in the downtown and waterfront areas with interest in securing certain privately owned undeveloped parcels to move forward with commercial projects which could include a hotel, conference center, and a restaurant. The city fully anticipates that the new private development in conjunction with the removal of the flood threat will also result in redevelopment projects in the Downtown RDA.

A market analysis prepared as part of the Downtown Mount Vernon Master Plan by a third party consultant, Property Counselors, identifies the potential for an improved downtown to capture the following levels of future development activity over the next 20 years.

	First 10 Years	Next 10 Years
Retail (square feet)	125,000	155,000
Office (square feet)	55,000	65,000
Housing (units)	200	250
Lodging (rooms)	100	100

Downtown private investment over 30 years is projected to be in excess of $408 million. New jobs created over 30 years are estimated to be 2,548, along with 112 average annual construction jobs. Additionally, residences for 1,120 people will be provided.

Progress to Date/Project Schedule

Progress updates on key elements of the Downtown and Waterfront Area Project are as follows.

- Phase II is currently under construction and will be completed by September 2014. Phase II includes continued construction of the flood structure, river walk, park plaza and restrooms.
- The city plans to begin construction of the third and final phase of the flood structure, including an urban trail, later in 2014 with a two year construction window.
- Phase I of the flood structure and river walk was completed in 2010.
- In August 2010, the city received a Conditional Letter of Map Revision (CLOMR) from the Federal Emergency Management Agency (FEMA), a critical achievement for the flood control project and future development of the downtown area. The purpose of a CLOMR is to receive confirmation from FEMA that the flood control project as designed would remove the downtown from the 100-year flood plain.
- Preliminary design of the parking facility will begin in 2015. Construction could begin in late 2016.
- Final master plan for the Waterfront Area and Downtown Project was adopted in June 2008.
- The National Environmental Policy Act (NEPA) process for the flood control project was completed July 2008.
- Downtown Parking Garage Feasibility Study was finalized in July 2008.
- Final Environmental Impact Statement on the flood control project was completed in July 2007.

Key milestones for the anticipated private sector development are as follows.

- The City of Mount Vernon applied for New Market Tax Credits through the U.S. Treasury and if awarded this will be an additional financial incentive and attraction for private development in the RDA.
- A development firm completed a study of the downtown area in February 2010, outlining development opportunities, available lands, and potential sites for initial private development. The three specific projects were identified.

    1. Hotel, conference center, and restaurant.
    2. Entertainment complex – cinema, high tech bowling alley or other active entertainment use, commercial and institutional office locations, small retail spaces and structured parking.
    3. Redevelopment along Montgomery Street – envisioned as a series of storefronts, containing small retail business, business support establishments, art galleries, or professional offices; residential units would be above street level.
- The Main Street waterfront site will be ripe for development upon completion of the flood control project and river walk construction.
- Privately owned downtown sites are expected to be developed or redeveloped at a fairly rapid pace upon removal of the flood threat and related development barriers.

The city has not yet implemented the LIFT tax.