PROPOSED FINAL REPORT:
2021 TAX PREFERENCE PERFORMANCE REVIEWS

Targeted Urban Area Exemption

LEGISLATIVE AUDITOR'S CONCLUSION:

The Legislature acted on the Legislative Auditor's recommendation to ensure the preference is available by modifying the preference's population criteria and extending the expiration date.

December 2021

NOTE:	The preliminary report was published in January 2021. During the 2021 session, the Legislature amended chapter 84.25 RCW to change the population criteria and extend the expiration date, in response to the Legislative Auditor's recommendation. The Legislative Auditor's conclusion and recommendation have been updated to reflect statutory changes. While the preliminary report was not modified to reflect the 2021 statutory changes, JLARC staff identified program details that were changed by the 2021 legislation. Where the statute was amended, this report links to Addendum A, detailing changes to the law, effective July 25, 2021.

Executive Summary

The preference provides a local property tax exemption for new industrial or manufacturing development

Estimated Biennial Beneficiary Savings
$0
Tax Type
Local property tax
RCW 84.25.030

The 2015 Legislature authorized cities meeting certain requirements to enact a ten-year local property tax exemption for new industrial or manufacturing development in designated areas. See Addendum A for 2021 legislative changes.

The Legislature specified that cities could enact the preference and approve exemption applications if they:

- Are located in a county with a population between 700,000 and 800,000.
- Have a population of at least 18,000.
- Are located north or east of the largest city in the county.

At the time, only Snohomish County had a population between 700,000 and 800,000 and the cities of Arlington, Marysville, and Lake Stevens met the criteria.

Development projects that qualify for the preference must:

- Be located in undeveloped or underutilized areas of the city zoned for industrial or manufacturing uses.
- Be a minimum of 10,000 square feet with an improvement value of at least $800,000.
- Create at least 25 family living wage jobs, with wages of least $18 per hour.

The preference closes to new applicants December 31, 2022.

To date, stated objective to encourage development and create family wage jobs not achieved

The Legislature stated that the preference's objective is to encourage new development on undeveloped or underutilized land zoned for industrial and manufacturing uses. This new development is intended to increase family living-wage jobs in the local communities.

To date, the stated objective has **not been achieved**. Snohomish County exceeded the 800,000 population maximum in 2018, and no other counties currently have a population between 700,000 and 800,000. No exemptions were approved before this time. The Department of Revenue determined that no cities currently qualify to offer the preference. Arlington, Marysville, and Lake Stevens disagree with the Department's position.

Objectives (stated)	Results
Encourage new development on undeveloped or underutilized land zoned for industrial or manufacturing uses in targeted urban areas and increase family living wage jobs.	**Not achieved**. The preference has not been used and no cities may be eligible to offer it.

Recommendations

Updated Legislative Auditor's Recommendation: Continue and review at a later date

The Legislature acted in response to the Legislative Auditor's January 2021 recommendation by amending the preference population criteria and extending the expiration date to December 31, 2030.

In light of this legislative action, the Legislative Auditor updated the recommendation in May 2021 to recommend that the Citizen Commission should schedule the preference for review in 2028, to determine if the revised preference has achieved the goals of encouraging new development on undeveloped or underutilized land in targeted urban areas and increasing family living wage jobs.

You can find more information in Recommendations.

Commissioners' Recommendation

The Commission endorses the Legislative Auditor’s recommendation without comment.

REVIEW DETAILS

1. Preference intended to encourage local development and jobs

Ten-year local property tax exemption intended to create new industrial development and jobs

Qualifying cities may offer a ten-year local property tax exemption for the value of new construction of industrial or manufacturing facilities in designated areas. Counties in which the cities are located may offer a county property tax exemption. The exemption applies to the city and county portions of property tax, not the state portion.

See Addendum A for 2021 legislative changes.

Arlington, Lake Stevens, and Marysville initially offered the preference

The legislation authorizing the preference outlines criteria for cities to offer the preference.

The legislation authorizing the preference limits its availability to cities that:	Are located in a county with a population between 700,000 and 800,000.	Have a population of at least 18,000.	Are located north or east of the largest city in the county.

Only Snohomish County met the county population requirement in 2015. Within the county, the cities of Arlington, Lake Stevens, and Marysville met the additional population and geographic criteria. The three cities enacted ordinances to offer the preference in 2016. Snohomish County adopted an ordinance that allows an exemption from county taxes in the cities' target areas

The legislation's prime sponsor and city representatives testified they sought the local property tax exemption to encourage development on undeveloped and underutilized [1] land in the Stillaguamish Valley. Arlington and Marysville noted they were coordinating long-term efforts to encourage new industry and create local jobs, including the pursuit of other regional economic development incentives.

