PRELIMINARY REPORT:

Local Infrastructure Financing Tool (LIFT)

LEGISLATIVE AUDITOR'S CONCLUSION:

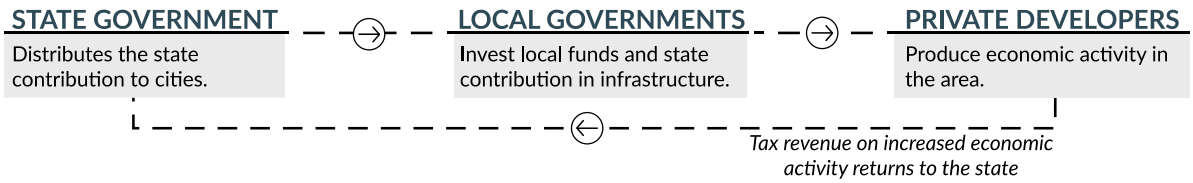
While economic activity has increased in designated areas, it is unknown how much can be attributed to LIFT.

June 2020

The Local Infrastructure Finance Tool (LIFT) was enacted in 2006 and expires in 2044. Under LIFT, the state provides financial support for local infrastructure projects in designated areas called Revenue Development Areas (RDAs). LIFT is based on a premise that investments in public infrastructure will attract private development and increase economic activity. The economic activity is expected to generate tax revenue that meets or exceeds the state's contribution.

Through FY 2019, the state has contributed $41.4 million to infrastructure projects in participating cities: Bellingham, Bothell, Everett, Federal Way, Liberty Lake, Mount Vernon, Puyallup, Vancouver, and Yakima. Cities receive their state contribution by imposing a local sales and use tax (the "LIFT tax") that is credited against the state sales tax. Consumers do not see any increase in sales tax.

JLARC last evaluated LIFT in 2013. The 2013 report focused on the funding mechanism because most cities had not begun infrastructure improvements.



Five key economic indicators have increased in most Revenue Development Areas. It is unknown how much of the change is attributable to LIFT.

Taken together, economic activity in the eight active Revenue Development Areas (RDAs) [1] outpaced the cities' non-RDA areas between 2013 and 2018:

- Employment in the RDAs grew by 10.9% compared to 5.3% in the cities' non-RDA areas. Most new jobs (74%) were associated with accommodations, food services, health care, or social assistance.

[1] Vancouver is not actively participating

- Wages grew by an average of $9,200 in the RDAs compared to $7,800 in the cities' non-RDA areas. The average wage in the RDAs ($44,600) is still lower than in the non-RDA areas ($58,100).
- Taxable sales in the RDAs grew by 39%, compared to 30% in the cities' non-RDA areas.
- New private construction made up 42% of the total assessed value of all property in the RDAs. In comparison, it was 14% of the assessed value of the cities' non-RDA areas.
- Property values in the RDAs increased by 97.1% compared to 56.2% in the cities' non-RDA areas.

Economic models estimate a range of short-term job impacts from LIFT-related construction

JLARC staff modeled three scenarios with different assumptions about the extent to which LIFT funding led to local public infrastructure investment. The results of the modeling show a range of potential impacts, depending on assumptions. There is no way to conclusively determine which—if any—of these scenarios is most accurate. Modeling long-term effects would require specific data about the characteristics of each LIFT infrastructure project (e.g., changes in traffic volume and accidents).

Given the challenges in attributing economic activity to LIFT, it is unlikely there will be sufficient evidence to recommend whether to expand the program to other cities

In 2028, JLARC must recommend whether LIFT should be expanded statewide and estimate the impact of an expansion on the state's economic development. It is unlikely there will be sufficient evidence to support a recommendation. Regardless, currently participating cities rely on LIFT funding.

Cities' reporting errors and a lack of state oversight led to potential excess payments and incomplete information for monitoring projects

Cities have made errors in reporting, some of which may affect how the state contribution is calculated. The Department of Revenue (DOR) does not verify information, and may have distributed $14 million more than cities should have received. DOR and the Community Economic Revitalization Board (CERB) receive cities' reports on economic and project activity. While CERB provided technical assistance in 2006 through 2008, neither agency currently provides reporting guidance except upon request. Further, neither agency verifies data accuracy.

Legislative Auditor Recommendation

The Department of Revenue and the Community Economic Revitalization Board should work with participating cities to clarify the annual reporting form, standardize calculation methods, and provide training and/or instructions to avoid reporting errors.

REPORT DETAILS

1. Nine areas designated for economic development under LIFT

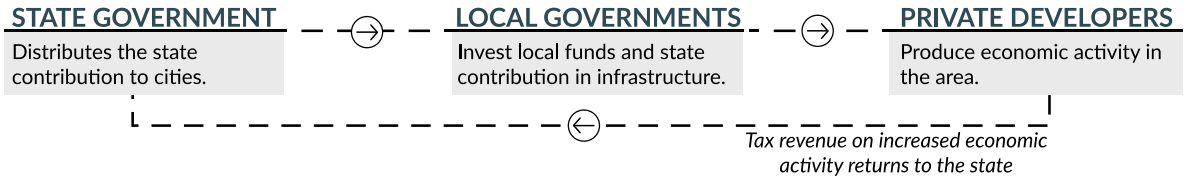
Nine cities can use LIFT to fund public infrastructure projects, aiming to improve economic conditions in designated areas

Under LIFT, the state supports public infrastructure investments with the goal of attracting private development and improving economic conditions in designated local areas

The Local Infrastructure Finance Tool (LIFT) was enacted in 2006 to invest state funds into local infrastructure projects. LIFT is based on a premise that investments in public infrastructure will attract private development and increase economic activity. The economic activity is assumed to generate tax revenue that meets or exceeds the state's contribution.

- Cities receive their state contribution by imposing a local sales and use tax (the "LIFT tax"). The LIFT tax is credited against the state sales tax. Consumers do not see any increase in sales tax.
- By statute, each city can receive no more than $1 million per year. Statute specifies additional award limits based on the amount awarded by the Community Economic Revitalization Board (CERB), the city's matching contribution to the infrastructure projects, and estimated increases in state revenue. Section 5 includes additional detail.
- The total state contribution to all cities is capped at $7.5 million per year.

