

HOUSE BILL REPORT

HB 1443

As Reported by House Committee On:
Technology & Economic Development

Title: An act relating to providing for property tax exemption for the value of new construction of industrial/manufacturing facilities in targeted urban areas.

Brief Description: Providing for property tax exemption for the value of new construction of industrial/manufacturing facilities in targeted urban areas.

Sponsors: Representatives Sells and Hope.

Brief History:

Committee Activity:

Technology & Economic Development: 2/5/13, 2/14/13 [DPS].

Brief Summary of Substitute Bill

- Allows a 10 year property tax exemption on the value of new construction of industrial/manufacturing facilities that create family living wage jobs.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Morris, Chair; Habib, Vice Chair; Smith, Ranking Minority Member; Crouse, Assistant Ranking Minority Member; Freeman, Hudgins, Maxwell, Morrell, Stonier, Tarleton, Wylie and Zeiger.

Minority Report: Do not pass. Signed by 3 members: Representatives Dahlquist, Kochmar and Vick.

Staff: Jennifer Thornton (786-7147).

Background:

Property Tax.

All real and personal property is subject to property tax each year based on its value, unless a specific exemption is provided by law. There are two classes of property. Real property

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consists of land and the buildings, structures, and improvements that are affixed to land. Personal property consists of all other property, such as machinery, equipment, furniture, and supplies of businesses. The tax is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located. The County Treasurer mails a notice of tax due to taxpayers and collects the tax.

Growth Management Act.

The Growth Management Act (GMA) is the comprehensive land use planning framework for counties and cities in Washington. Originally enacted in 1990 and 1991, the GMA establishes land use designation and environmental protection requirements for all Washington counties and cities, and a significantly wider array of planning duties for the 29 counties and the cities within that are obligated by mandate or choice to satisfy all planning requirements of the GMA. It also establishes a reduced number of directives for all other counties and cities.

Innovation Partnership Zones, Foreign Trade Zones, and EB-5 Regional Centers.

Innovation Partnership Zones (IPZs) are areas formally designated by the Department of Commerce wherein business, government, and academic institutions work together to promote economic development. Currently there are 15 designated IPZs, which are designed around specific industry clusters within geographic regions of the State.

Foreign-Trade Zones (FTZs) are designated locations in the United States that offer tariff and tax relief designed to lower the costs of United States-based operations engaged in international trade and thereby create and retain the employment and capital investment opportunities that result from those operations. Located in or near customs ports of entry, FTZs are the United States version of what are known internationally as free trade zones. There are currently 13 FTZs located in Washington.

The EB-5 Regional Center program is aimed at stimulating economic activity and creating jobs for United States workers, while simultaneously affording eligible foreign investors the opportunity to become lawful permanent residents. Thirteen EB-5 Regional Centers in Washington have been designated and approved by the United States Citizenship and Immigration Services.

Summary of Substitute Bill:

The value of new construction of industrial/manufacturing facilities that meet certain requirements is exempt from property taxation for 10 years after receiving an exemption certificate. The exemption does not apply to the state school levy. The exemption also does not apply to county property tax unless the county adopts a resolution allowing county property taxes to be exempt. The goal of the exemption is to create at least one family living wage job for each \$32,000 of improvement valuation exempted.

An application for a certificate of tax exemption must be submitted before December 31, 2018, and meet the following requirements:

- the new construction of industrial/manufacturing facilities must be located on undeveloped or underutilized land zoned for industrial and manufacturing uses that is designated by the city governing authority as a targeted area; and
- facility construction must meet all construction and development regulations of the city, and be completed within three years from the date of approval of the application.

For an area to be designated as a targeted area, the area must be zoned for industrial and manufacturing uses and located in or contiguous to an Innovation Partnership Zone, Foreign Trade Zone, or EB-5 Regional Center. The city governing authority must also determine that targeting the area will assist in the new construction of industrial/manufacturing facilities that will provide employment for family living wage jobs.

The city governing authority must develop an application form that collects specific information including a description of the project and the expected number of new family wage jobs to be created. The city governing authority may establish an application fee. The fee cannot exceed the costs to the city governing authority and assessor for administering the exemption. The city governing authority must approve or deny an application within 90 days of receipt. If the application is approved, the city must issue the property owner a conditional certificate of acceptance of a tax exemption. There is an appeals process for applications that are denied.

