\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**ENGROSSED SUBSTITUTE SENATE BILL 5051**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**State of Washington 66th Legislature 2019 Regular Session**

**By** Senate Financial Institutions, Economic Development & Trade (originally sponsored by Senators O'Ban, Brown, Palumbo, and Wagoner)

AN ACT Relating to incentivizing the development of commercial office space in cities located in a county with a population of less than one million five hundred thousand; amending RCW 81.104.170; adding a new section to chapter 82.14 RCW; adding a new section to chapter 81.104 RCW; adding a new chapter to Title 35 RCW; adding a new chapter to Title 84 RCW; and creating new sections.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  The legislature finds that the cost of developing high-quality, commercial office space is prohibitive in cities located outside of a major metropolitan area. The legislature finds these cities have designated urban centers and plan to locate high-quality, commercial office space within those urban centers. The legislature also finds that solely planning for commercial office space within urban centers is inadequate and an incentive should be created to stimulate the development of new commercial office space in urban centers. The legislature intends to provide these cities with local options to incentivize the development of commercial office space in urban centers with access to transit, high capacity transportation systems, and other amenities.

NEW SECTION. **Sec.**  (1) A governing authority of a city may adopt a local sales and use tax exemption program to incentivize the development of class A commercial office space in urban centers with access to transit, high capacity transportation systems, and other amenities.

(2) A governing authority of a city may adopt a local property tax exemption program to incentivize the development of class A commercial office space in urban centers with access to transit, high capacity transportation systems, and other amenities.

NEW SECTION. **Sec.**  In order to use the sales and use tax exemption authorized in section 2 of this act, a city must:

(1) Obtain written agreement for the use of the local sales tax exemption from any taxing authority that imposes a sales or use tax under chapters 82.14 or 81.104 RCW. The agreement must be authorized by the governing body of such participating taxing authorities;

(2) Hold a public hearing on the proposed use of the exemption.

(a) Notice of the hearing must be published in a legal newspaper of general circulation at least ten days before the public hearing and posted in at least six conspicuous public places located within one mile of the proposed location of a qualifying project.

(b) Notices must describe the qualifying project and estimate the amount of revenue exempted under this section.

(c) The public hearing may be held by either the governing body of a city, or a committee of the governing body that includes at least a majority of the whole governing body;

(3)(a) Establish criteria for a qualifying project exempted under section 6 of this act. Criteria must include:

(i) A minimum number of new family living wage jobs for location within the qualifying project; and

(ii) The physical characteristics, features, and amenities necessary for a qualifying project to be defined as class A commercial office space.

(b) Criteria may also include height, density, public benefit features, quality of amenities, number and size of proposed development, parking, employment targets, percent occupied, or other adopted requirements indicated necessary by the city; and

(4) Adopt an ordinance announcing the use of the sales and use tax exemptions under sections 6 and 7 of this act. The ordinance must:

(a) Describe the qualifying project, including a physical description of proposed building or buildings, a list of features and amenities, cost of construction, length that the qualifying project will be under construction, and final use such as residential, commercial, or mixed use;

(b) Estimate the amount of local sales tax revenue that will be exempted under sections 6 and 7 of this act;

(c) Provide the approximate date that the local sales tax revenue will be remitted to a taxpayer; and

(d) Certify the criteria under this section by which a qualifying project can later receive certification under sections 6(3) and 7(3) of this act confirming that a taxpayer is eligible for the remittance.

NEW SECTION. **Sec.**  (1) In order to use the property tax exemption authorized under section 2 of this act, a city must:

(a) Establish the criteria under which property can qualify for the exemption under section 9 of this act. Criteria:

(i) Must include: (A) A minimum number of new family living wage jobs for location within the qualifying project;

(B) The physical characteristics, features, and amenities necessary for a qualifying project to be defined as class A commercial office space;

(C) A location in a designated commercial office development targeted area; and

(ii) May also include height, density, public benefit features, quality of amenities, number and size of proposed development, parking, employment targets, percent occupied, or other adopted requirements indicated necessary by the city;