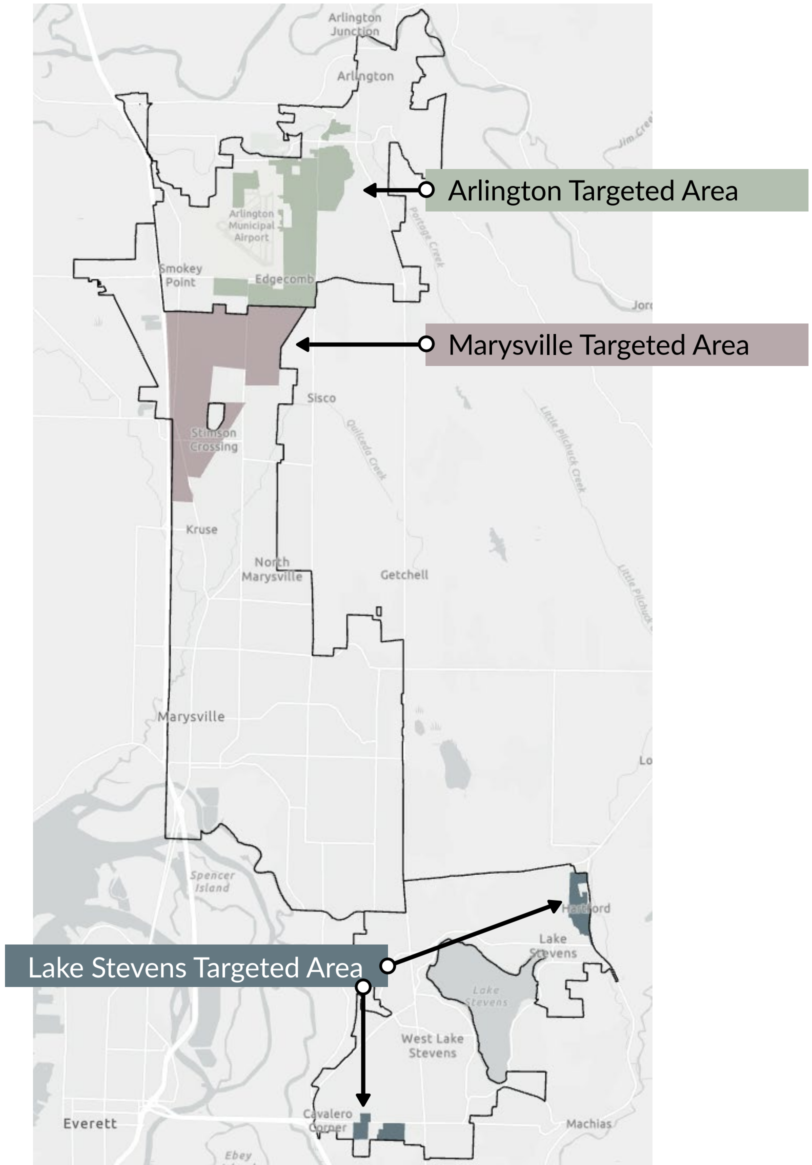
Qualifying developments must meet size, investment value, and job creation criteria

Statute requires that developments eligible for the exemption must be located in a city's designated target area, defined as undeveloped or underutilized properties near other economic development areas[2].

[1] Undeveloped and underutilized property with no existing building improvements or portions of property targeted for new or expanded industrial or manufacturing uses.

[2] Innovation partnership zones, foreign trade zones, or EB-5 regional centers.

Exhibit 1.1: Targeted areas are undeveloped or underutilized properties in or near other economic development zones



Source: JLARC staff analysis of city boundaries and established targeted areas within them.

Developments eligible for the preference must meet several requirements.

Statute specifies that developments must:	Be at least 10,000 square feet with an investment of at least $800,000.	Be categorized as manufacturing under the U.S. Department of Labor Standard Industrial Classification Manual.	Create at least 25 family living wage jobs, defined as full time, paying $18+/hour.

Property owners and cities are required to file annual reports

Property owners of qualifying facilities apply to the city for the exemption. Facilities are exempt from local property taxes for ten years after construction is complete. Per statute, property owners may not apply for the exemption after December 31, 2022.