Exhibit 1.1: The state contribution supports infrastructure that is intended to increase economic activity



Source: JLARC staff analysis of Chapter 39.102 RCW.

LIFT funding is allocated to Revenue Development Areas in nine cities

The Legislature designated three cities[2] when it created LIFT, and CERB selected six more[3] through a competitive award process.

- The LIFT statute requires each city to establish a Revenue Development Area (RDA).
    - An RDA is a geographic area in which the city makes infrastructure improvements and measures the resulting changes in state and local tax revenue.
- All cities, including those designated by the Legislature, submitted applications to CERB that outlined the public infrastructure investments and the private development they expected.
- Eight cities are actively participating. Vancouver has not received a state contribution and has not dedicated funds to public infrastructure in its RDA.

Exhibit 1.2: Click arrows to view information about each RDA

Source: LIFT applications submitted to CERB.

Each city may receive its state contribution for either 25 years or until the program expires in 2044, whichever is sooner. Each city chooses when it will impose the LIFT tax and begin receiving the contribution. Mount Vernon began receiving funds in fiscal year 2020.

If each city receives its maximum state contribution each year through 2044, the total state contribution will be $184.4 million.

Exhibit 1.3: LIFT tax distributions by fiscal year (dollars in millions)

City	2011	2012	2013	2014	2015	2016	2017	2018	2019	All Years
Bellingham				$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	**$6.0**

[2]Bellingham, Vancouver, and Liberty Lake

[3]Bothell, Everett, Federal Way, Mount Vernon, Puyallup, and Yakima

City	2011	2012	2013	2014	2015	2016	2017	2018	2019	All Years
Bothell					$1.0	$1.0	$1.0	$1.0	$1.0	**$5.0**
Everett								$ 0.5	$ 0.3	**$0.8**
Federal Way				$1.0	$1.0	$1.0	$0.9	$1.0	$1.0	**$5.9**
Liberty Lake	$ 0.4	$ 0.6	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	**$8.0**
Mount Vernon										**$ -**
Puyallup	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	**$9.0**
Yakima		$ 0.6	$ 0.1	$1.0	$1.0	$1.0	$0.9	$1.0	$1.0	**$6.7**
All Cities	**$1.8**	**$2.3**	**$2.1**	**$5.0**	**$6.0**	**$6.0**	**$5.8**	**$6.5**	**$6.3**	**$41.4**

Source: JLARC staff summary of Office of the State Treasurer local tax distribution data.

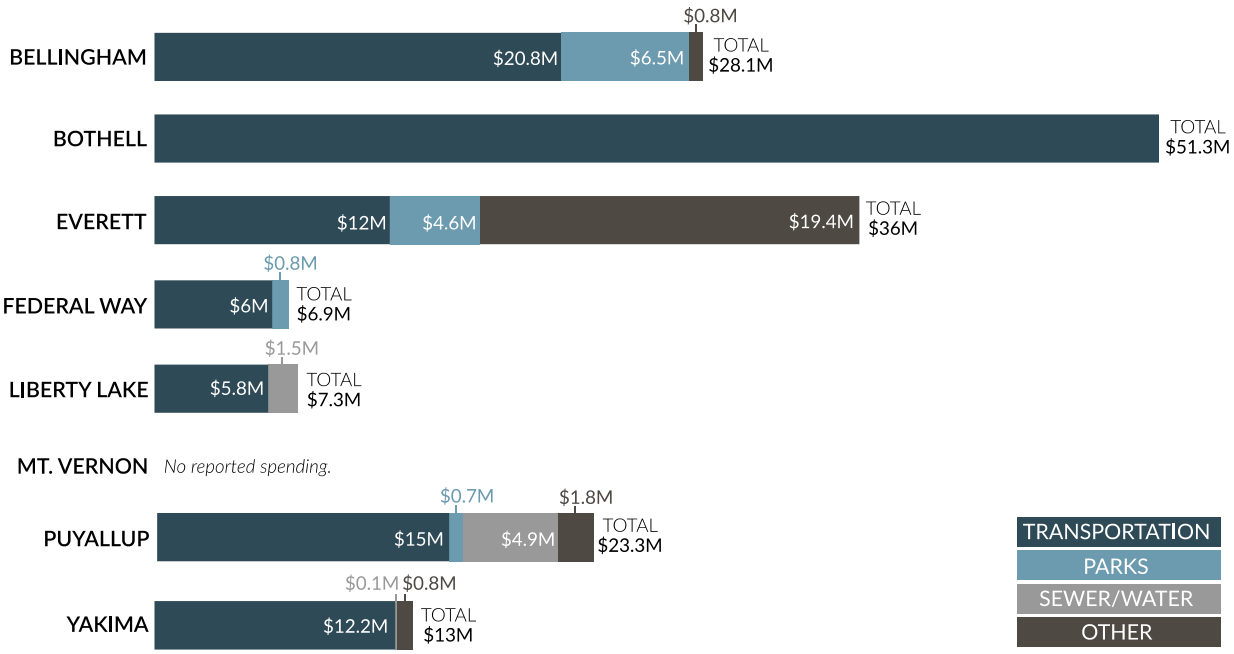
Notes: Mount Vernon began receiving funds in fiscal year 2020. Sums may not equal totals due to rounding.

Cities spent $165.9 million in public funds on infrastructure improvements through LIFT

As of the end of 2018, seven cities had spent $165.9 million for infrastructure in their RDAs. This total includes a portion of the $41.4 million state contribution. Cities do not need to spend the state contribution in the same year it is received.

- Infrastructure projects include transportation (building roads, roundabouts, intersections, and sidewalks), improving sewer and water systems, and creating parks.
- Transportation projects account for 75% of the amount spent ($124.0 million).

Exhibit 1.4: Transportation projects account for most of the infrastructure improvements



Source: JLARC staff analysis of city annual reports and data.

