HOUSE BILL REPORT
E2SHB 1495

As Passed House:
March 8, 2017

Title: An act relating to incentivizing the development of commercial office space in cities with a population of greater than fifty thousand and located in a county with a population of less than one million five hundred thousand.

Brief Description: Incentivizing the development of commercial office space in cities with a population of greater than fifty thousand and located in a county with a population of less than one million five hundred thousand.

Sponsors: House Committee on Finance (originally sponsored by Representatives Fey, Muri, Sawyer, Sells, Jinkins and Doglio).

Brief History:

Committee Activity:

Local Government: 1/25/17, 2/9/17 [DPS];

Finance: 2/22/17, 2/23/17 [DP2S(w/o sub LG)].

Floor Activity:

Passed House: 3/8/17, 79-18.

Brief Summary of Engrossed Second Substitute Bill

- Creates a local sales and use tax exemption program in cities with a population greater than 50,000 that are located in a county with a population of less than 1.5 million to incentivize the development of commercial office space in urban centers with access to transit, high capacity transportation systems, and other amenities.
- Requires certain agencies and local jurisdictions to determine eligibility for the tax exemption program, and establish guidelines and criteria for qualifying projects.
- Requires a study by the Joint Legislative Audit and Review Committee on the effectiveness of the program.
- Establishes an end date for new participation in the tax exemption program.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

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

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 5 members: Representatives Appleton, Chair; McBride, Vice Chair; Griffey, Ranking Minority Member; Gregerson and Peterson.

Minority Report: Do not pass. Signed by 2 members: Representatives Pike, Assistant Ranking Minority Member; Taylor.

Staff: Desiree Omli (786-7383).

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Local Government. Signed by 11 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

Staff: Rachelle Harris (786-7137).

Background:

<u>Local Sales and Use Tax</u>.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital product, or service when used in this state. The state, most cities, and all counties levy retail sales and use taxes. Local sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on the location.

Twenty-five different types of local sales and use taxes are currently authorized. The most common is a two-part (0.5 percent basic plus 0.5 percent optional) city and county sales and use tax of up to 1 percent. The tax is used for general local purposes. Almost all cities and counties levy the full 1 percent rate. The county sales and use tax is credited against the city tax; however, cities are required to share 15 percent of their tax with the counties. Local sales and use taxes are deposited into the Local Sales and Use Tax Account (Account). On a monthly basis, the State Treasurer distributes taxes in the Account to the jurisdictions imposing local sales and use taxes.

Summary of Engrossed Second Substitute Bill:

A governing authority of a city with a population greater than 50,000 that is located in a county with a population of less than 1.5 million may adopt a local sales and use tax exemption program to incentivize the development of commercial office space in urban centers with access to transit, high capacity transportation systems, and other amenities. A commercial office space is among the most competitive and highest quality building or buildings in the local market, as determined by a city's governing authority. Commercial office space must have certain characteristics including:

- be at least 50,000 square feet;
- be at least three stories tall;
- be centrally located in a city;
- provide close access to public transportation and freeways;
- be managed professionally; and
- offer amenities and advanced technology options to tenants.

Creation of Local Sales and Use Tax Exemption Program.

To use the sales and use tax exemption, a city must meet certain requirements, including:

- obtaining a written agreement for the use of the exemption from a taxing authority that imposes a sales or use tax;
- holding a public hearing after notice is provided;
- establishing criteria for a qualifying project exempt from local sales and use tax under this program, which must include certain considerations; and
- adopting an ordinance announcing the use of sales and use tax exemption, which must contain specific information about the qualifying project.

Sales and Use Tax Exemption.

A project owner may claim an exemption from taxes imposed on:

- the sale of or charge made for labor and services rendered in respect to construction or rehabilitation of a qualifying project; and
- the sales or use of tangible personal property that will be incorporated as an ingredient or component of a qualifying project located in a city during the course of the constructing or rehabilitating.

Eligibility and Form of Exemption.

The local sales and use tax exemptions provided are in the form of a remittance. The project owner claiming an exemption must first pay all applicable state and local sales and use taxes. A project owner who submits a building permit application prior to July 1, 2027 may apply for a remittance with the Department of Revenue (DOR) after four years of the qualifying project being operationally complete, but no later than five years after all local sales and use taxes have been paid. A project owner requesting a remittance must obtain a certification from the governing authority of the city verifying that the project satisfies the criteria established by the city to qualify for the exemption. The project owner must also specify the amount of exempted tax claimed and the qualifying purchases or uses for which the exemption is claimed, as well as retain adequate records and proof. The DOR then determines a project owner's eligibility for a remittance based on the information provided. The amount of the exemption is 100 percent of the local sales and use tax paid, if the taxing authorities imposing sales and use taxes authorized the city to use the exemption under this program. A project owner who is eligible for a remittance, but transfers ownership of the project before they can claim it, may assign the rights to the remittance to the subsequent owner.

The sale and use taxes that apply under this program are the taxes made on or after October 1, 2017.

Study.

The Joint Legislative Audit and Review Committee is required to conduct a study and report to the Legislature by October 1, 2025, on the effectiveness of the local sales and use tax exemption program and local property tax exemption program.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony (Local Government):

(In support) This is an important economic development bill that will serve many cities. It is a local option to help create jobs in communities like Tacoma and other communities of similar size. There is built up congestion and long commute times because people work in Seattle but live elsewhere, which also takes people away from time with their families. Other urban centers need to be used to provide jobs in more cities. However, medium-sized cities have trouble attracting first class office space to their urban centers. There have not been any nongovernmental commercial buildings built outside of King County since 2001. This bill provides cities with tools necessary to attract office space and gain the prosperity that comes with putting an office building in their community.

The City of Tacoma has aimed to improve and revitalize its downtown by streamlining its permitting process and improving other aspects that local government has control over, but it still has trouble attracting developers. The cost of construction is the same everywhere, but the difference is in the cost recovery. In Seattle and Bellevue, the cost recovery is about $42 per square foot. In a place like Tacoma, the cost recovery is about $27 per square foot. A builder is going to build where they can maximize their revenue. This bill bridges that difference so that it makes economic sense to build office space in communities outside of King County.

This bill exempts the city portion of the property and sales tax, has no impact on state revenues or state budget, and provides the proper oversight.

(Opposed) None.

Staff Summary of Public Testimony (Finance):

(In support) The City of Tacoma, along with several other cities, have brought this bill forward to incentivize construction of commercial office space outside of King County. There has been no commercial office space developed outside of King County since

2006. The high rate of development in King County puts pressure on affordable housing and transit in the region.

This bill provides options for other areas in the state to incentivize development. There will not be an impact on state revenues, since the bill is only applicable to local city sales and use and property taxes, in addition to any other special taxing district given they agree to being included.

An alternative option would be to have the Joint Legislative Audit and Review Committee conduct the study instead of the Department of Commerce. Another option is having a city that has used the programs submit a report, alleviating some of the burden on the state.

Commercial office space is defined in the bill as space that has square footage of over 50,000 square feet and requires that at least three stories of the space be managed professionally. The building must also contain modern amenities.

(Opposed) None.

Persons Testifying (Local Government): Representative Fey, prime sponsor; Briahna Murray, City of Tacoma; Ryan Mello, Tacoma City Council; and Michael Transue, Tacoma-Pierce County Chamber of Commerce.

Persons Testifying (Finance): Briahna Murray, City of Tacoma.

Persons Signed In To Testify But Not Testifying (Local Government): None.

Persons Signed In To Testify But Not Testifying (Finance): None.