After construction is complete, the property owner must report annually to the city. Cities report annually to the Department of Commerce (Commerce).

Exhibit 1.2: Property owners apply for the local tax exemption and report to the city. Cities report to the Department of Commerce.

Property owners report to cities	Cities report to Commerce
• The number of family living wage jobs at the facility on the anniversary date of construction. • If property use has changed, and any changes or improvements added since the exemption certificate was issued.	• The total number of exemptions approved. • The total number and type of manufacturing or industrial facilities built. • The number of family living wage jobs created by the new facilities. • The exemption value of each project and the total value of all exemptions.

Source: JLARC staff analysis of RCW 84.25.120.

2. Cities may be ineligible to offer preference

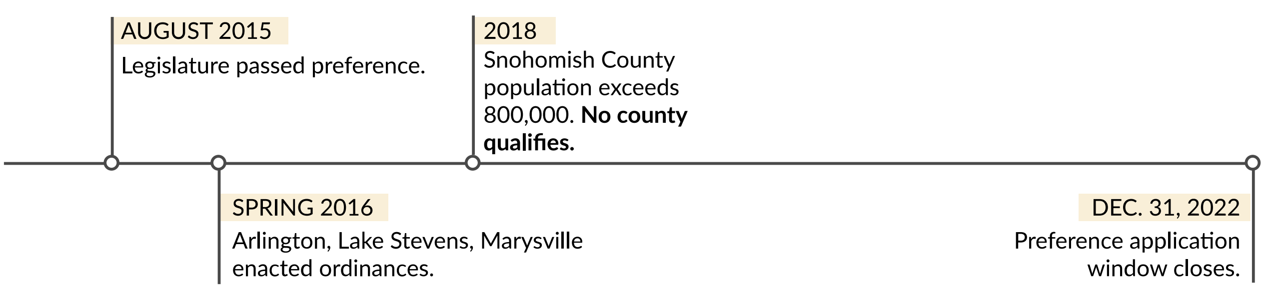
County population growth may disqualify cities from offering the preference

See Addendum A for 2021 legislative changes.

Snohomish County exceeded the statutory population range in 2018

In 2018, Snohomish County's population exceeded 800,000. The Department of Revenue (DOR) determined that the local tax exemption cannot be legally offered by any city in the county. According to DOR, Arlington, Marysville, and Lake Stevens have been ineligible to offer the preference since 2018.

Exhibit 2.1: Snohomish County exceeded the statutory population limit for cities to offer the preference in 2018



Source: JLARC staff analysis of chapter 84.25 RCW, JLARC staff analysis of city ordinances, and Office of Financial Management documentation.

DOR stated that no other city currently meets the statutory criteria to offer the preference.

No data available to evaluate preference's performance

As of November 2020, there is no data available to evaluate whether the preference achieves the stated objectives of encouraging manufacturing and industrial development and creating family living wage jobs. No property owners applied for the local property tax exemption in Arlington, Lake Stevens, or Marysville prior to 2018.

DOR and cities disagree about eligibility to offer preference

Although DOR states that no cities are eligible to offer the preference, all three city codes allow the preference to be offered. The cities reported to JLARC staff that they interpret the statute to allow them to offer the preference through December 31, 2022, regardless of population changes.

The cities indicate that they intended the preference to complement other industrial development incentives in their target areas. For example, Arlington and Marysville pursued designating their target areas as a manufacturing/industrial regional center[3] by the Puget Sound Regional Council (PSRC). The PSRC certified the Cascade Industrial/Manufacturing Regional Center in May 2019. The cities anticipated that the regional center designation, combined with the local property tax exemption, would bring new industrial development to their target areas.

Legislative action needed if Legislature wants to ensure the preference is available for future use

If the Legislature wants the preference to be available in the future, it will need to:

- Modify the statutory population criteria.
- Determine an expiration date for new applicants.

3. Applicable statutes

RCWs 84.25.010, 84.25.020, 84.25.030, 84.25.040

Findings.

RCW 84.25.010

The legislature finds that:

(1) Many cities have planned under the growth management act, chapter 36.70A RCW, and designated and zoned lands for industrial and manufacturing use;

(2) The industrial and manufacturing industries provide family living wage jobs;

(3) In the current economic climate the creation of additional family living wage jobs is essential;

(4) It is critical that Washington state promote its continued strength in the fields of aerospace, technology, biomedical, and other industries that will provide family-wage job growth; and

[3]Regional centers guide local and regional growth and transit planning, and receive priority for federal transportation funding.