The cities may have invested other state funds in the RDAs (e.g., grants awarded by the Transportation Investment Board). Those funds are not included in the $165.9 million total because, under statute, they are not eligible to be counted in cities' matching contributions.

REPORT DETAILS

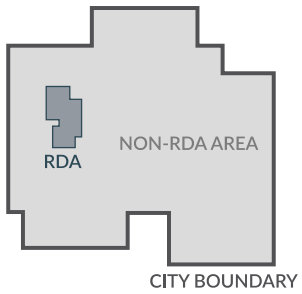
2. Economic activity increased in the designated areas

Economic activity in most of the designated areas grew more quickly than in the parts of cities outside the areas. It is unknown how much activity is attributable to LIFT.

Employment grew faster in seven RDAs than the cities' non-RDA areas

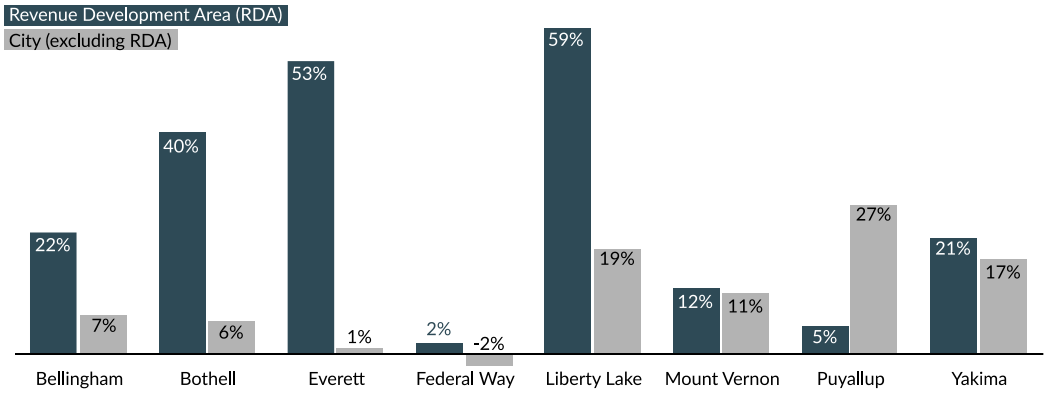
JLARC staff analyzed employment data from the Employment Security Department (ESD). Taken together, employment in seven of the active Revenue Development Areas (RDAs) increased by 2,276 jobs (10.9%) from 2013 to 2018. If these RDAs had grown at the same rate as the cities' non-RDA areas, they would have added 1,173 jobs — a difference of 1,103 fewer jobs. In Puyallup, the city's non-RDA areas outperformed the RDA. If the Puyallup RDA had grown at the same rate as the non-RDA areas, it would have added 2,801 jobs. Instead, it added 524.

JLARC staff compared activity in the RDAs to activity that happened outside the RDA, but still within the city (the non-RDA area)



- Accommodation & food services accounted for 46% of employment growth in the RDAs. Health care and social assistance accounted for 28%.
- Employment data does not represent all changes in employment. ESD data cannot capture employment from development or construction firms that worked in an RDA but are not located there. JLARC staff used economic modeling to estimate the short-term employment changes from increased construction spending in the RDAs (section 3).

Exhibit 2.1: Employment growth in 7 out of 8 RDAs outpaced growth in the cities' non-RDA areas



Source: JLARC staff analysis of Employment Security Department unemployment insurance data, 2013-2018.

Other key economic indicators also show faster economic growth in RDAs overall, though there is some variation for individual RDAs

JLARC staff analyzed excise tax, property tax, property value, permitting and business licensing data provided by the sponsoring cities, county assessors, and the Department of Revenue (DOR). Time periods for analyses vary based on data availability.

- Wages grew by an average of $9,200 in the RDAs compared to $7,800 in cities' non-RDA areas. The average wage in the RDAs ($44,600) is still lower than in the non-RDA areas ($58,100).
- Estimated taxable sales in the RDAs increased from $978 million in 2013 to $1.34 billion in 2018, an increase of 39%. By comparison, taxable sales in the cities' non-RDA areas increased 30%.
- Private new construction in the RDAs totals $615 million since 2009.
    - The value of new construction in the RDAs appears to have grown faster than the cities' non-RDA areas. The new construction value is 42% of the total assessed original property value in the RDAs, as estimated in the cities' applications. In contrast, new construction represents 14% of the original assessed value of the cities' non-RDA areas.
    - Examples of major new private construction include commercial buildings and manufacturing facilities (Bellingham), housing (Bellingham, Bothell, Everett, Liberty Lake, Puyallup, Federal Way), a hotel (Federal Way), and senior centers (Puyallup).
- Taxable property values increased by 97.1% in the RDAs from 2008 to 2019, while values in the cities' non-RDA areas grew by 56.2%.
    - Local property tax revenues increased by $1.9 million (75%) over this period, while state property tax revenues increased by $4.5 million (147%). Part of the increase in state property tax revenues is due to an increase in the state school levy.

Exhibit 2.2: For some economic indicators, individual RDAs grew more than the cities' non-RDA areas

✓ = RDA outperformed cities' non-RDA areas

	Wages	Taxable Sales	Private New Construction	Taxable Property Values
Total for all RDAs	✓	✓	✓	✓
Bellingham RDA		✓	✓	✓
Bothell RDA		✓	✓	✓
Everett RDA		✓	✓	✓
Federal Way RDA	✓		✓	
Liberty Lake RDA	✓		✓	✓
Mount Vernon RDA		✓		
Puyallup RDA	✓		✓	✓
Yakima RDA		✓	✓	✓

Source: JLARC staff analysis of Department of Revenue excise tax data, property value data from county assessors. JLARC staff used business location data to allocate sales from DOR's data to each RDA based on the number of locations for each business. Businesses that made sales into the RDA, but that do not have a physical location inside the RDA, are not captured in the data.

LIFT is one of many factors that affect economic activity

While JLARC staff were able to measure changes in economic activity, there is no feasible method to determine the extent to which LIFT drove those changes. There are many other factors that can affect economic activity in the RDAs.