(b) Designate an area as a commercial office development targeted area. The following criteria must be met before an area may be designated as a commercial office development targeted area:

(i) The area must be within an urban center, as determined by the governing authority;

(ii) The area must lack, as determined by the governing authority, sufficient available, desirable, high-quality, and convenient commercial office space to provide jobs in the urban center, if the desirable, attractive, and convenient commercial office space was available;

(iii) The providing of additional commercial office space development opportunities in the area, as determined by the governing authority, will assist in achieving one or more of the stated purposes of this chapter; and

(iv) The use of the incentive in this chapter is not expected to be used for the purpose of relocating a business from outside of the commercial office development targeted area, but within the state, to within the commercial office development targeted area. The incentive may be used for the expansion of a business, including the development of additional offices or satellite facilities.

(2) For the purpose of designating a commercial office development targeted area or areas, the governing authority must adopt a resolution of intention to so designate an area as generally described in the resolution. The resolution must state the time and place of a hearing to be held by the governing authority to consider the designation of the area and must include, at a minimum, findings as to the number of commercial office buildings that will be newly constructed or rehabilitated within the proposed commercial office development targeted areas, estimated construction costs of the new construction or rehabilitation, estimated local taxes generated, and jobs produced within the targeted area in a period of ten years from the date of the hearing, and may include such other information pertaining to the designation of the area as the governing authority determines to be appropriate to apprise the public of the action intended.

(3) The governing authority must give notice of a hearing held under this chapter by publication of the notice once each week for two consecutive weeks, not less than seven days, nor more than thirty days before the date of the hearing in a paper having a general circulation in the city or county where the proposed commercial office development targeted area is located. The notice must state the time, date, place, and purpose of the hearing and generally identify the area proposed to be designated as a commercial office development targeted area.

(4) Following the hearing, the governing authority may designate all or a portion of the area described in the resolution of intent as a commercial office development targeted area if it finds, in its sole discretion, that the criteria in subsections (1) and (2) of this section have been met.

(5) After designation of a commercial office development targeted area, the governing authority must adopt and implement standards and guidelines to be utilized in considering applications and making the determinations required under section 12 of this act. The standards and guidelines must establish basic requirements for both new construction and rehabilitation, which must include:

(a) Application process and procedures;

(b) Requirements that address demolition of existing structures and site utilization;

(c) Building requirements that may include elements addressing parking, height, density, environmental impact, and compatibility with the existing surrounding property and such other amenities as will attract and keep commercial tenants and that will properly enhance the commercial office development targeted area in which they are to be located; and

(d) Guidelines regarding individual units that are part of a qualifying project that may meet the requirements of the exemption in chapter 84.-- RCW (the new chapter created in section 21 of this act).

NEW SECTION. **Sec.**  The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "City" means a city located in a county with a population of less than one million five hundred thousand.

(2) "Class A" means among the most competitive and highest quality building or buildings in the local market, as determined by a city's governing authority. High quality must be reflected in the finishes, construction, and infrastructure of the project building. The building or buildings must be at least fifty thousand square feet, and at least three stories. The building must be centrally located in a city, provide close access to public transportation and freeways, be managed professionally, and offer amenities and advanced technology options to tenants.

(3) "Commercial office development targeted area" means an area within an urban center or urban growth area that has been designated by the governing authority as a commercial office development targeted area in accordance with this chapter.

(4) "County" means a county with a population of less than one million five hundred thousand.

(5) "Family living wage job" means a job with a wage that is sufficient for raising a family. A family living wage job must have an average wage of eighteen dollars an hour or more, working two thousand eighty hours per year, as adjusted annually by the consumer price index. The family living wage may be increased by the local authority based on regional factors and wage conditions.

(6) "Governing authority" means the local legislative authority of a city or a county having jurisdiction over the property for which an exemption may be applied for under this chapter.

(7) "Mixed use" means any building or buildings containing a combination of residential and commercial units, whether title to the entire property is held in single or undivided ownership or title to individual units is held by owners who also, directly or indirectly through an association, own real property in common with the other unit owners.