(5) Planning for industrial and manufacturing use is inadequate to attract new industry and manufacturing and an incentive should be created to stimulate the development of new industrial and manufacturing uses in the existing inventory of lands zoned for industrial and manufacturing use in targeted urban areas through a tax incentive as provided by this chapter.

[2015 1st sp.s. c 9 § 1.]

Purpose.

RCW 84.25.020

It is the purpose of this chapter to encourage new manufacturing and industrial uses on undeveloped or underutilized lands zoned for industrial and manufacturing uses in targeted urban areas, thereby increasing employment opportunities for family living wage jobs. Cities that plan under the growth management act meeting the criteria of this chapter where the governing authority of the affected city has found there is insufficient family living wage jobs for its wage earning population may designate a portion of the city's industrial and manufacturing zoned and undeveloped land to receive an ad valorem tax exemption for the value of new construction of industrial/manufacturing facilities within the designated area.[2015 1st sp.s c 9 § 2.]

*** CHANGE IN 2021 *** (See EHB 1386, Chapter 218, Laws of 2021) ***

Definitions.

RCW 84.25.030

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "City" means any city that: (a) Has a population of at least eighteen thousand; and (b) is north or east of the largest city in the county in which the city is located and such county has a population of at least seven hundred thousand, but less than eight hundred thousand.

(2) "Family living wage job" means a job with a wage that is sufficient for raising a family. A family living wage job must have an average wage of eighteen dollars an hour or more, working two thousand eighty hours per year on the subject site, as adjusted annually for inflation by the consumer price index. The family living wage may be increased by the local authority based on regional factors and wage conditions.

(3) "Governing authority" means the local legislative authority of a city having jurisdiction over the property for which an exemption may be applied for under this chapter.

(4) "Growth management act" means chapter 36.70A RCW.

(5) "Industrial/manufacturing facilities" means building improvements that are ten thousand square feet or larger, representing a minimum improvement valuation of eight hundred thousand dollars 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.

(6) "Lands zoned for industrial and manufacturing uses" means lands in a city zoned as of December 31, 2014, for an industrial or manufacturing use consistent with the city's comprehensive plan where the lands are designated for industry.

(7) "Owner" means the property owner of record.

(8) "Targeted area" means an area of undeveloped lands zoned for industrial and manufacturing uses in the city that is located within or contiguous to an innovation partnership zone, foreign trade zone, or EB-5 regional center, and designated for possible exemption under the provisions of this chapter.(9) "Undeveloped or 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.

[2015 1st sp.s. c 9 § 3]

*** CHANGE IN 2021 *** (See EHB 1386, Chapter 218, Laws of 2021) ***

Exemption—New construction of industrial/manufacturing facilities.

RCW 84.25.040

(1)(a) The value of new construction of industrial/manufacturing facilities qualifying under this chapter is exempt from property taxation under this title, as provided in this section. The value of new construction of industrial/manufacturing facilities is exempt from taxation for properties for which an application for a certificate of tax exemption is submitted under this chapter before December 31, 2022. The value is exempt under this section for ten successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate. (b) The exemption provided in this section does not include the value of land or nonindustrial/manufacturing-related improvements not qualifying under this chapter.

(2) The exemption provided in this section is in addition to any other exemptions, deferrals, credits, grants, or other tax incentives provided by law.

(3) This chapter does not apply to state levies or increases in assessed valuation made by the assessor on nonqualifying portions of buildings and value of land nor to increases made by lawful order of a county board of equalization, the department of revenue, or a county, to a class of property throughout the county or specific area of the county to achieve the uniformity of assessment or appraisal required by law.

(4) This exemption does not apply to any county property taxes unless the governing body of the county adopts a resolution and notifies the governing authority of its intent to allow the property to be exempted from county property taxes.

(5) At the conclusion of the exemption period, the new industrial/manufacturing facilities cost must be considered as new construction for the purposes of chapter 84.25 RCW.

[2015 1st sp.s. c 9 § 4]

Addendum A

2021 Legislative Changes

2021 Legislature made changes to chapter 84.25 RCW

The following table details JLARC staff analysis of changes made in 2021 legislation (Engrossed House Bill 1386) to the local property tax preference provided in chapter 84.25 RCW (Targeted Urban Area Construction). These changes are effective July 25, 2021.