- **Regional and national economic conditions**, such as employment and interest rates, can influence business and consumer decisions.

- **Local business decisions**. For example, newspapers reported that Weyerhauser moved about 700 employees from its headquarters in Federal Way to Seattle. This may have reduced the city's employment growth outside the RDA. As a result, employment growth within the RDA appears higher relative to the city.
- **Non-economic factors, such as the size and composition of each RDA.** For example:
    - Liberty Lake's RDA is a greenfield site that was primarily owned by one developer. It is in a new city[4] that more than doubled its population between 2000 and 2010. The economic activity, which was mostly construction of new houses and condos, faced relatively few constraints and had significant consumer demand.
    - Yakima faced a different set of factors. Its RDA is an old industrial site in a city with population growth that has been lower than in the state as a whole. The site requires significant environmental remediation and deed restrictions prohibit certain kinds of development. Those factors mean that it may take more time for private development to occur, limiting near-term economic activity in the RDA.

Another example, noted in the first paragraph of this section, is employment in Puyallup. Employment in the City of Puyallup's non-RDA areas grew 27%. Employment in the RDA grew 5%. Factors other than LIFT most likely contributed to the comparatively lower employment growth in the RDA.

Cities use a variety of programs and funding sources, in addition to LIFT, to stimulate economic development

In addition, cities that participate in LIFT have used a variety of tools that affect economic development in the RDAs.

- **Community Revitalization Financing**. Liberty Lake's RDA overlaps with a designated tax increment area through the Community Revitalization Financing program (RCW 39.89), which uses local taxes to finance public improvements.
- **Opportunity Zones**. All or part of the RDAs of Bellingham, Everett, Federal Way, Mount Vernon, Vancouver, and Yakima lie in Opportunity Zones. These are designated areas that provide federal tax incentives to investors who fund businesses in those areas.
- **Property tax preferences**. RDAs in Bellingham, Everett and Federal Way partially overlap with areas targeted for residential development incentives through the Multifamily Property Tax Exemption (RCW 84.14).
- **Environmental cleanup**. Bellingham, Everett, and Yakima have conducted major environmental cleanup projects in their RDAs under the Model Toxics Control Act and other programs. These funds help stimulate economic development because they can lower costs and decrease risk for private developers who build there.

[4]Liberty Lake incorporated in 2001

- **Transportation Benefit Districts**. LIFT RDAs in Bellingham, Bothell, Everett, Liberty Lake, Mount Vernon, Vancouver, and Yakima have overlapped with Transportation Benefit Districts. These districts provide additional revenue for transportation improvements.

In some RDAs, LIFT financing is part of larger redevelopment plans, complicating efforts to isolate the effect of LIFT. For example, Bothell redeveloped its main street and made other improvements in the RDA in addition to the LIFT-funded transportation projects. It used other funding sources to fund those improvements, including grants and loans through the state capital budget.

REPORT DETAILS

3. Models can estimate short-term impacts

Economic models estimate a range of short-term job impacts from LIFT-related construction. Sufficient data does not exist to allow accurate modeling of long-term impacts.

JLARC staff used an economic modeling tool to estimate the impact of LIFT infrastructure construction. The tool uses input-output models to estimate the interaction between industries and geographies. The models are combined with mathematical equations to estimate how private industry, consumers, and state and local governments respond to changes over time. See Appendix A for more detail.

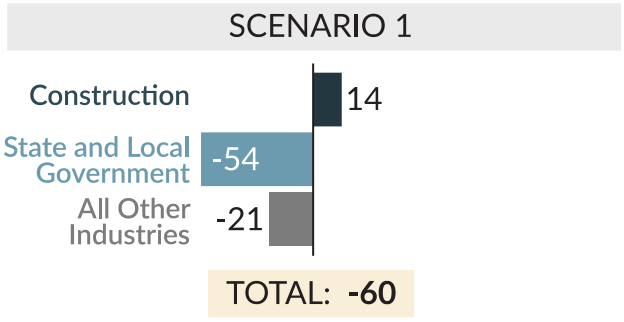
Models suggest LIFT may have had a range of effects on short-term job growth

JLARC staff modeled three scenarios. Each has different assumptions about the extent to which LIFT led to local public infrastructure investment. The assumptions are modeled as increased local public construction spending and decreased state government spending.

- The results are presented as the average annual change in the number of jobs since 2007, which is the first year that cities reported infrastructure spending. Impacts range from a loss of 60 jobs to a gain of 300 jobs.
- In each model scenario, jobs include direct construction employment, employment in other industries that provide goods and services to the construction industry, and the effects of workers spending their earnings on goods and services.
- These scenarios are intended to illustrate a range of potential effects. There is no way to conclusively determine which—if any—of these scenarios is most accurate.

Scenario 1: LIFT caused cities to spend the state contribution on infrastructure construction. State spending was reduced by the amount of the state contribution provided to cities.
Result: Net loss of 60 jobs.

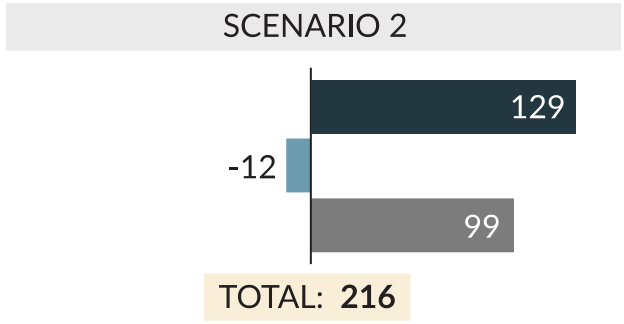
In this scenario, the state economy loses an average of 60 jobs per year. Increases in construction industry jobs do not offset job losses in government or other industries. The counties in which the cities with active RDAs are located (LIFT counties) lose 30 jobs. Non-LIFT counties lose 31 jobs (sum does not equal 60 due to rounding).



