

HOUSE BILL REPORT

SB 5761

As Reported by House Committee On:
Technology & Economic Development
Finance

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: Senators Pearson, Hobbs, McCoy, Bailey and Benton.

Brief History:

Committee Activity:

Technology & Economic Development: 3/18/15, 3/25/15 [DPA];

Finance: 4/3/15 [DPA(TED)].

Brief Summary of Bill
(As Amended by Committee)

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

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: Do pass as amended. Signed by 11 members: Representatives Morris, Chair; Tarleton, Vice Chair; Smith, Ranking Minority Member; DeBolt, Assistant Ranking Minority Member; Harmsworth, Hudgins, Magendanz, Nealey, Ryu, Santos and Wylie.

Staff: Kirsten Lee (786-7133).

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 Originally enacted in 1990 and 1991, the GMA establishes land use designation and environmental protection requirements for all Washington counties and cities, and a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 18 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 11 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 Amended 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 from the local legislative authority of a city (governing authority). The exemption does not apply to state levies or increases in assessed valuation. The exemption also does not apply to county property taxes unless the county adopts a resolution allowing county property taxes to be exempt.

An application for a certificate of tax exemption must be submitted before December 31, 2022, 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 as a targeted area;
- 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; and
- the applicant must enter into a contract with the city approved 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.

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 IPZ, FTZ, or EB-5 Regional Center; and
- the city must have determined that targeting the area will assist in the new construction of industrial/manufacturing facilities that will provide employment for family living wage jobs.

The 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 governing authority may establish an application fee, not to exceed administrative costs of the governing authority and assessor. An application may be approved by an authorized administrative official or committee of the governing authority if:

- a minimum of 25 new family living wage jobs will be created as a result of new construction of manufacturing/industrial facilities within one year of building occupancy;
- the 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; and
- all other requirements are met.

The governing authority or authorized representative 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. If an application is denied, notice must be sent to the applicant within 10 days of the denial. 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 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 governing authority or city official authorized by the governing authority 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 designated authorized representative of the city granting the exemption. All cities that issue tax exemptions must report annually to the Department of Commerce 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.

"City" means: (1) a city with a population of at least 18,000; or (2) the largest city or town, if there is no city or town with a population of at least 18,000, located in county planning under the GMA.

"Governing authority" is defined to mean the local legislative authority of a city having jurisdiction over the property for which an exemption may be applied for.

"Family living wage job" is a job with 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.

"Former manufacturing facility" means an improvement used primarily for manufacturing activities at any time, provided that the property is zoned for manufacturing activities at the time of use and the use occurred more than 60 months prior to the submission of an application under this chapter.

"Industrial/manufacturing facilities" means building improvements that are 10,000 square feet or larger, representing a minimum improvement valuation of \$800,000 for uses categorized as "division D: manufacturing" by the United States Department of Labor in the Occupation Safety and Health Administration's Standard Industrial Classification manual.

"Targeted area" is an area of undeveloped or underutilized lands zoned for industrial and manufacturing uses in the city that is located within or contiguous to an IPZ, FTZ, or EB-5 Regional Center, and designated for possible exemption.

"Undeveloped" means that the property or portions of the property targeted for new or expanded industrial or manufacturing uses: (1) includes a former manufacturing facility; (2) is a designated brownfield in whole or in part; or (3) is improved by new construction of industrial/manufacturing facilities.

"Underutilized" means that there are no existing building improvements on the property or portions of the property targeted for new or expanded industrial or manufacturing uses.

Amended Bill Compared to Original Bill:

The amended bill: (1) creates separate definitions for "undeveloped" and "underutilized" property by creating a new definition for "underutilized" property; (2) creates a definition for "former manufacturing facility;" and (3) changes the definition of "targeted area" to include "underutilized" lands.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on March 25, 2015.

Effective Date of Amended 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 a jobs bill designed to assist in rebuilding the Stilly Valley after the Oso Landslide and provide local family wage jobs to the qualifying cities. The 10-year tax exemption is designed to apply to areas already zoned for manufacturing. Counties may opt-in, but the bill does not affect state taxes and there is no intent to affect additional levies on property tax for other bonded issues. Many manufacturing and industrial areas are zoned and ready, but need incentives to compete with other states to bring new businesses and jobs to the areas. Currently, there are 179 aerospace and advance manufacturers in the state and 1,200 acres between Marysville and Arlington that are ready to be developed for manufacturing purposes. This bill would help provide the needed incentives. Stakeholders, including Snohomish County and the Arlington and Marysville school districts, support the bill.

(With concerns) The bill is good. However, there is a concern that the bill is too restrictive in regards to who qualifies for the tax exemption and should be more broad. In Pierce County, it would be hard to use the tax exemption outside of Puyallup.

(Opposed) None.

Persons Testifying: (In support) Senator Pearson, prime sponsor; Al Aldrich, Cities of Arlington and Marysville; Barb Tolbert, City of Arlington; and Doug Levy, City of Lake Stevens.

(With concerns) Rob Allen, Pierce County Economic Development Department.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended by Committee on Technology & Economic Development. Signed by 13 members: Representatives Carlyle, Chair; Tharinger, Vice

Chair; Nealey, Ranking Minority Member; Fitzgibbon, Manweller, Pollet, Reykdal, Robinson, Ryu, Springer, Vick, Wilcox and Wylie.

Minority Report: Without recommendation. Signed by 3 members: Representatives Orcutt, Assistant Ranking Minority Member; Condotta and Stokesbary.

Staff: Sarah Emmans (786-7288).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology & Economic Development:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended 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 bill gives qualifying local jurisdictions another tool to expand manufacturing facilities and create jobs. The bill does not use state funds at all; it simply allows local jurisdictions to exempt facilities from the local share of property taxes. Counties may opt in, and in Snohomish County, elected officials have said they are going to opt in because they want to build the local industrial base. Snohomish County is generally doing well, but the county lost 900 manufacturing jobs last year (1.4 percent of that sector). The City of Arlington is still recovering from the landslide last year. Arlington has 1,200 acres zoned for manufacturing and leaders there would like to try to attract more manufacturing facilities, since it is only 15 miles from Boeing.

Ten years ago Lake Stevens had 6,000 people. It currently has a population of 30,000 and will eventually have 50,000 under the Growth Management Act planning. Cities like Everett - which is the largest in Snohomish County - do not need the tools in this bill. This bill is designed for areas with unused or underutilized industrial or manufacturing facilities, like Lake Stevens. Snohomish County has a fairly thriving aerospace hub, but it is concentrated around places like Everett and Lynnwood. This bill aims to take some of the areas that do not have as much economic activity and provide incentives to drive activity to there. This bill is low risk/high rewards for the state because it impacts local property taxes; it is an individual slice of local taxes that local leaders will be making a decision about. The bill is a good model that will not cost the state, contains measures for transparency and reporting, and will help areas outside of main economic corridors.

(Opposed) None.

Persons Testifying: Al Aldrich, Cities of Marysville and Arlington; and Doug Levy, City of Lake Stevens.

Persons Signed In To Testify But Not Testifying: None.