Statute prior to 7/25/2021	Changes effective 7/25/2021, per EHB 1386
A qualifying city must: • Be located in a county with a population between 700,000 and 800,000. • Have a population of at least 18,000. • Be located east or north of the largest city in the county.	All population and **location qualification criteria removed**. Any city or town in Washington may use the preference if all other requirements are met.
"Family living wage job" is defined as a job with an average wage of $18 or more an hour, working 2,080 hours per year on the subject site.	"Family living wage job" is defined as a job that **offers health care benefits** with an average wage of **$23 an hour** or more, working 2,080 hours per year on the subject site.
"Industrial/manufacturing facilities" are defined, in part, 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 (SIC) manual.	"Industrial/manufacturing facilities" are defined, in part, for uses categorized as either "division D: manufacturing" or **"division E: transportation (major groups 40-42, 45, or 47-48)"** by the United States Department of Labor in the occupation safety and health administration's SIC manual. Although transportation uses were added, cities may limit the tax exemption to manufacturing uses.
The preference expires to new applicants December 31, 2022.	The preference expires to new applicants **December 31, 2030**.
Each project must create a minimum of 25 new family living wage jobs at the subject site as a result of the new construction within one year of building occupancy.	Each project must create a minimum 25 new family living wage jobs at the subject site as a result of the new construction within one year of building occupancy. Priority must be given to applications that meet the following labor specifications during construction and the ongoing business operations: • Compensate workers at the prevailing wage rates as determined by the Department of Labor & Industries. • Buy from and contract with women-owned, minority-owned, or veteran-owned businesses.

Statute prior to 7/25/2021	Changes effective 7/25/2021, per EHB 1386
	• Buy from and contract with businesses with a history of complying with federal and state wage and hour laws and regulations. • Use state-registered apprenticeship programs. • Give preferred entry for workers living in the area where construction occurs. • Maintain certain labor standards for workers employed primarily at the facility after construction, including production, maintenance, and operational employees.
	Details steps for cities to follow if they discover that a facility maintains fewer than 25 family living wage jobs after the local property tax exemption has been filed. These include loss of exemption for the facility and the owner being billed for the additional property tax that would have been due.

RECOMMENDATIONS & RESPONSES

Legislative Auditor's Recommendation

Updated Legislative Auditor's Recommendation: Continue and review at a later date

The 2021 Legislature acted in response to the Legislative Auditor's January 2021 recommendation (below) by amending the preference population criteria and extending the expiration date to December 31, 2030. The Legislative Auditor updated the recommendation in May 2021 to reflect legislative action.

May 2021 recommendation: The Citizen Commission should schedule the preference for review in 2028, to determine if the preference has achieved the goals of encouraging new development on undeveloped or underutilized land in targeted urban areas and increasing family living wage jobs.

January 2021 recommendation (note: the Legislature acted upon this recommendation in 2021): Review and consider whether to extend. If the Legislature wants the preference to be available for future use, it should modify the preference's population criteria and determine an expiration date for new participants. The Department of Revenue and the cities disagree about the cities' eligibility to offer the preference.

Legislation Required: No

Fiscal Impact: Unclear

Letter from Commission Chair

State of Washington

Citizen Commission for Performance Measurement of Tax Preferences

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Avista Corp.

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October 27, 2021

The Honorable Senator Christine Rolfes
The Honorable Senator Lynda Wilson
The Honorable Senator Mark Mullet
The Honorable Senator Perry Dozier
The Honorable Senator Annette Cleveland
The Honorable Senator Ron Muzzall
The Honorable Senator Reuven Carlyle
The Honorable Senator Doug Ericksen
The Honorable Senator Karen Keiser
The Honorable Senator Curtis King
The Honorable Representative Timm Ormsby
The Honorable Representative Drew Stokesbary
The Honorable Representative Noel Frame
The Honorable Representative Ed Orcutt
The Honorable Representative Cindy Ryu
The Honorable Representative Bill Jenkin
The Honorable Representative Eileen Cody
The Honorable Representative Joe Schmick
The Honorable Representative Joe Fitzgibbon
The Honorable Representative Mary Dye
The Honorable Representative Shelly Kloba
The Honorable Representative Drew MacEwen

Re: 2021 Tax Preference

Dear Senators and Representatives:

I am pleased to forward to you the comments that the Citizen Commission for Performance Measurement of Tax Preferences **unanimously adopted for this year's review of tax preferences.** Our comments are informed by JLARC staff work, public testimony and our professional knowledge of Washington's tax structure.