(8) "Qualifying project" means new construction or rehabilitation of a building or group of buildings intended for use as class A office space. Projects may include mixed use buildings, not solely intended to be used as office space, but does not include any portion of a project intended for residential use.

(9) "Rehabilitation" means modifications to an existing building or buildings made to achieve substantial improvements such that the building or buildings can be categorized as class A.

(10) "Rehabilitation improvements" means modifications to an existing building or buildings made to achieve substantial improvements in quality, features, or amenities, such that the building or buildings can be categorized as class A as determined by a city's governing authority.

(11) "Relocating a business" means the closing of a business and the reopening of that business, or the opening of a new business that engages in the same activities as the previous business, in a different location within a one-year period, when an individual or entity has an ownership interest in the business at the time of closure and at the time of opening or reopening. "Relocating a business" does not include the closing and reopening of a business in a new location where the business has been acquired and is under entirely new ownership at the new location, or the closing and reopening of a business in a new location as a result of the exercise of the power of eminent domain.

(12) "Urban center" means a compact identifiable district where urban residents may obtain a variety of products and services. An urban center must contain:

(a) Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, and governmental agencies;

(b) Adequate public facilities including streets, sidewalks, lighting transit, domestic water, and sanitary sewer systems; and

(c) A mixture of uses and activities that may include housing, recreation, and cultural activities in association with either commercial or office use, or both commercial and office use.

NEW SECTION. **Sec.**  A new section is added to chapter 82.14 RCW to read as follows:

(1) Subject to the requirements of this section and section 3 of this act, a taxpayer is eligible for an exemption from the sales and use taxes imposed under the authority of this chapter on:

(a) The sale of or charge made for labor and services rendered in respect to construction or rehabilitation of a qualifying project located in a city; and

(b) The sale or use of tangible personal property that will be incorporated as an ingredient or component of a qualifying project located in a city during the course of the constructing or rehabilitating.

(2)(a) The exemption in this section is in the form of a remittance. A taxpayer claiming an exemption under this section must pay all applicable state and local sales and use taxes on all activities qualifying for the exemption.

(b) The amount of the exemption is one hundred percent of the local sales and use taxes paid under the authority of this chapter for activities qualifying under subsection (1) of this section, if the taxing authorities imposing taxes authorized under this chapter have authorized the use of the exemption to the governing authority of a city as provided under section 3(1) of this act.

(3)(a) After the qualifying project has been operationally complete for four years, but not later than five years after all state and local sales and use tax for activities qualifying under subsection (1) of this section has been paid, a taxpayer may apply to the department for a remittance of local sales and use taxes.

(b) A taxpayer requesting a remittance under this section must obtain certification from the governing authority of a city verifying that the qualifying project has satisfied the criteria in section 3 of this act.

(c) The taxpayer must specify the amount of exempted tax claimed and the qualifying activities for which the exemption is claimed. The taxpayer must retain, in adequate detail, records to enable the department to determine whether the taxpayer is entitled to an exemption under this section, including invoices, proof of tax paid, and construction contracts.

(d) The department must determine eligibility under this section based on information provided by the taxpayer, which is subject to audit verification by the department.

(4) The definitions in section 5 of this act apply to this section.

NEW SECTION. **Sec.**  A new section is added to chapter 81.104 RCW to read as follows:

(1) Subject to the requirements of this section and section 3 of this act, a taxpayer is eligible for an exemption from the tax imposed under the authority of RCW 81.104.170.

(2)(a) The exemption in this section is in the form of a remittance. A taxpayer claiming an exemption under this section must pay all applicable state and local sales taxes imposed or authorized under RCW 82.08.020, 82.12.020, section 6 of this act, and this chapter on all activities qualifying for the exemption as described in section 6(1) of this act.

(b) The amount of the exemption is one hundred percent of the local sales and use taxes paid under this chapter for activities qualifying under (a) of this subsection, if the taxing authorities imposing sales and use taxes authorized under this chapter have authorized the use of the exemption to the governing authority of a city as provided under section 3(1) of this act.

