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**ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1495**

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**State of Washington 65th Legislature 2017 Regular Session**

**By** House Finance (originally sponsored by Representatives Fey, Muri, Sawyer, Sells, Jinkins, and Doglio)

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; adding a new section to chapter 82.14 RCW; adding a new chapter to Title 35 RCW; and creating new sections.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  The legislature finds that the cost of developing high-quality, commercial office space is prohibitive in cities located outside of a major metropolitan area. The legislature finds these cities have designated urban centers and plan to locate high-quality, commercial office space within those urban centers. The legislature also finds that solely planning for commercial office space within urban centers is inadequate and an incentive should be created to stimulate the development of new commercial office space in urban centers. The legislature intends to provide these cities with local options to incentivize the development of commercial office space in urban centers with access to transit, high capacity transportation systems, and other amenities.

NEW SECTION. **Sec.**  A governing authority of a city 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.

NEW SECTION. **Sec.**  In order to use the sales and use tax exemption authorized in section 2 of this act, a city must:

(1) Obtain written agreement for the use of the local sales and use tax exemption from any taxing authority that imposes a sales or use tax under chapter 82.14 RCW. The agreement must be authorized by the governing body of such participating taxing authorities. If a taxing authority does not provide written agreement, the sales and use tax for that taxing authority shall not be exempted. Other taxing authorities may proceed forward with exempting portions of the local sales and use tax where written agreement is provided;

(2) Hold a public hearing on the proposed use of the exemption.

(a) Notice of the hearing must be published in a legal newspaper of general circulation at least ten days before the public hearing and posted in at least six conspicuous public places located within one mile of the proposed location of a qualifying project.

(b) Notices must describe the qualifying project and estimate the amount of sales and use tax revenue exempted under this section.

(c) The public hearing may be held by the city legislative authority;

(3)(a) Establish criteria for a qualifying project exempted under section 5 of this act. Criteria must include:

(i) The estimated number of new family living wage jobs for location within the qualifying project; and

(ii) The physical characteristics, features, and amenities necessary for a qualifying project to be defined as commercial office space.

(b) Criteria may also include height, density, public benefit features, quality of amenities, number and size of proposed development, parking, employment targets, percent occupied, or other adopted requirements indicated necessary by the city; and

(4) Adopt an ordinance announcing the use of the sales and use tax exemption under section 5 of this act. The ordinance must:

(a) Describe the qualifying project, including a physical description of proposed building or buildings, a list of features and amenities, cost of construction, and length that the qualifying project will be under construction;

(b) Estimate the amount of local sales and use tax revenue that will be exempted under section 5 of this act;

(c) Provide the approximate date that the local sales and use tax revenue will be remitted to a taxpayer; and

(d) Certify the criteria under this section by which a qualifying project can later receive certification under section 5(3) of this act confirming that a taxpayer is eligible for the remittance.

NEW SECTION. **Sec.**  The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "City" means a city with a population of greater than fifty thousand and located in a county with a population of less than one million five hundred thousand.

(2) "Commercial office space" means among the most competitive and highest quality building or buildings in the local market, as determined by a city's governing authority. High quality must be reflected in the finishes, construction, and infrastructure of the project building. The building or buildings must be at least fifty thousand square feet, and at least three stories. The building must 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.

(3) "County" means a county with a population of less than one million five hundred thousand.

(4) "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, as adjusted annually by the consumer price index. The family living wage may be increased by the local authority based on regional factors and wage conditions.

(5) "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.

(6) "Mixed use" means any building or buildings containing a combination of residential and commercial units, whether title to the entire property is held in single or undivided ownership or title to individual units is held by owners who also, directly or indirectly through an association, own real property in common with the other unit owners.

(7) "Qualifying project" means new construction or rehabilitation of a building or group of buildings intended for use as commercial office space, as defined in this section. Projects may include mixed use buildings, not solely intended to be used as office space, but does not include any portion of a project intended for residential use.