Source: JLARC staff analysis of REMI Tax PI+ model results.
Sum does not equal total due to rounding.
Results are average annual change in jobs since 2011, the first year of the state contribution.

Scenario 2: LIFT caused all reported infrastructure construction. State spending was reduced by the amount of the state contribution provided to cities.
Result: Net gain of 216 jobs.

This scenario reflects the actual amount invested in LIFT infrastructure projects through 2018. It assumes cities would not have made the investments without the state funding. It also assumes that there is not enough tax revenue in the RDAs to offset the amount transferred to cities, so state spending is reduced.

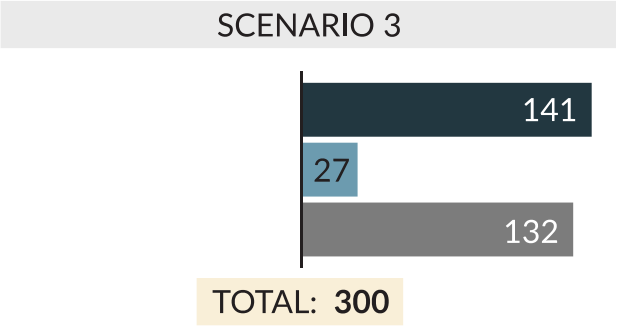


Source: JLARC staff analysis of REMI Tax PI+ model results.
Sum does not equal total due to rounding.

In this scenario, the increased construction spending by cities outweighs the negative effect of reduced state spending. Overall, the state economy gains an average of 216 jobs per year. LIFT counties gain 214 jobs. Non-LIFT counties gain 3 jobs (sum does not equal 216 due to rounding).

Scenario 3: LIFT caused all reported infrastructure construction, and state spending was not reduced.
Result: Net gain of 300 jobs.

Like Scenario 2, this scenario reflects the actual amount invested in LIFT infrastructure projects through 2018 and assumes cities would not have made the investments without the state funding. Unlike Scenario 2, it also assumes that tax revenues from the RDAs fully offset the amount transferred to cities.



Source: JLARC staff analysis of REMI Tax PI+ model results.

The increased construction spending results in an average statewide increase of 300 jobs per year. LIFT counties gain 276 jobs. Non-LIFT counties gain 24 jobs.

Determining the long-term impact of infrastructure improvements requires specific and accurate data that does not exist

Infrastructure improvements have benefits beyond short-term construction spending. For example, building a parking garage may increase demand for local retailers. Building a city park may encourage more people to move to that city. Widening a road may decrease commute times and lower transportation costs for businesses. These changes have economic effects.

However, economists emphasize that the impact of any infrastructure project depends on its specific characteristics, goals, and success in meeting those goals. For example, a project may have a goal to improve economic output by widening local roads in order to reduce traffic congestion. However, widening a road that is lightly used may have negligible economic benefits.

Since 75% of LIFT projects were transportation-related, JLARC staff consulted with economists and staff of the Washington State Department of Transportation on methods to estimate the long-term impact of the transportation infrastructure projects reported by cities. Analyzing the potential benefits of a transportation project requires specific and extensive data such as measuring changes in traffic volume, alternative routes, and injuries from accidents. These characteristics are not generalizable between projects. Project-specific measures customized to the local characteristics and improvement goals would be necessary to accurately estimate impacts.

This type of project-specific data needed to create estimates for the LIFT-related projects does not exist.

REPORT DETAILS

4. Insufficient evidence to recommend expansion

Given the challenges in attributing economic activity to LIFT, it is unlikely there will be sufficient evidence to recommend whether to expand the program to other cities

Statute directs JLARC to review the Local Infrastructure Finance Tool (LIFT) every five years until it expires in 2044. Further, in 2028, JLARC must recommend whether the program should be expanded statewide. The recommendation must estimate the impact of an expansion on the state's economic development.

Sufficient data for recommendation analysis is unlikely

Even with more years of currently available data to evaluate, it is unlikely there will be sufficient evidence to recommend whether to expand the program statewide in 2028. As noted in this report, LIFT is one of many factors that affects economic activity. Experts indicate that the reliable, project-specific data needed to estimate economic impacts is unlikely to be available.

JLARC staff considered a variety of methods to attribute economic effects to LIFT

JLARC staff consulted economic literature and economic development experts about possible methods to identify specific long-term effects of the LIFT program.

Method	Challenges
Compare outcomes in actual RDAs to outcomes in unsuccessful proposed RDAs.	The Community Economic Revitalization Board chose applicants based on perceived likelihood and magnitude of the impact of the proposed projects. This introduces uncontrollable selection bias. Further, there were few unsuccessful applicants, limiting the number of comparison locations. There is no data on the geographic boundaries of the unsuccessful Revenue Development Areas, limiting our ability to isolate economic changes in those areas.
Apply studies of other infrastructure improvement programs to LIFT.	Economic development literature and experts emphasize that infrastructure impacts are inherently location-specific. They advise against generalizing economic impacts from one project to another, even if the underlying improvement is similar.
Apply models of transportation-specific benefits. (75% of LIFT spending is transportation-related)	As noted in section 3, the data required is not available for the LIFT cities' transportation projects.

Legislature supports other programs that fund public infrastructure

The Legislature has a number of other avenues that also assist cities with infrastructure financing. The Community Economic Revitalization Board, Public Works Board, Transportation Investment Board, and Local Revitalization Financing program all support local infrastructure projects. Those programs awarded more than $320.4 million in the 2017-19 biennium. The Legislature also appropriates money directly for certain infrastructure projects through the capital and transportation budgets.

Even with these other funding programs, the currently participating cities report that they rely on the LIFT revenue stream. For example, Bothell's bond contracts identify LIFT revenue as the payment stream. Other cities also have proposed offering bonds based on LIFT payments. Cities have structured long-term budgets around anticipated LIFT revenue.

REPORT DETAILS
5. Excess payments & incomplete information for monitoring

Cities' reporting errors and a lack of state oversight led to potential excess payments and incomplete information for monitoring projects

Each city must submit an annual report that is used to inform the Legislature and determine the state contribution

Statute directs each city to submit an annual report to the Community Economic Revitalization Board (CERB) and the Department of Revenue (DOR). CERB uses the information as the basis for its biennial LIFT report to the Legislature and public. DOR uses the information to calculate state contributions to cities.