(3)(a) After the qualifying project has been operationally complete for four years, but not later than five years after all local sales and use tax for activities qualifying under subsection (2)(a) of this section has been paid, a taxpayer may apply to the department for a remittance of local sales and use taxes.

(b) A taxpayer requesting a remittance under this section must obtain certification from the governing authority of a city verifying that the qualifying project has satisfied the criteria in section 3 of this act.

(c) The taxpayer must specify the amount of exempted tax claimed and the qualifying activities for which the exemption is claimed. The taxpayer must retain, in adequate detail, records to enable the department to determine whether the taxpayer is entitled to an exemption under this section, including invoices, proof of tax paid, and construction contracts.

(d) The department must determine eligibility under this section based on information provided by the taxpayer, which is subject to audit verification by the department.

(4) The definitions in section 5 of this act apply to this section.

**Sec.**  RCW 81.104.170 and 2015 3rd sp.s. c 44 s 320 are each amended to read as follows:

(1) Cities that operate transit systems, county transportation authorities, metropolitan municipal corporations, public transportation benefit areas, high capacity transportation corridor areas, and regional transit authorities may submit an authorizing proposition to the voters and if approved by a majority of persons voting, fix and impose a sales and use tax in accordance with the terms of this chapter, solely for the purpose of providing high capacity transportation service.

(2) The tax authorized pursuant to this section is in addition to the tax authorized by RCW 82.14.030 and must be collected from those persons who are taxable by the state pursuant to chapters 82.08 and 82.12 RCW upon the occurrence of any taxable event within the taxing district.

(a) Except for the tax imposed under (b) of this subsection by regional transit authorities that include a county with a population of more than one million five hundred thousand, the maximum rate of such tax must be approved by the voters and may not exceed one percent of the selling price (in the case of a sales tax) or value of the article used (in the case of a use tax). The maximum rate of such tax that may be imposed may not exceed nine-tenths of one percent in any county that imposes a tax under RCW 82.14.340, or within a regional transit authority if any county within the authority imposes a tax under RCW 82.14.340.

(b) The maximum rate of such tax that may be imposed by a regional transit authority that includes a county with a population of more than one million five hundred thousand must be approved by the voters and may not exceed 1.4 percent. If a regional transit authority imposes the tax authorized under this subsection (2)(b) in excess of 0.9 percent, the authority may not receive any state grant funds provided in an omnibus transportation appropriations act except transit coordination grants created in chapter 11, Laws of 2015 3rd sp. sess.

(3)(a) The exemptions in RCW 82.08.820 and 82.12.820 are for the state portion of the sales and use tax and do not extend to the tax authorized in this section.

(b) The exemptions in RCW 82.08.962 and 82.12.962 are for the state and local sales and use taxes and include the tax authorized by this section.

(c) The exemptions in section 7 of this act are for the local sales and use taxes and include the tax authorized by this section.

NEW SECTION. **Sec.**  (1) In a city that has met the requirements of section 4 of this act, the value of new construction and rehabilitation improvements of real property qualifying under this chapter is exempt from the city share of ad valorem property taxation for a period of ten successive years beginning January 1st of the calendar year immediately following the calendar year in which a certificate of tax exemption is filed with the county assessor in accordance with section 13 of this act.

(2) Upon approval by a county legislative authority, the value of new construction and rehabilitation improvements of real property qualifying under this chapter is exempt from all property taxes levied by a county legislative authority for a period of ten successive years beginning January 1st of the calendar year immediately following the calendar year in which a certificate of tax exemption is filed with the county assessor in accordance with section 13 of this act.

(3) The exemptions provided in subsections (1) and (2) of this section do not include the value of land or improvements not qualifying under this chapter.

(4) When a local government adopts guidelines pursuant to section 4 of this act and includes conditions that must be satisfied with respect to individual commercial units, rather than with respect to the qualifying project as a whole or some minimum portion thereof, the exemption may, at the local government's discretion, be limited to the value of the improvements allocable to those individual commercial units that meet the local guidelines.