The Citizen Commission consists of five voting members, appointed by each of thefour caucuses and the Governor's office and represent a broad range of ideologies and professional backgrounds. Members include a retired tax attorney and CPA, a Seattle University law professor, the president of the Edmonds Education Association, a University of Washington public policy professor, and myself, the Chief Economist at Avista. Notably, reviews this year included:

Four preferences in which the Legislative Auditor recommended legislative action:

- A review of a preference for **Manufacturers' Deferral**, in which the Legislative Auditor concluded that "*Four businesses used the tax deferral and met job goals through temporary construction work rather than permanent manufacturing jobs. Businesses likely would have built the facilities without the deferral. To increase manufacturing jobs or training, the Legislature should consider modifying the deferral program*."
- A review of a **Reduced B&O Rate for Printing and Publishing Newspapers**, in which the Legislative Auditor concluded that "*The preference provides tax relief to newspaper printers and publishers and saves these businesses money. However, the newspaper industry continues to lose revenue and jobs as it seeks to stabilize financially*."

- A review of seven preferences for **Medical Cannabis**, in which the Legislative Auditor concluded that "*Seven medical cannabis tax preferences provide tax relief to patients and cooperatives. After 2019 statutory changes, it is unclear how pending taxpayer guidance may affect beneficiary savings*."
- An exemption for the Washington **Health Benefit Exchange**, in which the Legislative Auditor concluded that "*The preference reduces the Exchange's administrative costs by $1 million per year, allowing it to maximize its funding for operating a health insurance marketplace. The Legislature should extend the July 2023 expiration date or make the preference permanent.*"

Recommendations to allow one preference to expire and to clarify the intent of another

- A review of a **Credit for Renewable Energy Program Payments**, in which the Legislative Auditor concluded that "*The tax credit program increased Washington's solar capacity and met its solar-related employment target. It did not broaden low-income participation. Solar installations have continued after the program reached its funding limit*."
- An exemption for **Nonprofit Outpatient Dialysis Facilities**, in which the Legislative Auditor concluded that "*Preference provides tax relief to nonprofit outpatient dialysis facilities, which outperform for-profit counterparts on two standard measures. Legislature should clarify its intent.*"

One recommendation implemented during the 2021 session

- During the 2021 session, the Legislature amended chapter 84.25 RCW, related to a **Targeted Urban Area Exemption** to change the population criteria and extend the expiration date, in response to the Legislative Auditor's recommendation.

The full text of the Commission's recommendations is included below and will be added to JLARC's proposed final report in December. Summaries of the JLARC staff's analysis and recommendations and brief video summaries of each preference are available here.

As Chair of the Citizen Commission, I would be pleased to discuss the Commission's position and comments with you and any interested legislators. These reviews provide valuable information as the Legislature considers whether individual preferences are meeting policy objectives. Please feel free to contact me (grant.forsyth@leg.wa.gov) or the Legislative Auditor, Keenan Konopaski (keenan.konopaski@leg.wa.gov or 360-786-5187).

Sincerely,

Grant D. Forsyth

Grant D. Forsyth, Chair
Citizen Commission for Performance Measurement of Tax Preferences

Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation without comment.

DOR & OFM Response

STATE OF WASHINGTON

September 7, 2021

TO: Keenan Konopaski, Legislative Auditor
Joint Legislative Audit and Review Committee

FROM: David Schumacher, Director
Office of Financial Management

Vikki Smith, Director
Department of Revenue

SUBJECT: **JLARC PRELIMINARY REPORT ON 2021 TAX PREFERENCE PERFORMANCE REVIEWS**

The Office of Financial Management and the Department of Revenue have reviewed the Joint Legislative Audit and Review Committee's (JLARC) preliminary report on the 2021 tax preference performance reviews.

We appreciate the thorough analysis of JLARC and the detailed review provided by the Citizen Commission for Performance Measurement of Tax Preferences. A system that provides for a continuous review of the state tax preferences is critical to ensure that the state of Washington maintains a fair and equitable tax system.

We have no specific comments on the following reports:

- Health Benefit Exchange
- Manufacturer's Deferral
- Newspapers
- Nonprofit Kidney Dialysis
- Credit for Renewable Energy Program Payments
- Targeted Urban Area Exemption

We continue to support the recommendations of JLARC for the inclusion of performance statements and specific public policy objectives for all tax preferences where they don't exist in statute today to clarify intent.