State contribution formula is complex and errors can lead to excess payments

The cities must use a series of complex calculations to estimate the increases in state property and excise tax revenue in the Revenue Development Area (RDA). They report the information in the annual report.

The focus of this evaluation is to identify LIFT's potential economic impacts. In the course of reviewing annual reports for economic information, JLARC staff tested the reliability of the information. We uncovered errors and overestimates discussed in this section. We notified the cities, CERB and DOR about these errors for their follow up to improve information reported in the future.

DOR uses information about property and excise tax revenues to calculate the state contribution for each city. The formula is set in statute. It is complex, but the basic principle is that the city will receive the lowest of four amounts:

- $1 million.
- The maximum award set by CERB ($500,000 or $1 million).
- The increase in state property and excise tax revenues in the RDA.
- Local revenue dedicated to or spent on projects in the RDA.

Example of how calculation errors could lead to excess payments: If a city had a maximum award of $1 million, increased RDA tax revenues of $900,000 and $1.5 million in local spending, then it should receive $900,000 (the lowest amount). If the tax revenues were overestimated as $1.1 million, then the city would receive $1 million.

More detail about the state contribution formula is in Appendix 3 of the 2013 JLARC report.

Calculation errors by cities are common and DOR does not verify the accuracy of the information submitted

JLARC staff reviewed the cities' reports and found they frequently made these types of calculation errors:

1. **Overestimating property tax revenues.** Data to estimate property tax revenue is available, but it requires a series of complex calculations. Errors include counting tax-exempt properties in the estimates. Six cities have overestimated these revenues at least once. In total, cities estimated that state property tax revenue increased by $12.1 million since they began receiving LIFT tax funds. JLARC staff independently estimated that the increase is $6.1 million.
2. **Overestimating excise tax revenues.** Due to the way excise tax data is collected, cities must estimate how much can be attributed to the RDA. They have developed different ways to do so, but JLARC staff identified errors in estimating methods. For example, one city reported the total increase in revenues since 2007, not the annual increase. As a result, its reports appear to overestimate state excise tax revenues by millions of dollars. In total, cities estimated that state excise tax revenue increased by $216.7 million since they began receiving LIFT tax funds. JLARC staff independently estimated that the increase is $32.6 million.
3. **Including ineligible expenses in the local funds calculation.** LIFT may be used only for certain public improvements, such as road construction and park facilities, that are in a city's Revenue Development Area (RDA). One city reported costs related to attempts to recruit a private business to locate in the RDA. While these costs are related to economic development in the RDA, they are not eligible public improvements as defined by statute.

Absent DOR guidance to the cities, each city has used a different method to estimate state tax revenues. DOR does not verify the accuracy of city-reported information.

JLARC staff calculate there were $14 million in potential excess state contributions due to cities' overestimates

JLARC staff independently estimated state contributions[5] for each city and fiscal year. This approach identified $14 million in potential excess distributions to eight cities. For example:

- In 27 instances, a city's overestimate may have led to an excess state contribution.
- In one instance, DOR distributed $886,060 to a city that reported spending $820,231, an excess contribution of $65,829.

A 2013 law states that DOR's state contribution determination is final and allows corrections only if reported infrastructure spending was inaccurate. Since most errors identified by JLARC staff are overestimates of state tax revenues, most excess contributions cannot be recouped. DOR states that it is not responsible for verifying the accuracy of information provided by the local government in its annual LIFT reports.

Future risk of excess payments will decrease

Two statutory features help mitigate the risk of future excess payments. First, the property and excise tax formulas use the highest amount calculated in any year since the beginning of the LIFT program. This means the formula effectively ignores any decreases in state tax revenues and does not adjust downward when increases are less than the “record high.” Second, a 2018 legislative change now allows cities to "carry forward" infrastructure spending from previous years. Before 2018, the state contribution was limited to the amount of local revenue the local jurisdiction dedicated to LIFT infrastructure projects in the previous calendar year.

Annual report form lacks detail and is unclear, leading to inconsistent data

The annual report form lacks the detail needed to assess compliance with statute, such as the type or location of public improvements. The instructions are unclear and, in some cases, conflicting.

Five cities told JLARC staff they were unsure how to complete parts of the annual reporting form and comply with the statutory reporting requirements. As a result, each city has developed its own method of reporting, including how to calculate revenues, how to categorize spending, and where on the form to report certain information.

Although CERB created the form, neither DOR nor CERB provide training on reporting requirements, and statute does not direct them to do so. While CERB provided technical assistance in 2006 through 2008, neither agency currently provides reporting guidance except upon request.

[5]Other approaches may estimate higher or lower excess contributions

REPORT DETAILS

Appendix A: Using REMI to model short-term job impacts

REMI analysis shows a wide range of possible outcomes from short-term construction spending

JLARC staff used Regional Economic Models, Inc.'s (REMI) Tax Policy Insight Multi Region model (Tax-PI MR) to model three scenarios that illustrate potential employment impacts of the LIFT program.

This technical appendix provides background detail and supporting information for the JLARC staff analysis that led to the results summarized in section 3.

This appendix is divided into three sections:

1. REMI overview explains what the REMI Tax-PI MR model is, and how and why it is used.
2. Modeling LIFT using REMI details how JLARC staff set up the Tax-PI MR program and modeled scenarios to reflect the range of possible results.
3. Detailed assumptions and results shows the employment changes resulting from each scenario at the county level.

REMI Overview

JLARC staff used REMI's Tax-PI MR software (version 2.3) to model the economic impacts of LIFT funding. REMI software is used by approximately 30 state governments and dozens of private sector consulting firms, research universities, and international clients.

Model is tailored to Washington and includes government sector

Tax-PI MR is an economic impact tool used to evaluate the fiscal, economic, and demographic impacts of policy changes at the state and county levels. The software includes various features that make it particularly useful for analyzing the economic and fiscal impacts of tax policies such as LIFT.

