

Tax Increment Financing (TIF) Meets Transfer of Development Rights (TDR)

By [Duncan Greene](#), Attorney, [GordonDerr LLP](#)

Tax increment financing (TIF) is a tool for financing public infrastructure improvements in designated areas by redistributing property tax collections within those areas. While TIF has been widely used in other states, the use of TIF in Washington State has been limited by our Constitution, which requires the state's share of property taxes to be used exclusively for public schools. In recent years, the Legislature has created a number of TIF-type programs, such as the Local Infrastructure Financing Tool (LIFT) program, that attempt to avoid this legal hurdle by redistributing only those taxes that are not part of the state's share. However, because the LIFT program requires a voluntary agreement by the surrounding county to share its revenues with the participating city, participation in the program has been limited.

In 2011, the Legislature passed legislation (ESSB 5253) that could facilitate the use of TIF in conjunction with Transfer of Development Rights (TDR) programs. TDR is a mechanism that allows landowners to transfer potential development rights from "sending areas" with lower population densities (such as farmland, forestland, and rural lands) to "receiving areas" with higher population densities. This transfer mechanism allows the landowner in the sending area to receive compensation for development that could have occurred on that land.



Graphic created by King County Department of Natural Resources and Parks

Building on prior legislation that created a regional TDR program in central Puget Sound, ESSB 5253 creates a framework for financing infrastructure improvements within "Local Infrastructure Project Areas" through increased tax revenues derived from higher-density development in those areas. ESSB 5253 includes detailed requirements for eligible counties to designate agricultural and forest land (and possibly some rural zones lands) as sending areas; to calculate the number of development rights eligible for transfer; and to report those numbers to the Puget Sound Regional Council (PSRC) by September 1, 2011. PSRC will then allocate development rights among receiving cities and report those allocations to cities by March 1, 2012.

Before a receiving city can participate in the Local Infrastructure Project Area (LIPA) program, the city must take a number of steps, such as the following:

- Adopting a development plan for infrastructure in consultation with the State Department of Transportation and the county where the LIPA is to be located;
- Adopting certain regulations intended to facilitate TDR transactions, including developer incentives (such as streamlined permitting and environmental review) and TDR "exchange rates"; and
- Holding a public hearing on the proposed formation of the LIPA.

Once a LIPA is created, the sponsoring city will be eligible to receive a portion of regular property taxes levied on the revenue value within the LIPA.

Of course, until development activity picks up and creates demand for greater density, there will be little participation in TDR programs. But in the meantime, some Puget Sound counties and cities are laying the groundwork for more comprehensive TDR programs. If they are successful and development activity eventually drives greater interest in TDR programs, TDR and LIPA mechanisms could be used to achieve landscape-scale conservation, increase density in appropriate urban areas, and provide much-needed financing for infrastructure in those areas, making them more attractive and livable for urban dwellers.