

1. Q: What is tax increment financing (TIF)?

A: Tax increment financing (TIF) is a mechanism used by local governments to finance public infrastructure and projects within a designated area – called a Tax Increment Area (TIA). It enables a portion of the property tax revenue generated from the increased value resulting from new construction within the designated TIA to be diverted from the usual tax distribution and used to fund the public infrastructure. TIF is **not a new tax** and simply uses the existing tax levies that are already in place. For instance, the City of Chelan plans to issue bonds to construct a new water reservoir that would be paid back from the taxes generated by new construction within the TIA area over 25 years or when the bonds are paid off, whichever is sooner. TIF was authorized by the State in 2021 and was designed to not harm any existing taxing district and excludes the State’s property tax levy, schools, and other voted levies.

2. Q: What is a junior taxing district?

A: A junior taxing district is a taxing district other than the state, county, county road district, city, town, port district, or a public utility district. These junior districts may have their property taxes prorated if the effective rate is lower than the combined rate of the districts subject to the 1 percent limit. For example, cities are considered the primary taxing body, while junior taxing bodies could include entities such as fire districts or EMS (emergency medical services) districts.

3. Q. Why is the City looking to form a TIF District now?

A. The City of Chelan is considering the use of TIF for the construction of a new water reservoir and water delivery system in East Chelan. Without this funding, the project would not be financially viable. The new reservoir will enable planned growth in the area, while also providing a secondary benefit to the significant number of residents on the north shore through a backup water system and increased water pressure.

4. Q. Why doesn’t the City make developers pay for this new system or use another method to pay for this new water infrastructure?

A. The City cannot require new developments to fully fund the proposed water infrastructure on their own, as it is not financially feasible. Without TIF, new development would either not occur or build smaller improvements that only serve their own project, with limited benefit to the rest of the community. The City could form a Local Improvement District and raise utility rates for all City rate payers, but this would likely not cover the entire cost and would not be equitable for existing rate payers.

5. Q. Where is the proposed TIA area located?

A. The location of the proposed TIA is depicted in the attached map.

6. Q: How does TIF impact junior taxing for fire and EMS?

A: The TIF law was designed as to not “harm” the levy of these junior taxing districts since these districts typically only have the property tax available to fund their services. There are

two important and distinct issues for these districts (and all districts with regular levies that fall under TIF since they are all treated the same).

- First, TIF changes to the way jurisdictions compute their levy including maximum allowable levy (the amount they can collect in any given year) as well as their highest lawful levy (which sets the basis for how much they can collect in the following year).
- Second, property taxes on properties in the TIA are “capped” by the base value thereby limiting how much the affected jurisdiction can collect (the incremental assessed value growth goes to the TIF sponsor) during the TIF period.

Jurisdictions will continue to receive no less than they would otherwise receive had TIF not been in place and can expect some modest growth in their levy from the added new construction in the TIA. All affected taxing districts will also continue to receive property taxes that were generated from the base assessed valuation that existed prior to the private development inside the TIA. It’s important to note that a foundational element of TIF, is that new development would not occur without the public improvements that are financially supported by the incremental tax revenue. During the term of the TIA (maximum of 25 years), this may require increased funding or cost control measures from the junior taxing district to respond to increased services from development.

7. Q: What are the concerns being raised by Chelan Fire and EMS?

A. These junior taxing districts are concerned that the new population growth in the TIA will result in an increase in service calls, but they lack the necessary funding from property tax to provide additional personnel and equipment to respond. While these concerns are taken very seriously, it's important to note that the amount of new population growth within the TIA will occur over more than a decade. Additionally, the diverted property tax from new construction going to the City is only a fraction of the overall property tax collected each year by the junior taxing districts. Once the financing for the TIA is completed, the junior taxing districts will receive the increased property tax revenue collected from the TIA.

8. Q. Does TIF take away existing property tax from junior taxing districts?

A. Junior taxing districts will continue to receive the property taxes generated within the TIA excluding new construction and increases in value of existing property within the TIA.

9. Q. What is the 1 percent annual increase in property tax each year?

A. Washington state's 101 percent property tax annual limit is a rule that limits the amount of property tax that can be collected by taxing districts in the State. Under this law, the total amount of property tax revenue that a local government can collect in a given year cannot exceed 101 percent of the amount collected in the previous year (Specifically, it’s the lesser of the implicit price deflator, a measure of inflation, or 1%. However, in almost all years it’s the 1% limit that is lower.). In other words, if a local government collected \$10 million in property taxes in the previous year, they can only collect up to \$10.1 million in the current year; plus the value of new construction. This limit applies to all regular levies used by local governments in the State, including cities, counties, school districts, and other taxing districts.

10. Q. What happens if the TIA does not grow at the anticipated rate / is the City going to be in financial trouble?

A. If the TIA does not grow at the anticipated rate, the City's ability to pay off the bonds issued for the new water infrastructure may be impacted. However, the City has conducted thorough financial analysis and risk assessment to ensure that the TIF revenue generated will be sufficient to pay off the bonds. Before any debt is issued, the City will assess the local market conditions and development readiness to ensure sufficient revenue is available to pay for the proposed infrastructure. It's important to note that TIF is just one tool in the City's financing toolbox, and the City has other options available to address any potential shortfalls. Additionally, the City is committed to responsible financial management and will take necessary steps to ensure the financial stability and sustainability of the City.