- Tax-PI MR uses economic and demographic data from federal government agencies such as the U.S. Census Bureau, U.S. Energy Information Administration, the Bureau of Labor Statistics, and the Bureau of Economic Analysis. REMI staff consulted with staff from the Office of Financial Management (OFM) and customized a model to reflect Washington's economy.

- The model contains 70 industry sectors, based on the North American Industry Classification System (NAICS) codes.
- Tax-PI MR includes state and local government as a sector. This permits users to see the trade-offs associated with tax policy changes. For example, users can model the effects on Washington's economy from both increased expenditures by businesses due to a tax preference, along with decreased spending by government due to the associated revenue loss.
- For current revenue and expenditure data, users can input information to reflect their state's economic and fiscal situation.

Model simulates the direct, indirect, and induced impact of a policy change

The Tax-PI MR model accounts for the direct, indirect, and induced effects as they spread through the state's economy, which allows users to simulate the full impact of a policy change over time.

- Direct effects are industry specific and capture how a target industry responds to a particular policy change (e.g., changes in industry employment following a change in tax policy).
- Indirect effects capture employment and spending decisions by businesses in the targeted industry's supply chain that provide goods and services.
- Induced effects capture the in-state spending and consumption habits of employees in targeted and related industries.

The Tax-PI MR model produces year-by-year estimates of the total statewide and county effects of a tax policy change. Impacts are measured as the difference between a baseline economic and revenue forecast and the estimated economic and revenue effects after the policy change.

Model includes economic, demographic, and fiscal variables

The Tax-PI MR model is a macroeconomic impact model that incorporates aspects of four major economic modeling approaches: input-output, general equilibrium, econometric, and new economic geography. The foundation of the model — the inter-industry matrices found in the input-output models — captures Washington's industry structure and the transactions between industries. Layered on top of this structure is a complex set of mathematical equations used to estimate how private industry, consumers, and state and local governments respond to a policy change over time.

- The supply side of the model includes many economic variables representing labor supply, consumer prices, and capital and energy costs with elasticities for both the consumer and business sectors.
- Regional competitiveness is modeled via imports, exports, and output.
- Demographics are modeled using population dynamics (births, deaths, and economic and retirement migration) and includes cohorts for age, sex, race, and retirement.

- Demographic information informs the model's estimates for economic consumption and labor supply.
- The dynamic aspect comes from the ability to adjust variables over time as forecasted economic conditions change.

  While the model is complex and forecasting involves some degree of uncertainty, Tax-PI MR provides a tool for practitioners to simulate how policy and the resulting industry changes affect Washington's economy, population, and fiscal situation.

Modeling LIFT using REMI

Before running modeling scenarios, users must customize the model by inputting information about the state's budget. JLARC staff created budget and revenue assumptions in the model using revenue estimates from the Economic and Revenue Forecast Council (ERFC) and budgeted expenditures from the Legislative Evaluation and Accountability Program (LEAP) Committee. This results in a baseline economy, which allows comparison between different modeled scenarios.

Because Tax-PI MR is a forecasting tool, the ability to model policy changes from past years is not built in. To account for this, REMI staff advised JLARC staff on a method to adjust baseline assumptions for employment and population, setting 2018 levels to reflect the economy and population in 2007.

Detailed Assumptions and Results

LIFT provides state government funds for infrastructure construction. The corresponding Tax-PI MR policy variables are state government spending and construction industry sales. Within the construction industry, there are three sub-industries: transportation, other non-residential construction, and residential construction. JLARC staff, with the help of the cities, categorized each construction project as either transportation or other non-residential construction (LIFT does not fund residential construction).

State LIFT contributions from FY 2011 (the first year of contributions) through FY 2018 totaled $35.1 million. We used that figure as the state government spending policy variable. Although the FY 2019 LIFT contribution amounts were available, we excluded them in order to align with the reporting cycle of the cities' infrastructure investments. The most recent reported data was CY 2018. We allocated the reduction in state government spending across all counties using the amount of the state general fund each county receives, as reported by the Office of Financial Management.

JLARC staff selected the change in number of jobs as the result to display.

Reading and using the table

- Six counties are listed in the table: King (which had two RDAs), Pierce, Snohomish, Spokane, Whatcom and Yakima. They had active RDAs with public construction spending from CY 2007 to 2018.
- Two counties – Clark and Skagit - had RDAs that did not have any public construction spending. Results for those counties are reported along with the 31 other counties that do not have RDAs.
- Use the buttons on the left side of the graphic to select a scenario to display.

Exhibit A1: Assumptions and results for modeled scenarios

Use the buttons to select a scenario. Descriptions are in the text below. Link to interactive scenarios.

Scenario 1: LIFT caused cities to spend the state contribution on infrastructure construction. State spending was reduced by the amount of the state contribution provided to cities. Result: Net loss of 60 jobs.

Assumptions: the state contributed $35.1 million to cities and as a result:

- Construction sales increased by $35.1 million compared to the baseline. This increase took place in the counties with LIFT projects, and was split between transportation and other non-residential construction based on actual spending data from the cities.
- LIFT did not cause any other infrastructure investment. This scenario assumes that the local government spending would have occurred in the absence of LIFT.
- State spending decreased by $35.1 million compared to the baseline. This reduction was spread across all counties based on Office of Financial Management (OFM) estimates of state government spending in each county.

Results: In this scenario, the state economy loses an average of 60 jobs per year from 2011-2018, the time period in which cities received LIFT distributions. Increases in construction industry jobs do not offset job losses in government or other industries.

Scenario 2: LIFT caused all reported infrastructure construction. State spending was reduced by the amount of the state contribution provided to cities. Result: Net gain of 216 jobs.

Assumptions: the state contributed $35.1 million to cities and as a result:

- Construction sales increased by $165.9 million compared to the baseline. That is the amount that local governments reported spending on infrastructure construction in the RDAs. This

increase took place in the counties with LIFT projects, and was split between transportation and other non-residential construction based on actual spending data[6] from the cities.