As you requested, here is the Department of Revenue's response on the recommendation provided in the Medical Cannabis Report.

RECOMMENDATION	AGENCY POSITION	COMMENTS
The Department of Revenue and the Department of Health should update guidance to reflect 2019 statutory changes.	Concur	The Department of Revenue concurs with this recommendation. However, we must wait to publish guidance until the Department of Health (DOH) has provided its guidance. We have worked with DOH and learned it is in the process of updating its public guidance concerning compliant marijuana products. DOH is the authorized agency that determines which products are compliant marijuana products that would qualify for the preference. Once updated guidance has been provided by DOH, the Department of Revenue will update the Sales and Use Tax Exemptions for Marijuana Retailers with a Medical Endorsement special notice that was originally published May 6, 2016, consistent with the DOH guidance.

Thank you again for the opportunity to review this preliminary report.

Commerce Response

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September 14, 2021

Keenan Konopaski, Legislative Auditor
Joint Legislative Audit & Review Committee
106 11th Ave SW, PO Box 40910
Olympia, WA 98504-0910
Keenan.konopaski@leg.wa.gov

Dear Mr. Konopaski,

As requested in your letter dated August, 26, 2021, the Department of Commerce is providing formal comments to the following Joint Legislative Audit and Review Committee's (JLARC) 2021 tax preference reviews. The Department largely agrees with JLARC's recommendations and provides key considerations to advise the Legislature below.

- Credit for Renewable Energy Program Payments. Allows utilities to pay customers for every kilowatt-hour of electricity they generate from their own renewable energy systems.

Commerce offers comments on this tax preference based on its role under RCW 43.21F.045 as the state energy policy office. Commerce has no direct role in the implementation of this tax preference. Commerce has reviewed the comments of the Washington State University Energy Program and agrees with those comments.

Commerce supports the Legislative Auditor's recommendation to allow this tax preference to expire. As noted in the recommendation, the incentive mechanism has largely met its intended purposes of expanding renewable energy systems and expanding employment in clean energy.

Expiration is also consistent with the Legislature's intent expressed when it enacted this tax preference:

> The legislature intends to provide an incentive sufficient to promote installation of systems through 2021, at which point the legislature expects that the state's renewable energy industry will be capable of sustained growth and vitality without the cost recovery incentive. [2017 3rd sp.s. c 36 § 1.]

The 2017 legislation was the third round of taxpayer funds provided to support development of small scale solar photovoltaic projects in Washington, and the consensus at that time was that a final, limited amount of funding should be provided. The state now has more comprehensive mechanisms in place to encourage the development of renewable energy sources, most notably the Clean Energy Transformation Act of 2019.

However, Commerce believes that the statement that the preference "did not broaden low-income participation" is overly broad. The analysis itself shows that community solar participation included low-income customers. Commerce agrees with the Legislative Auditor's conclusion that, "If the Legislature

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wants to broaden low-income participation in the production and use of solar energy, it should consider other options."

The Legislature may also wish to consider policy options that focus more directly on the resilience benefit of distributed energy resources such as customer-sited solar photovoltaic systems. Distributed energy resources may reduce the impact of power outages and allow communities to recover more quickly from natural disasters.

- Reduced B&O rate for Printing and Publishing Newspapers. Provides reduced B&O rate to any business producing print and digital newspapers.

Commerce supports JLARC's recommendation for review by the Legislature without further comment.

- Targeted Urban Area Exemption. Provides a local property tax exemption for new industrial or manufacturing development.

Commerce supports the Legislative Auditor's recommendation to schedule the preference for review in 2028. This preference can support the state's goals to increase the manufacturing workforce and growth of state and local economies for those planning under the Growth Management Act (GMA); however, those counties not fully planning under the GMA won't benefit from the modified exemption.

The modification of the exemption to allow all Washington cities and towns in counties planning under the GMA to use the preference is a good change that aligns with the strength of the distribution of manufacturing jobs currently. That is, 80% of the state's manufacturing jobs are in urban counties with 60% of the total jobs in King and Snohomish counties alone. The 11 counties not planning under GMA have 4.4% of the state's manufacturing workforce, and if you exclude Cowlitz County which has a strong manufacturing workforce, that drops to 2.2%. This means the areas that need incentives to increase manufacturing won't get one with this proposal.

