

SENATE BILL REPORT

SB 6361

As Reported by Senate Committee On:
Economic Development & International Trade, February 1, 2018

Title: An act relating to authorizing certain cities to establish a limited exemption from local property taxes to encourage redevelopment of vacant lands in urban areas.

Brief Description: Authorizing certain cities to establish a limited exemption from local property taxes to encourage redevelopment of vacant lands in urban areas. **[Revised for 1st Substitute:** 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: Senators Billig, Baumgartner, Conway, Short and Darneille.

Brief History:

Committee Activity: Economic Development & International Trade: 1/25/18, 2/01/18 [DPS].

Brief Summary of First Substitute Bill

- Allows the governing authority of certain cities to adopt a local property tax expenditure program, under which qualifying new construction is exempt from local property tax for ten years.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & INTERNATIONAL TRADE

Majority Report: That Substitute Senate Bill No. 6361 be substituted therefor, and the substitute bill do pass.

Signed by Senators Chase, Chair; Takko, Vice Chair; Brown, Ranking Member; Wagoner and Wellman.

Staff: Alex Fairfortune (786-7416)

Background: Property Tax. Property taxes are imposed by state and local governments. Unless a specific exemption applies, all real and personal property in the state is subject to property tax each year based on its value. The county assessor determines assessed value for

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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.

First Class Cities. A first class city is a city with a population of 10,000 or more at the time of organization that has adopted a charter. There are ten first class cities in Washington: Aberdeen, Bellingham, Bremerton, Everett, Richland, Seattle, Spokane, Tacoma, Vancouver, and Yakima.

Summary of Bill (First Substitute): Exemption Program. A governing authority of a first-class city with a population between 150,000 and 250,000 may adopt a local property tax expenditure program to encourage the redevelopment of vacant or undeveloped land. Under the program, the value of qualifying new construction is exempt from property taxation, except taxes levied by the state and school districts, for a period of ten years.

To establish a local property tax expenditure program, a city must pass a resolution and hold a public hearing after providing adequate notice. A property owner seeking an exemption must submit an application that includes a description of the project and the expected number of new family wage jobs to be created. An application fee may be imposed. Each applicant must also sign statements acknowledging the following:

- the applicant is aware of future tax liability upon expiration of the exemption;
- the applicant is aware that the new construction must be completed within three years of the application's approval; and
- the applicant would not have built in the location but for the availability of the tax exemption.

Approval or Denial. The city may approve the application if it finds that the new construction will occur on land that is vacant or undeveloped and, as a result of the new construction, a minimum of five family wage jobs will be created on the site within a year. The planned construction must be located in an area primarily zoned for commercial, mixed use, or industrial use and be within a downtown urban core. A city may impose additional requirements.

The city must approve or deny an application within 90 days. If approved, the city must issue a conditional certificate of tax expenditure. If denied, the applicant may appeal the decision to the city's governing authority within 30 days. The decision of the city on appeal is final.

Project Construction. General contractors overseeing new construction must meet the same responsibility criteria required of responsibly bidders that submit bids for public works projects and pay the prevailing rate of wage.

Project Completion. Upon completion of the new construction, an owner must file documents with the city that include a description of the work that qualifies for the expenditure, a statement of the new living wage jobs to be offered, and a statement that the work has been completed in three years. If the criteria have been satisfied, the city must file a certificate of tax expenditure with the county. A decision by the city to deny a certificate of tax expenditure may be appealed in superior court.

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, including information on the number of expenditures granted, the value of those expenditures, and the number of family wage jobs created.

Termination. 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. This final hearing decision may be appealed to the superior court.

Family Living Wage Job. A family living wage job is defined as a job with an average wage of \$21 per hour, working 2080 hours per year on site. This wage is adjusted annually for inflation and may be increased by the local authority based on regional factors and wage conditions.

EFFECT OF CHANGES MADE BY ECONOMIC DEVELOPMENT & INTERNATIONAL TRADE COMMITTEE (First Substitute):

- Provides an additional intent statement regarding tax expenditures.
- Replaces the term tax exemption with tax expenditures.
- Redefines family living wage job as a job with an average wage of \$21 per hour instead of \$15 per hour.
- Requires that five new family living wage jobs be created as a result of new construction, rather than ten.
- Specifies that vacant and undeveloped land must be within a downtown urban core.
- Adds application criteria to be eligible for a tax expenditure. Under these new criteria general contractors overseeing new construction must meet the same responsibility criteria required of responsible bidders that submit bids for public works projects and pay the prevailing rate of wage.
- Requires a city to report the number of family wage jobs created after completion of a project to the Department of Commerce.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: Downtown Spokane has 300 acres of surface parking lots with 12,600 parking spaces, which makes up 30 percent of the downtown area. This is not productive space for economic development, and surface parking lots are not the highest and best use of land. Spokane is entering its fifth year of growth, but instead of seeing a building boom the city has seen a parking lot boom of 6 percent. It is possible owners are land banking while they wait for the market to move upward. This bill is a tool that the city could use to help tip the balance and incentivize development. This would help owners move from a smaller, reliable income to a riskier, but more beneficial use of land.

Persons Testifying: PRO: Senator Andy Billig, Prime Sponsor; Candace Mumm, Council Member, City of Spokane; Andrew Rolwes, Downtown Spokane Partnership.

Persons Signed In To Testify But Not Testifying: No one.