Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Technology & Economic Development Committee

2SSB 6096

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

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Pearson, McCoy, Brown and Roach).

Brief Summary of Second Substitute Bill

- Creates a 10 year property tax exemption on the value of new construction of industrial/manufacturing facilities meeting specified criteria.

Hearing Date: 2/25/14

Staff: Kelly Leonard (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 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.

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.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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 State's 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 Bill:

<u>Creation of Property Tax Exemption</u>.
A property tax exemption is created for new construction of industrial or manufacturing facilities that meet specified criteria. New construction meeting the criteria is eligible for the exemption for a 10-year period after the issuance of a tax certificate. The exemption does not apply to the state levy, and the exemption does not apply to any county property taxes unless the governing body of the county authorizes property to be exempt from county property taxes.

<u>Applicable Geographic Areas</u>.
The tax exemption is limited to: 1) cities with a population of at least 25,000; and 2) the largest city or town in each county planning under the Growth Management Act where there is no city or town with a population of at least 25,000. The tax exemption is available only in areas where cities have established targeted areas.

Cities are permitted, but not required, to establish targeted areas, which include areas of undeveloped lands zoned for industrial and manufacturing uses that are located within or contiguous to an innovation partnership zone, foreign trade zone, or EB-5 regional center. A city governing authority must hold public hearings to designate targeted areas.

<u>Qualification Criteria</u>.
To receive the tax exemption, an application for a certificate of tax exemption must be submitted to the city governing authority before December 31, 2020. The new industrial or manufacturing facility must:

- meet a minimum improvement value of $800,000;
- create at least 25 family wage jobs;
- be located in a designated target area;
- meet all construction and development regulations of the city; and
- be constructed within three years from the date of approval of the application.

An applicant is required to enter into a contract under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the city governing authority.

Application Process.
The city governing authority may establish an application fee and must develop an application form. 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 construction, the owner must provide the city with a description of the project, the number of new family living wage jobs to be created, a statement that the applicant is aware of the potential tax liability involved when the property ceases to be eligible for the tax exemption; and a statement that the applicant would not have built in this location but for the availability of the tax exemption.

Annual Reports.
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 or industrial facilities constructed, the number of new family wage jobs, 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.

Appropriation: None.

Fiscal Note: Available.

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