The modified tax preference can help:
- The state meet its 10-year goal to double the state's manufacturing workforce under HB 1170 (2021).
- Incentivize the creation or expansion of regional clusters of industrial/manufacturing uses for both new and existing industries.
- Incentivize the use of underutilized and available sites in some rural counties, which has the potential to grow family wage jobs, as well as state and local tax revenues.

- Manufacturers' Deferral tax preference. Provides a tax deferral for manufacturers that build or expand facilities or purchase equipment.

Commerce supports the Legislative Auditor's recommendation to extend and modify the preference and notes that low take-up rate of this program may give the false impression that this benefit isn't needed.

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The opposite is true – such a program could greatly benefit Washington, especially given its regional-orientation that grows opportunities across the state. The program in its current form doesn't match the speed of business, and the following changes could improve Washington's competitive position:

- Temporary construction positions. Commerce supports JLARC's recommendation to modify this program to spur the creation of permanent, full-time manufacturing jobs rather than permanent and temporary as currently allowed.
- Extending the sunset. Businesses can no longer apply for deferral after January 1, 2026. Commerce recommends extending this sunset, with particular consideration for recently passed HB 1170, which sets the goal to double the number of manufacturing jobs in the state over the next 10 years.
- Construction impacts. JLARC's critical finding that recipients of this benefit report faster construction periods, while perhaps an unintended outcome, is another reason we are supportive of extending this program. Accelerating growth in manufacturing will require faster delivery of production spaces and this is one tool to do that.
- Expansion of access to maximize benefits. A critical challenge in take-up of this program is the 2 project per year cap and the first-in-time basis of application. We recommend removing the first-in-time basis for eligibility and increasing the number of allowable projects. Such changes could increase the deferral total from the 18% currently utilized if additional consideration were given to larger projects or a greater number of smaller-scale projects.

Thank you for the opportunity to provide formal comments on the above tax preference reviews. Please contact my Legislative Director, Jasmine Vasavada, at 360-480-6622 or Jasmine.Vasavada@commerce.wa.gov if you have any questions.

Sincerely,

Lisa J. Brown

Lisa Brown
Director

CC: Jasmine Vasavada, Legislative Director, Commerce
Marie Davis, Senior Policy Advisor, Commerce
Glenn Blackmon, Energy Policy Office Manager, Commerce
Buck Lucas, Management Analyst, Commerce

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MORE ABOUT THIS REVIEW

Study questions

Click image to view PDF of proposed study questions.

Washington JLARC

PROPOSED STUDY QUESTIONS

Targeted Urban Construction

State of Washington Joint Legislative Audit and Review Committee — October 2020

JLARC to review a local property tax exemption for new industrial or manufacturing construction in targeted cities

This preference is included in the 10-year review schedule set by the Citizen Commission for Performance Measurement of Tax Preferences.

In 2015, the Legislature authorized certain cities to enact a 10-year local property tax exemption for new industrial development in designated areas. Businesses can apply for the property tax exemption until December 31, 2022.

The Legislature specified that cities could enact preference if they:

- Have a population of at least 18,000.
- Are located north or east of the largest city in the county.
- Are located in a county with a population between 700,000 and 800,000.

In 2015, the cities of Arlington, Marysville, and Lake Stevens met these criteria. Development projects that qualify for the preference must:

- Be located in undeveloped on underutilized areas zoned for industrial or manufacturing uses.
- Be a minimum of 10,000 square feet with an improvement value of at least $800,000.
- Create at least 25 family living-wage jobs, with wages of least $18 per hour.

The preference is intended to grow industrial development and create jobs

The Legislature stated that the incentive's purpose is to encourage new development on undeveloped or underutilized land zoned for industrial and manufacturing uses in targeted urban areas. This new development is intended to increase family living-wage jobs in the local communities.

This study will address the following questions:

1. Which cities have adopted the preference?
2. To what extent have businesses applied for and used the preference? What circumstances have affected the preference's use?
3. How many family living-wage jobs were created at facilities built using the preference?

Study Timeframe

Preliminary Report: July 2021 **Proposed Final Report:** December 2021

Study Team

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JLARC Study Process

- Study Mandate — Budget, legislation, committee direction
- **Proposed Study Questions**
- Legislative Auditor's Preliminary Report
- **For Tax Preferences:** Citizen Commission meeting; Public testimony; Commission adopts comments
- Legislative Auditor's Proposed Final Report — Agency response included
- Final Report — Option to append committee comment
  - *Committee votes to distribute completed audit*

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