(8) "Rehabilitation" means modifications to an existing building or buildings made to achieve substantial improvements such that the building or buildings can be categorized as commercial office space, as defined in this section.

(9) "Rehabilitation improvements" means modifications to an existing building or buildings made to achieve substantial improvements in quality, features, or amenities, such that the building or buildings can be categorized as commercial office space, as defined in this section.

(10) "Urban center" means a compact identifiable district where urban residents may obtain a variety of products and services. An urban center must contain:

(a) Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, and governmental agencies;

(b) Adequate public facilities including streets, sidewalks, lighting transit, domestic water, and sanitary sewer systems; and

(c) A mixture of uses and activities that may include housing, recreation, and cultural activities in association with either commercial or office use, or both commercial and office use.

NEW SECTION. **Sec.**  A new section is added to chapter 82.14 RCW to read as follows:

(1) Subject to the requirements of this section and section 3 of this act, a project is eligible for an exemption from the taxes imposed under the authority of this chapter on:

(a) The sale of or charge made for labor and services rendered in respect to construction or rehabilitation of a qualifying project located in a city; and

(b) 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.

(2)(a) The exemption in this section is in the form of a remittance. A qualifying project owner claiming an exemption under this section must pay all applicable state and local sales and use taxes imposed or authorized under RCW 82.08.020, 82.12.020, and this chapter on all purchases and uses qualifying for the exemption.

(b) The amount of the exemption is one hundred percent of the local sales and use taxes paid under an ordinance or resolution enacted under the authority of this chapter for purchases or uses qualifying under subsection (1) of this section, if the taxing authorities imposing taxes under the authority of this chapter have authorized the use of the exemption to the governing authority of a city as provided under section 3(1) of this act.

(3)(a) After the qualifying project has been operationally complete for four years, but not later than five years after all local sales and use taxes for purchases and uses qualifying under subsection (1) of this section 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 to the department for a remittance of local sales and use taxes.

(b) A qualifying project owner requesting a remittance under this section must obtain certification from the governing authority of a city verifying that the qualifying project has satisfied the criteria in section 3 of this act.

(c) The qualifying project owner must specify the amount of exempted tax claimed and the qualifying purchases or uses for which the exemption is claimed. The qualifying project owner must retain, in adequate detail, records to enable the department to determine whether the qualifying project owner is entitled to an exemption under this section, including invoices, proof of tax paid, and construction contracts.

(d) The department must determine eligibility under this section based on information provided by the qualifying project owner, which is subject to audit verification by the department.

(4)(a) A person otherwise eligible for a remittance under this section that transfers the ownership of the qualifying project before the requirements in subsection (3) of this section are met may assign the right to the remittance under this section to the subsequent owner of the qualifying project.

(b) Persons applying for the remittance as an assignee must provide the department the following documentation in a form and manner as provided by the department:

(i) The agreement that transfers the right to the remittance to the assignee;

(ii) Proof of payment of sales and use tax on the qualifying project; and

(iii) Any other documentation the department requires.

(5) The definitions in section 4 of this act apply to this section.

NEW SECTION. **Sec.**  (1) The joint legislative audit and review committee must study the effectiveness of the local sales and use tax exemption program and submit a report with recommendations to the appropriate committees of the legislature.

(2) The study must include, but is not limited to, an assessment of the local sales and use tax exemption program authorized under this chapter and an evaluation of:

(a) The availability of quality office space;

(b) The effects on affordable housing;

(c) The effects on transportation, traffic congestion, and greenhouse gas emissions; and

(d) Job creation.

(3) By October 1, 2025, and in compliance with RCW 43.01.036, the department of commerce must submit to the appropriate committees of the legislature a final study with findings and recommendations.

(4) This section expires December 31, 2025.

NEW SECTION. **Sec.**  Sections 2 through 4 and section 6 of this act constitute a new chapter in Title 35 RCW.

NEW SECTION. **Sec.**  Section 5 of this act applies to sales and use taxes paid on or after October 1, 2017.

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