Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1210

Brief Description: Concerning targeted urban area tax preferences.

Sponsors: Representatives Barnard and Springer.

Brief Summary of Bill

- Allows real property with existing building improvements to qualify for the targeted urban area property tax exemption.
- Applies certain labor standards to the project construction requirements for the exemption.
- Allows cities to extend the project completion deadline for the exemption up to four years for clean energy transformation businesses.

Hearing Date: 1/30/25

Staff: Kristina King (786-7190).

Background:

<u>Property Tax—Regular Levies</u>.
All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue is limited as follows:
- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent plus the value of new construction.

The state collects two regular property tax levies for common schools. The revenue growth limit

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applies to both levies. Participants in the senior citizens, individuals with disabilities, and qualifying veterans property tax exemption program receive a partial exemption from the original state levy and a full exemption from the additional state levy.

The Washington Constitution limits regular levies to a maximum of 1 percent of the property's value ($10 per $1,000 of assessed value). There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- The state levy rate is limited to $3.60 per $1,000 of assessed value.
- County general levies are limited to $1.80 per $1,000 of assessed value.
- County road levies are limited to $2.25 per $1,000 of assessed value.
- City levies are limited to $3.375 per $1,000 of assessed value.

For property tax purposes, the state, counties, and cities are collectively referred to as senior taxing districts. Junior taxing districts—a term that includes fire, hospital, flood control zone, and most other special purpose districts—each have specific rate limits as well.

<u>Targeted Urban Area Property Tax Exemption</u>.
Cities and towns are authorized to grant a 10-year local property tax exemption for new industrial or manufacturing facilities in designated areas. Within one year of building occupancy, the facility must create at least 25 family living wage jobs with an average wage of at least $23 per hour with health care benefits. The property tax exemption is provided on the value of eligible improvements, applies only to the city portion of the property tax, and becomes effective upon the completion of the project. A county may, by resolution, allow any property receiving an exemption from city property taxes to also receive an exemption from county property taxes. No application for the exemption may be submitted after December 31, 2030.

Once constructed, the industrial or manufacturing facilities must be at least 10,000 square feet with an improvement value of at least $800,000 and meet certain building use standards defined by the US Department of Labor. New construction of industrial or manufacturing facilities must:

- be within a targeted area designated by the city;
- be on land that has no existing building improvements and that is zoned for an industrial or manufacturing use;
- meet all construction and development regulations of the city; and
- be completed within three years from the date of approval of the project application.

If the city finds that the work was not completed within the required time limit of three years, due to circumstances beyond the control of the owner, and that the owner is acting in good faith, the governing authority may extend the deadline for completion of the work for a period not to exceed two years.

Cities must give priority to exemption applications that meet the following labor specifications during the new construction and during the ongoing business of the industrial or manufacturing facilities once operational:

- compensation of workers at prevailing wage rates;
- procurement from and contracts with women-owned, minority-owned, or veteran-owned businesses;
- procurement from and contracts with entities that have a history of complying with federal and state wage and hour laws and regulations;
- inclusion of apprenticeship utilization from state-registered apprenticeship programs;
- preferred entry for workers living in the area where the project is being constructed; and
- Maintain certain labor standards for workers, including production, maintenance, and operational employees, primarily employed at the facility after construction..

Tax Preference Performance Statement.
Tax preferences confer reduced tax liability upon a designated class of taxpayers. These include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. There are over 740 tax preferences. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Real property with existing building improvements qualifies for the targeted urban area property tax exemption.

After completion of the project, in addition to fulfilling existing wage and employment requirements for the exemption, the property owner is required to file, with the city:
- a copy of the executed community workforce agreement or project labor agreement used for the construction of the project;
- a statement of the new prevailing or family wage jobs to be offered as a result of the new construction; and
- commitments to postconstruction labor standards for employed workers.

Additionally, the city must consult with the Department of Labor and Industries to confirm that:
- all entities procured from or contracted with during the construction of the facility have a history of complying with federal and state wage and hour laws and regulations;
- workers were paid prevailing wages during the construction of the project; and
- state-registered apprentices were employed on the construction project and met the apprentice rate committed to in the application, community workforce agreement, or project labor agreement.

Cities are authorized to extend the deadline for project completion for the targeted urban area property tax exemption up to four additional years beyond the existing extension of two years for clean energy transformation businesses. A clean energy transformation business is a business that:

- constructs or operates under a license issued by the United States Nuclear Regulatory Commission;
- produces or constructs hydrogen through a process that results in a life-cycle greenhouse gas emissions rate of no greater than four kilograms of CO_2e per kilogram of hydrogen;
- produces energy storage technologies or companies, which includes property that receives, stores, and delivers energy for conversion to electricity or, for hydrogen, stores energy, and has a nameplate capacity of not less than five kilowatts per hour, including thermal energy storage property; and
- transmits electric energy at 500 kilovolts or greater.

An exemption from a TPPS, JLARC review, and the 10-year expiration is included.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.