To receive the exemption, upon completion of the new construction of a manufacturing/ industrial facility, the owner must provide the city with a description of the completed work, the number of new family living wage jobs to be offered, and a statement that the work was completed within three years of the issuance of the conditional certificate of tax exemption. The city must find that the proposed project will create at least 25 new family living wage jobs on the site within one year of business occupancy. The city must deny the tax exemption if:

- the work was not completed within three years of the application date;
- the work was not constructed consistent with the application or other applicable requirements;
- the jobs to be offered are not consistent with the application and criteria for the exemption; or
- the owner's property is otherwise not qualified for an exemption.

The city may give the owner up to 24 additional months to complete the work, if the reason for exceeding three years was beyond the owner's control.

Each owner receiving a tax exemption must report annually to the city granting the exemption. All cities that issue tax exemptions must report annually to the Department of Commerce on the number of tax exemptions granted, the number and type of new manufacturing/industrial facilities constructed, the number of new family wage jobs and corresponding annual wages, and the value of each tax exemption. If a portion of the property is changed or will be changed to disqualify an owner from receiving a tax exemption, the exemption must be canceled, and the tax on the value of the non-qualifying improvements, a 20 percent penalty, and any interest must be paid. The additional tax, penalty, and interest become a lien on the property until paid.

The Joint Legislative Audit and Review Committee must submit a report to the Legislature by December 31, 2018, with information for all values granted an exemption through December 31, 2017.

"City" is defined to mean a city with a population of at least 50,000, or the largest city or town, if there is no city or town with a population of at least 50,000, located in a county planning under the Growth Management Act.

"Family living wage job" is defined to mean an average wage of at least \$18 per hour, working 2,080 hours per year, adjusted annually for inflation. A local authority may set the wage higher.

Substitute Bill Compared to Original Bill:

The goal of creating at least one family living wage job per \$32,000 of property improvement valuations exempted is added.

County property taxes cannot be automatically exempted by the city governing authority. Instead, the county must adopt a resolution and notify the city of its intent to participate in order for county property taxes to be exempt.

The definition of "targeted area" is changed to also require that the industrial/manufacturing facility be located in or contiguous to an Innovation Partnership Zone, Foreign Trade Zone, or EB-5 Regional Center.

The last date that exemption applications can be accepted is changed from December 31, 2020, to December 31, 2018.

Owners receiving an exemption and cities issuing an exemption must report on the annual wages for each of family living wage jobs created.

A requirement for the Joint Legislative Audit and Review Committee to review the exemption and submit a report to the Legislature by December 31, 2018, is added.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 15, 2013.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This is an innovative jobs bill that speaks to partnerships. It includes about 60 cities in all, and is optional. It is a competitive market to land companies to build new facilities. This is another tool for communities that want to use it. Washington lacks

incentives offered by other states. This will bring in jobs that drive local economies. Anything to make the state more competitive to keep and grow jobs is important.

In Marysville, there are 1,000 acres sitting vacant that will likely stay that way without incentives. This land has been talked about as a manufacturing jobs center for 30 years. Marysville is a bedroom community, where people drive 20 to 40 miles to work. The community wants higher paying local jobs.

This is only an exemption for new construction. Everything that is being paid now will continue to be paid. There will be no impact on the state level. This land is producing nothing now. This incentive can add jobs and improve communities. There is strong community support.

This bill brings accountability, standards, and criteria to ensure goals are reached. The language is modeled after the multifamily statute.

(Opposed) The counties are currently opposed to the bill, but I think that the issues can be addressed. Counties have the authority to assess property taxes in incorporated and unincorporated areas. About 60 percent of county revenues come from property taxes. This bill gives the city the authority to exempt the county property tax. In many counties, due to the drop of assessed values, and the prevalence of annexations, they are bumping up against the lid, so there would actually be a decrease in revenue. The cities are more diverse. Solutions include exempting county taxes from the bill, or providing counties with decision making authority for the exemption. Some counties may want to participate.

Persons Testifying: (In support) Representative Sells, prime sponsor; Al Aldrich, Mayor Jon Nehring, and Gloria Hirashima, City of Marysville; Patrick Pierce, Economic Alliance Snohomish County; and Caldie Rogers, Marysville Tulip Chamber of Commerce.

(Opposed) Josh Weiss, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying: None.