

HOUSE BILL REPORT

HB 1210

As Reported by House Committee On:
Finance

Title: An act relating to targeted urban area tax preferences.

Brief Description: Concerning targeted urban area tax preferences.

Sponsors: Representatives Barnard and Springer.

Brief History:

Committee Activity:

Finance: 1/30/25, 2/6/25 [DPS].

Brief Summary of Substitute 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.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Berg, Chair; Chase, Mena, Parshley, Penner, Ramel, Santos, Scott, Springer, Walen and Wylie.

Minority Report: Without recommendation. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell.

Staff: Kristina King (786-7190).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Background:

Property Tax—Regular Levies.

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 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 zones, and most other special purpose districts—each have specific rate limits as well.

Targeted Urban Area Property Tax Exemption.

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 700 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 Substitute 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 equipment to produce, green electrolytic hydrogen as defined in RCW 54.04.190 or renewable hydrogen as defined in RCW 19.405.020; or
- produces energy storage equipment capable of transmitting electric energy at 500 kilovolts or greater.

Clean energy transformation business does not mean government agencies or tribal nations.

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

Substitute Bill Compared to Original Bill:

The substitute bill changes the definition of a clean energy transformation business and removes the definitions for energy storage technologies and qualified clean hydrogen.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute 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) The targeted urban area (TUA) tax exemption is a good program that helps communities. So far, only two counties have used this exemption program. This bill asks for two 24-month extensions for clean energy businesses because it's necessary and important for the tri-cities and especially for the City of Richland. In this area of the state, there is a growing energy sector. Expanding this exemption program will help build up clean energy businesses in the area and create 500 to 1,500 family-wage jobs. The City of Richland has already designated 6,000 acres of land for development under this program. Since the TUA was created, Richland has entered into four contracts that have invested over a billion dollars and created hundreds of jobs. Clean energy businesses need more time to complete the building of their facilities due to stringent federal regulations, and this bill grants them the time they need. This bill will entice more clean energy businesses to build facilities in Washington. Tax preferences should have labor standards because they are necessary, and Washington should show it supports workers.

(Opposed) The project labor agreement (PLA) language is restrictive and should be removed. PLAs are exclusionary and leave out local community-owned contracting businesses. PLAs drive up costs on projects. Less than 20 percent of the workforce is recognized under PLAs, so this bill leaves out a large percentage of the workforce. PLAs pick winners and losers based on the businesses that participate in the project. The PLA language will create significant barriers for smaller contractors.

(Other) Even though this bill purports to bring clean energy businesses to the state, this tax preference will only help certain types of clean energy businesses. The bill doesn't cover clean solar and wind energy facilities which should be added to the bill. Nuclear energy is not clean energy because it generates radioactive waste and there is nowhere safe to store it. There needs to be a TPPS and JLARC review.

Persons Testifying: (In support) Representative Stephanie Barnard, prime sponsor; Joe Schiessl, City of Richland; Rael Candelaria, Framatome; Diahann Howard, Port of Benton; Erin Frasier, Washington State Building and Construction Trades Council; and Neil Hartman, Washington State Association of UA Plumbers, Pipefitters and HVAC/R Mechanics.

(Opposed) Jerry VanderWood, Associated General Contractors (AGC); Brandon Houskeeper, Associated Builders & Contractors - Western WA and SW WA Contractors Assoc.; and Carolyn Logue, Associated Builders and Contractors Inland Pacific Chapter.

(Other) Suellen Mele, 350 Washington Civic Action Team; Max Martin, Association of Washington Business; and Cathryn Chudy.

Persons Signed In To Testify But Not Testifying: None.