(5) In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to the submission of the application required under this chapter.

(6) This chapter does not apply to increases in assessed valuation made by the assessor on nonqualifying portions of building and value of land nor to increases made by lawful order of a county board of equalization, the department of revenue, or a county to a class of property throughout the county or specific area of the county to achieve the uniformity of assessment or appraisal required by law.

(7) At the conclusion of the exemption period, the new or rehabilitated property must be considered as new construction for the purposes of chapter 84.55 RCW.

(8) The incentive provided by this chapter is in addition to any other incentives, tax credits, grants, or other incentives provided by law.

NEW SECTION. **Sec.**  An owner of property making application under this chapter must meet the following requirements:

(1) The qualifying project must be located in an urban center as designated by the city or county;

(2) The qualifying project must meet criteria as adopted by the governing authority under section 4 of this act that may include height, density, public benefit features, quality of amenities, number and size of proposed development, parking, and other adopted requirements indicated necessary by the city or county. The required amenities should be relative to the size of the project and tax benefit to be obtained;

(3) A qualifying project must be completed within three years from the date of approval of the application;

(4) The applicant must enter into a contract with the city approved by the governing authority, or an administrative official or commission authorized by the governing authority, under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the governing authority.

NEW SECTION. **Sec.**  An owner of property seeking tax incentives under this chapter must complete the following procedures:

(1) In the case of rehabilitation or where demolition or new construction is required, the owner must secure from the governing authority or duly authorized representative, before commencement of rehabilitation improvements or new construction, verification of property noncompliance with applicable building codes;

(2) The owner must apply to the city on forms adopted by the governing authority. The application must contain the following:

(a) Information setting forth the grounds supporting the requested exemption including information indicated on the application form or in the guidelines;

(b) A statement of the expected number of new family living wage jobs to be created;

(c) A description of the project and site plan; and

(d) A statement that the applicant is aware of the potential tax liability involved when the property ceases to be eligible for the incentive provided under this chapter;

(3) The applicant must verify the application by oath or affirmation; and

(4) The application may be accompanied by the application fee, if any, required under section 14 of this act. The governing authority may permit the applicant to revise an application before final action by the governing authority.

NEW SECTION. **Sec.**  The duly authorized administrative official or committee of the city may approve the application if it finds that:

(1) The proposed qualifying project meets the criteria as defined by the city in section 4 of this act, including the minimum number of new family living wage jobs to be created for permanent location in the qualifying project within one year of building occupancy;

(2) The proposed project is or will be, at the time of completion, in conformance with all local plans and regulations that apply at the time the application is approved;

(3) The owner has complied with all standards and guidelines adopted by the city under section 4 of this act; and

(4) The site is located in a commercial office development targeted area of an urban center or urban growth area that has been designated by the governing authority in accordance with procedures and guidelines indicated under section 4 of this act**.**

NEW SECTION. **Sec.**  (1) The governing authority or an administrative official or commission authorized by the governing authority must approve or deny an application filed under this chapter within ninety days after receipt of the application.

(2) If the application is approved, the city must issue the owner of the property a conditional certificate of acceptance of tax exemption. The certificate must contain a statement by a duly authorized administrative official of the governing authority that the property has complied with the required findings indicated in section 12 of this act.

(3) If the application is denied by the authorized administrative official or commission authorized by the governing authority, the deciding administrative official or commission must state in writing the reasons for denial and send the notice to the applicant at the applicant's last known address within ten days of the denial.

(4) Upon denial by a duly authorized administrative official or commission, an applicant may appeal the denial to the governing authority within thirty days after issuance of the denial. The appeal before the governing authority must be based upon the record made before the administrative official with the burden of proof on the applicant to show that there was no substantial evidence to support the administrative official's decision. The decision of the governing body in denying or approving the application is final.

NEW SECTION. **Sec.**  The governing authority may establish an application fee. This fee may not exceed an amount determined to be required to cover the cost to be incurred by the governing authority and the assessor in administering this chapter. The application fee must be paid at the time the application for limited exemption is filed. If the application is approved, the governing authority shall pay the application fee to the county assessor for deposit in the county current expense fund, after first deducting that portion of the fee attributable to its own administrative costs in processing the application. If the application is denied, the governing authority may retain that portion of the application fee attributable to its own administrative costs and refund the balance to the applicant.

