

HOUSE BILL REPORT

HB 2813

As Reported by House Committee On: Local Government

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

Sponsors: Representatives Fey, Muri, McBride and Jinkins.

Brief History:

Committee Activity:

Local Government: 1/30/18 [DP].

Brief Summary of Bill

- Allows a city with a population greater than 35,000 in a county with a population less than 1.5 million to create a local sales and use tax remittance program and a local property tax reinvestment program to incentivize the development of commercial office space.
- Requires the Joint Legislative Audit and Review Committee to study the effectiveness of the local sales and use tax remittance and the local property tax reinvestment programs and submit a report to the appropriate committees of the Legislature by October 1, 2028.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass. Signed by 4 members: Representatives Appleton, Chair; McBride, Vice Chair; Gregerson and Peterson.

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

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.

Minority Report: Without recommendation. Signed by 1 member: Representative Griffey, Ranking Minority Member.

Staff: Cassie Jones (786-7303).

Background:

Sales and Use Tax.

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. The state sales and use tax rate is 6.5 percent. Local sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on the location.

Property Tax.

All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for 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. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of the property. Also, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed \$5.90 per \$1,000 of assessed valuation.

Summary of Bill:

The governing authority of a city with a population greater than 35,000 in a county with a population less than 1.5 million may establish: (1) a local sales and use tax remittance program to incentivize the development of commercial office space; and (2) a local property tax reinvestment program to make public improvements that incentivize the development of commercial office space.

Commercial office space is defined as a high quality building or buildings in the local market. High quality is reflected in the finishes, construction, and infrastructure of the building. The building or buildings must be at least 50,000 square feet and at least three stories in height. They must be centrally located in a city, provide close access to public transportation, be managed professionally, and offer amenities and advanced technology options to tenants.

In order to approve qualifying projects to receive a sales and use tax remittance and participate in a local property tax reinvestment program, a city is required to adopt an ordinance designating a commercial office space development area (area). The ordinance must:

- outline the boundaries of the area;
- find that the area is wholly within an urban center;
- find that the area lacks commercial office space to provide family living wage jobs;
- outline standards and guidelines for accepting and approving applications for qualifying projects; and
- establish a commercial office development public improvement fund in which to deposit property tax reinvestment revenues.

In order to be approved for the sales and use tax remittance and property tax reinvestment, an owner of a qualifying project must submit an application to the city. The application must include the following information:

- whether the qualifying project is located within the area;
- whether the qualifying project meets the definition of qualifying project;
- the number of family living wage jobs estimated to be generated by the qualifying project;
- a description of the qualifying project;
- the cost of construction or rehabilitation and the length of time that the project will be under construction;
- whether the qualifying project will conform with local plans and regulations that apply at the time the application is approved; and
- a statement that the qualifying project is not anticipated to be used to relocate a business from outside the area.

Local Sales and Use Tax Exemption Program.

If the project applicant is seeking a sales and use tax remittance, the application must include:

- a written agreement for the use of the local sales and use tax remittance from any taxing authority that imposes a sales or use tax;
- an estimate of the amount of local sales and use tax revenue that will be remitted to a taxpayer;
- the approximate date that the local sales and use tax revenue will be remitted to a taxpayer; and
- the criteria by which a qualifying project can later receive certification confirming that a taxpayer is eligible for the remittance.

A project is eligible for a sales and use tax remittance on: (1) the sale of or charge made for labor and services rendered in respect to construction or rehabilitation of a qualifying project; and (2) 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 constructing or rehabilitating. The amount of the remittance is 100 percent of the local sales and use taxes paid for qualifying purchases or uses.

After the qualifying project has been operationally complete for 18 months, but not more than 36 months, and after all local sales and use taxes for qualifying purchases and uses have been paid, a qualifying project owner who submits an application for a building permit for that qualifying project prior to July 1, 2027, may apply for a remittance of local sales and use taxes.

Local Property Tax Exemption Program.

If a city intends to approve a qualifying project for a property tax reinvestment, the project application must include:

- a written agreement of the participation of any taxing authority that collects a local property tax allocation. The agreement must be authorized by the governing body of such participating local taxing authorities;
- an estimated amount of property tax to be deposited into a commercial office development public improvement fund resulting from the qualifying project; and
- a prioritized list of public improvements that support the development of the qualifying project and the estimated public improvement costs.

Once the city approves an application for a qualifying project to participate in a property tax reinvestment program, the city must deposit into a commercial office development public improvement fund the equivalent of the city's share of the ad valorem property taxation on the value of new construction and rehabilitation improvements of real property for qualifying projects for a period of 10 successive years.

The city may only make expenditures from the commercial office development public improvement fund that:

- are to construct the public improvement that was identified in the approved application;
- transfer funding to the project applicant to construct the public improvement and transfer ownership of the public improvement to a public agency; and
- meet any additional criteria established by ordinance.

Joint Legislative Audit and Review Committee Study.

The Joint Legislative Audit and Review Committee must study the effectiveness of the local sales and use tax remittance and the local property tax reinvestment programs and submit a report to the appropriate committees of the Legislature by October 1, 2028. The report must include an assessment of the local sales and use tax remittance and the property tax reinvestment programs and an evaluation of:

- the availability of quality office space;
- the effect on affordable housing;
- the effects on transportation, traffic congestion, and greenhouse gas emission; and
- job creation.

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:

(In support) Though cities have experienced growth in residential development, there has not been growth in commercial retail development. The lack of commercial development is

caused in part by the higher price per square foot in the Seattle area compared to areas outside Seattle. The tools in this bill will help to close this gap and promote economic development in local communities. One tool in the bill is the local sales tax remittance. A developer who constructs an office building may, after it is complete, submit receipts to the Department of Revenue and receive a remittance for sales taxes paid on the construction. The second tool in the bill is a local property tax reinvestment program. The developer pays the property tax, but the city would use the tax dollars to construct public improvements in the area of the development. The fiscal note on the bill is minimal, and it reflects program administrative costs. The bill only affects cities' revenue; there is no loss of revenue to other taxing jurisdictions or the state. There is also a requirement for a study of the programs to assess their effectiveness.

(Opposed) None.

Persons Testifying: Representative Fey, prime sponsor; Briahna Murray, Ryan Mellow, and Mike Transue, City of Tacoma.

Persons Signed In To Testify But Not Testifying: None.