HOUSE BILL REPORT
SSB 6361

As Reported by House Committee On:
Local Government

Title: An act relating to authorizing certain cities to establish a limited tax expenditure from local property taxes for the value of new construction to encourage redevelopment of vacant lands in urban areas.

Brief Description: Authorizing certain cities to establish a limited tax expenditure from local property taxes for the value of new construction to encourage redevelopment of vacant lands in urban areas.

Sponsors: Senate Committee on Economic Development & International Trade (originally sponsored by Senators Billig, Baumgartner, Conway, Short and Darneille).

Brief History:

Committee Activity:

Local Government: 2/21/18, 2/22/18 [DP].

Brief Summary of Substitute Bill

- Allows a first-class city with a population of at least 150,000 but less than 250,000 to create a local property tax expenditure program, under which qualifying new construction is exempt from local property tax for 10 years.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass. Signed by 4 members: Representatives Appleton, Chair; McBride, Vice Chair; Gregerson and Peterson.

Minority Report: Do not pass. Signed by 3 members: Representatives Griffey, Ranking Minority Member; Pike, Assistant Ranking Minority Member; Taylor.

Staff: Cassie Jones (786-7303).

Background:

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.

All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for each property and calculates property taxes. The property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of the property. In addition, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed $5.90 per $1,000 of assessed valuation.

Summary of Bill:

Property Tax Expenditure Program.
The legislative authority of a first-class city with a population of at least 150,000 but not more than 250,000 may authorize an ad valorem tax expenditure for the value of new construction within the city if it finds that there are significant areas of vacant or underdeveloped land and insufficient family living wage jobs in areas proximate to the vacant or undeveloped land. Under the property tax expenditure program (program), the value of qualifying new construction is exempt from property taxation, except for taxes levied by the state and school districts, for a period of 10 consecutive years.

"Family living wage job" is defined as a job with an average wage of $21 an hour or more, working 2,080 hours per year on the subject site, adjusted annually for inflation; the amount may be modified by local authorities based on regional factors and wage conditions. "Vacant or undeveloped" is defined as property within a downtown urban core with no existing habitable building improvements which is targeted for new or expanded industrial, residential, commercial, or manufacturing uses.

In order to establish a program, the governing authority of a city must adopt a resolution and hold a public hearing on the proposal to create a program. The governing authority must provide notice of the public hearing. Following the hearing, the governing authority may authorize creation of the program.

Program Application Process.
An owner of property seeking a tax expenditure under the program must submit an application to the city that contains the following information:
- information setting forth the grounds supporting the requested expenditure;
- a description of the project and site plan;
- a statement of the expected 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 expenditure; and
- a statement that the applicant would not have built in the location but for the availability of the tax expenditure.

A city may approve the application if it makes the following findings:

- a minimum of five new family living wage jobs will be created on the site within one year of a certificate of occupancy;
- the proposed project is, or will be at the time of completion, in conformance with all local plans and regulations;
- the new construction will occur on land which is vacant or undeveloped;
- the area where the new construction will occur is located within an area primarily zoned for mixed use, commercial, or industrial uses;
- the general contractor overseeing the new construction meets the responsibility criteria for public works projects and pays the prevailing rate of wage; and
- the development otherwise meets any other city requirements.

The governing body of the city may establish an application fee. The fee may not exceed an amount required to cover the cost incurred by the governing body and the assessor in administering the program.

The city must approve or deny the application within 90 days of receipt of the application. If the application is approved, the city must issue the owner of the property a conditional certificate of acceptance of tax expenditure. If it is denied, the city must state in writing its reasons for denial and send the notice to the applicant's address. An applicant may appeal the denial to the city's governing authority, whose decision on the appeal is final.

Qualifying Project Completion.
Upon completion of the new construction for which an application to the program was approved and a certificate of occupancy was issued, the owner of the of the property must file with the city: a description of the work completed; a statement that the construction qualifies for the expenditure; a statement of the new family living wage jobs to be offered as a result of the new construction; and a statement that the work has been completed within three years of the issuance of the conditional certificate of expenditure. If a city finds that the work was not completed within the required time period due to circumstances beyond the owner's control, the city may extend the deadline for a period of up to 24 months.

If the owner's property qualifies for the tax expenditure, the city must file with the assessor a certificate of tax expenditure. If the city denies the certificate of tax expenditure, the city must notify the applicant. The owner may appeal the city's decision in superior court under the Administrative Procedures Act.

Annual Report.
Each year of the tax expenditure period, the owner of the new construction must file an annual report with the city that includes the number of family wage jobs at the property, a description of changes made to the property, and a certification that the property has not changed use.

Beginning in 2019, any city that issues a certificate of tax expenditure must report annually to the Department of Commerce the following information:
- the number of certificates of tax expenditure granted;
- the total number and type of new buildings constructed;
- the number of family living wage jobs resulting from the changes or improvements constructed after issuance of the certificate;

- the number of family living wage jobs created after completion of the project; and
- the value of the tax expenditure for each project receiving a tax expenditure and the total value of the tax expenditures granted.

<u>Termination from the Program</u>.
If a city discovers that changes to a property make it ineligible to continue under the program, the expenditure must be terminated and the following become due within 30 days:
- additional property tax on the value of the non-qualifying improvements, calculated as if an expenditure had not been available;
- a penalty equal to 20 percent of the additional property tax due; and
- interest upon the amounts of additional property tax due, charged at the same rate as delinquent taxes.

The additional taxes, penalty, and interest become a lien on the property, attaching at the time the property is removed from qualifying use. An owner may appeal a decision to terminate a tax expenditure to the city. An owner may appeal the final decision of the city to the superior court under the Administrative Procedures Act.

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) This bill applies to Spokane, Vancouver, and Tacoma. The prevalence of surface parking lots is holding back Spokane's development. A local property tax incentive could help turn the parking lots into productive infill developments. This bill creates a local option that could help spark development. Growing cities are in dire need of infill developments in downtown areas. Housing is also an issue. This bill creates an incentive and does not impact state or school revenues. There is a concerning provision in the bill that requires construction workers to be paid prevailing wages; this may drive up the cost of projects.

(Opposed) None.

Persons Testifying: Senator Billig, prime sponsor; Kate Burke, City of Spokane; and Andrew Rowles, Downtown Spokane Partnership.

Persons Signed In To Testify But Not Testifying: None.