NEW SECTION. **Sec.**  (1) Upon completion of rehabilitation or new construction for which an application for a limited tax exemption under this chapter has been approved and after issuance of the certificate of occupancy, the owner must file with the city the following:

(a) A statement of the amount of rehabilitation or construction expenditures made;

(b) A statement of the new family living wage jobs to be created for location at the qualifying project;

(c) A description of the work that has been completed and a statement that the rehabilitation improvements or new construction on the owner's property qualify the property for limited exemption under this chapter;

(d) If applicable, a statement that the project meets the local requirements as described in section 10 of this act; and

(e) A statement that the work has been completed within three years of the issuance of the conditional certificate of tax exemption.

(2) Within thirty days after receipt of the statements required under subsection (1) of this section, the authorized representative of the city must determine whether the work completed, and the affordability of the units, is consistent with the application and the contract approved by the city and is qualified for a limited tax exemption under this chapter. The city must also determine which specific improvements completed meet the requirements and required findings.

(3) If the rehabilitation or construction is completed within three years of the date the application for a limited tax exemption is filed under this chapter, or within an authorized extension of this time limit, and the authorized representative of the city determines that improvements were constructed consistent with the application and other applicable requirements, and the owner's property is qualified for a limited tax exemption under this chapter, the city must file the certificate of tax exemption with the county assessor within ten days of the expiration of the thirty-day period provided under subsection (2) of this section.

(4) The authorized representative of the city must notify the applicant that a certificate of tax exemption is not going to be filed if the authorized representative determines that:

(a) The rehabilitation or new construction was not completed within three years of the application date, or within any authorized extension of the time limit;

(b) The improvements were not constructed consistent with the application or other applicable requirements;

(c) If applicable, the additional criteria related to a qualifying project under section 4 of this act were not met; or

(d) The owner's property is otherwise not qualified for limited exemption under this chapter.

(5) If the authorized representative finds that construction or rehabilitation of a qualifying project was not completed within the required time period due to circumstances beyond the control of the owner and that the owner has been acting and could reasonably be expected to act in good faith and with due diligence, the governing authority or the city official authorized by the governing authority may extend the deadline for completion of construction or rehabilitation for a period not to exceed twenty-four consecutive months.

(6) The governing authority may provide by ordinance for an appeal of a decision by the deciding officer or authority that an owner is not entitled to a certificate of tax exemption to the governing authority, a hearing examiner, or other city officer authorized by the governing authority to hear the appeal in accordance with such reasonable procedures and time periods as provided by ordinance of the governing authority. The owner may appeal a decision by the deciding officer or authority that is not subject to local appeal or a decision by the local appeal authority that the owner is not entitled to a certificate of tax exemption in superior court under RCW 34.05.510 through 34.05.598, if the appeal is filed within thirty days of notification by the governing authority to the owner of the decision being challenged.

NEW SECTION. **Sec.**  (1) Thirty days after the anniversary of the date of the certificate of tax exemption and each year for the tax exemption period, the owner of the rehabilitated or newly constructed property must file with a designated authorized representative of the city or the governing authority an annual report indicating the following:

(a) A statement of the family living wage jobs at the qualifying project as of the anniversary date;

(b) A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with all criteria under sections 4 and 11 of this act since the date of the certificate approved by the governing authority;

(c) A description of changes or improvements constructed after issuance of the certificate of tax exemption; and

(d) Any additional information requested by the governing authority in regards to the units receiving a tax exemption**.**

(2) All cities, which issue certificates of tax exemption for class A commercial office space that conform to the requirements of this chapter, must publish on the city's web site, or in another format that is easily available to the public, annually by December 31st of each year, beginning in 2019, the following information:

(a) The number of tax exemption certificates granted;

(b) A description of the new construction and rehabilitation improvements of any qualifying projects;

(c) The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted;

(d) The number of family living wage jobs located at the qualifying project; and

(e) A comparison of the data required in this section with the data included in the findings developed when the commercial office development targeted area was established.