- State spending decreased by $35.1 million compared to the baseline. This reduction was spread across all counties based on Office of Financial Management (OFM) estimates of state government spending in each county.

Results: Overall employment is an average of 216 jobs higher compared to the baseline from 2007-2018, the time period in which cities have made infrastructure investments.

Scenario 3: LIFT caused all reported infrastructure construction, and state spending was not reduced. Result: Net gain of 300 jobs.

Assumptions: the state contributed $35.1 million to cities and as a result:

- Construction sales increased by $165.9 million compared to the baseline. This increase took place in the counties with LIFT projects, and is split between transportation and other non-residential construction based on actual spending data from the cities.
- New economic activity in the RDAs increased enough to generate $35.1 million in new state tax revenues. That new tax revenue offset the state contribution so there was no net decrease in state government spending.

Results: Overall employment is an average of 300 jobs higher compared to the baseline from 2007-2018, the time period in which cities have made infrastructure investments.

REPORT DETAILS
Appendix B: Applicable statutes

RCW 39.102

Linked here is RCW 39.102 as published June 2020.

[6]The city of Bothell reported an additional $100 million in spending on other projects within its RDA on its annual reports. For this analysis, JLARC staff considered only the spending related to the Crossroads project, for which the city dedicated all LIFT funding to servicing bonds.

RECOMMENDATIONS & RESPONSES
Legislative Auditor Recommendation

The Legislative Auditor makes one recommendation to improve the accuracy and consistency of information reported

Cities' reporting errors and a lack of state oversight led to potential excess payments and unreliable data in biennial reports to the Legislature. JLARC staff identified three contributing factors: an unclear annual reporting form, differences in cities' tax revenue calculations, and a lack of training.

The law directs DOR and CERB to periodically evaluate program implementation. JLARC's 2013 report on the LIFT program recommended the agencies identify program improvements. The agencies responded that they had no specific improvements to suggest.

Recommendation: The Department of Revenue and the Community Economic Revitalization Board should work with participating cities to clarify the annual reporting form, standardize calculation methods, and provide training and/or instructions to avoid reporting errors.

In consultation with the participating cities, DOR and CERB should take the following steps to improve reporting and reduce the risk of excess payments:

1. Revise the annual reporting form template to clarify the information cities should report in each cell or question.
2. Propose standard methods for the cities' calculations of property tax and excise tax allocation revenues.
3. Determine what training or instructions would be useful for city staff to understand and comply with reporting requirements.

Legislation Required:	No
Fiscal Impact:	We anticipate that the agencies can use existing resources to revise the reporting form and propose calculation methods. The agency should determine what training can be done within existing resources and what additional actions could be implemented with more resources.
Implementation Date:	In advance of the 2022 reporting cycle
Agency Response:	To be included with Proposed Final Report

RECOMMENDATIONS & RESPONSES
Agency Response

Agency response(s) will be included in the proposed final report, planned for July 2020.

RECOMMENDATIONS & RESPONSES
Current Recommendation Status

JLARC staff follow up with agencies on Legislative Auditor recommendations for 4 years. Responses from agencies on the latest status of implementing recommendations for this report will be available in 2022.

MORE ABOUT THIS REVIEW
Audit Authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in Chapter 44.28 RCW, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

MORE ABOUT THIS REVIEW
Study Questions

WASHINGTON JLARC

Proposed Study Questions: Local Infrastructure Financing Tool (LIFT)

State of Washington Joint Legislative Audit and Review Committee — April 2019

JLARC must conduct periodic review of the Local Infrastructure Financing Tool (LIFT)

The 2006 Legislature created the Local Infrastructure Financing Tool (LIFT) in Chapter 39.102 RCW. The law requires the Joint Legislative Audit and Review Committee (JLARC) to report on the tool's effectiveness and status every five years. This is the second report.

City of Bothell Crossroads Project

LIFT provides state funds to local governments for public infrastructure projects

Under LIFT, the state funds public infrastructure investments to attract private investment and improve economic conditions in designated local areas. The tool is based on the premise that tax revenue from the private investments will meet or exceed the state's contribution. The Department of Revenue and the Community Economic Revitalization Board (CERB) administer the financing tool.

CERB has approved nine projects, which are managed by local governments. The Legislature has not authorized funding for additional projects.

Study aims to address five questions about funded projects and economic changes

1. What is the status of the public improvement projects authorized for LIFT awards?
2. What role does LIFT play in the overall financing of the projects?
3. How has LIFT changed since the 2013 JLARC report?
4. What economic changes have occurred in the areas around the LIFT projects?
5. Are there methods to estimate which, if any, identified economic changes are attributable to LIFT public improvement projects?

Study Timeframe

Preliminary Report: April 2020 — Proposed Final Report: July 2020

Study Team

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JLARC Study Process

Study Mandate (Budget, legislation, committee direction) → **Proposed Study Questions** → Legislative Auditor's Preliminary Report → Legislative Auditor's Proposed Final Report (Agency response included) → Final Report (Option to append committee comment)

Committee votes to distribute completed audit

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Keenan Konopaski, Washington State Legislative Auditor

MORE ABOUT THIS REVIEW
Methodology

The methodology JLARC staff use when conducting analyses is tailored to the scope of each study, but generally includes the following:

- **Interviews** with stakeholders, agency representatives, and other relevant organizations or individuals.
- **Site visits** to entities that are under review.
- **Document reviews**, including applicable laws and regulations, agency policies and procedures pertaining to study objectives, and published reports, audits or studies on relevant topics.
- **Data analysis**, which may include data collected by agencies and/or data compiled by JLARC staff. Data collection sometimes involves surveys or focus groups.
- **Consultation with experts** when warranted. JLARC staff consult with technical experts when necessary to plan our work, to obtain specialized analysis from experts in the field, and to verify results.

The methods used in this study were conducted in accordance with Generally Accepted Government Auditing Standards.

More details about specific methods related to individual study objectives are described in the body of the report under the report details tab or in technical appendices.

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