SENATE BILL REPORT
E2SHB 1495

As of March 23, 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: Passed House: 3/08/17, 79-18.
Committee Activity: Local Government: 3/23/17.

Brief Summary of 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 a study by the Joint Legislative Audit and Review Committee (JLARC) on the effectiveness of the program.

SENATE COMMITTEE ON LOCAL GOVERNMENT

Staff: Bonnie Kim (786-7316)

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.

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.

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 Bill: Local Sales and Use Tax Exemption Program. The 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.

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

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

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

- the sale of or charge made for labor and services rendered with 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.

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.

DOR determines a project owner's remittance eligibility based on the information provided. The amount of the exemption is 100 percent of the local sales and use tax paid. An eligible project owner who transfers project ownership may assign the rights to the remittance to the subsequent owner.

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

<u>Study.</u> JLARC must 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.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: New modern commercial office buildings have not been built anywhere but in King County for 20 years. Economic development should be happening statewide. The original bill also had a 10-year property tax deferral. Over the last year, the City of Tacoma studied why commercial office space is not regularly built in urban centers outside of King County. The city found that costs do not vary between cities but that average lease rates are much higher in King County than in other counties. This bill incentivizes the development of commercial office spaces so that people can live closer to where they work. It would be great to have Class A building development in Tacoma. The 10-year property tax deferral provision should be added back into the bill because it will attract the developers.

Persons Testifying: PRO: Representative Jake Fey, Prime Sponsor; Michael Transue, Tacoma Pierce County Chamber; Briahna Murray, City of Tacoma.

Persons Signed In To Testify But Not Testifying: No one.