NEW SECTION. **Sec.**  (1) If improvements have been exempted under this chapter, the improvements continue to be exempted for the applicable period under this chapter, so long as they are not converted to another use and continue to satisfy all applicable conditions. If the owner intends to convert the qualifying project to another use or, if applicable, if the owner intends to discontinue compliance with criteria established under section 4(1) of this act or any other condition to exemption, the owner must notify the assessor within sixty days of the change in use or intended discontinuance. If, after a certificate of tax exemption has been filed with the county assessor, the authorized representative of the governing authority discovers that the property or a portion of the property no longer qualifies according to the requirements of this chapter as previously approved or agreed upon by contract between the city and the owner and that the qualifying project, or a portion of the qualifying project, no longer qualifies for the exemption, the tax exemption must be canceled and the following must occur:

(a) Additional real property tax must be imposed upon the value of the nonqualifying improvements in the amount that would normally be imposed, plus a penalty must be imposed amounting to twenty percent. This additional tax is calculated based upon the difference between the property tax paid and the property tax that would have been paid if it had included the value of the nonqualifying improvements dated back to the date that the improvements were converted to a use that no longer qualifies them for the exemption;

(b) The tax must include interest upon the amounts of the additional tax at the same statutory rate charged on delinquent property taxes from the dates on which the additional tax could have been paid without penalty if the improvements had been assessed at a value without regard to this chapter; and

(c) The additional tax owed together with interest and penalty must become a lien on the land and attach at the time that the property or portion of the property no longer qualifies for the exemption, and has priority to and must be fully paid and satisfied before a recognizance, mortgage, judgment, debt, obligation, or responsibility to or with which the land may become charged or liable. The lien may be foreclosed upon expiration of the same period after delinquency and in the same manner provided by law for foreclosure of liens for delinquent real property taxes. An additional tax unpaid on its due date is delinquent. From the date of delinquency until paid, interest must be charged at the same rate applied by law to delinquent ad valorem property taxes.

(2) Upon a determination that a tax exemption is to be canceled for a reason stated in this section, the governing authority or authorized representative must notify the record owner of the property as shown by the tax rolls by mail, return receipt requested, of the determination to cancel the exemption. The owner may appeal the determination to the governing authority or authorized representative, within thirty days by filing a notice of appeal with the clerk of the governing authority, which notice must specify the factual and legal basis on which the determination of cancellation is alleged to be erroneous. The governing authority or a hearing examiner or other official authorized by the governing authority may hear the appeal. At the hearing, all affected parties may be heard and all competent evidence received. After the hearing, the deciding body or officer must either affirm, modify, or repeal the decision of cancellation of exemption based on the evidence received. An aggrieved party may appeal the decision of the deciding body or officer to the superior court under RCW 34.05.510 through 34.05.598.

NEW SECTION. **Sec.**  (1) If a property exempted under section 9 of this act changes ownership, the property must continue to qualify for the exemption provided that the new owner complies with all application procedures, terms, conditions, and reporting requirements under this chapter, and meets all criteria established by a city under section 4 of this act.

(2) The exemption is limited to ten successive years, beginning the January 1st immediately following the calendar year in which a certificate of tax exemption is filed by the city with the county assessor in accordance with section 13 of this act.

NEW SECTION. **Sec.**  The definitions in section 5 of this act apply to this chapter.

NEW SECTION. **Sec.**  Sections 2 through 5 of this act constitute a new chapter in Title 35 RCW.

NEW SECTION. **Sec.**  Sections 9 through 19 of this act constitute a new chapter in Title 84 RCW.

NEW SECTION. **Sec.**  Sections 6 and 7 of this act apply to sales and use taxes due on or after October 1, 2019.

NEW SECTION. **Sec.**  Sections 9 through 18 of this act apply to taxes levied for collection in 2020 and thereafter.

**--- END ---**