

HOUSE BILL REPORT

2SSB 6096

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

Brief History:

Committee Activity:

Technology & Economic Development: 2/25/14, 2/26/14 [DP].

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.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: Do pass. Signed by 16 members: Representatives Morris, Chair; Habib, Vice Chair; Smith, Ranking Minority Member; Short, Assistant Ranking Minority Member; Dahlquist, DeBolt, Fey, Freeman, Kochmar, Magendanz, Ryu, Stonier, Tarleton, Vick, Walsh and Zeiger.

Minority Report: Do not pass. Signed by 1 member: Representative Hudgins.

Staff: Kelly Leonard (786-7147).

Background:

Property Tax.

Property taxes are imposed by state and local governments. All real and personal property in this state is subject to the property tax, unless a specific exemption is provided by law. The

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tax is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located.

Growth Management Act.

The Growth Management Act (GMA) is the comprehensive land use planning framework for county and city governments in Washington. Enacted in 1990 and 1991, the GMA establishes numerous requirements for local governments obligated by mandate or choice to fully plan under the GMA and a reduced number of directives for all other counties and cities. There are currently 29 counties, including the cities within those counties, planning under the GMA.

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.

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:

Creation of Property Tax Exemption.

A property tax exemption is created for new construction of industrial or manufacturing facilities that meet specified criteria and are located within targeted areas. 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.

Applicable Geographic Areas.

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 GMA 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.

Qualification Criteria.

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.

An industrial or manufacturing facility meeting the criteria is eligible for the exemption for a 10-year period after the issuance of a tax certificate by the city government.

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. An appeals process for denials is created.

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.

Cancellations.

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.

Staff Summary of Public Testimony:

(In support) The bill authorizes qualifying local jurisdictions to provide an exemption on the local portion of the property tax, effectively giving local jurisdictions the flexibility to use their own money for economic development. It does not divert state or county revenues. The property tax exemption will create family wage jobs, as any new facility must create 25 family wage jobs paying at least \$18.00 per hour.

Many cities could benefit from the availability of the property tax exemption, especially where cities have vacant lands zoned for industrial and manufacturing uses. The property tax exemption is a recruitment tool to encourage businesses to locate in unused or underdeveloped areas, which would foster economic growth and create higher paying local jobs. Available local jobs encourage people to work in the communities where they live rather than commute to more developed areas.

The property tax exemption would pay for itself by giving up some tax revenue in the short term while providing long term revenues and benefits. Since the exemption is only for the value of new improvements, taxes that are collected now will continue to be collected. However, cities taking advantage of the program will experience the benefits of additional businesses and jobs.

The bill is simply a toolbox item that allows cities to catalyze development in unused or underdevelopment industrial or manufacturing areas.

(In support with amendments) The bill should be amended to allow cities with underutilized industrial lands with vacant structures, also called "urban green fields," to take advantage of the property tax exemption. This bill should include the conversion of existing structures to industrial or manufacturing uses, provided that the conversion increases property values and creates jobs.

(Opposed) None.

Persons Testifying: (In support) Doug Levy, City of Lake Stevens; and Al Aldrich and Jon Nehring, City of Marysville.

(In support with amendments) Douglas Lein, City of Auburn.

Persons Signed In To Testify But Not Testifying: None.