SENATE BILL REPORT
SB 6418

As of January 31, 2018

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: Senators Palumbo, O'Ban, Brown and Zeiger.

Brief History:
Committee Activity: Economic Development & International Trade: 2/01/18.

Brief Summary of Bill

- Allows a city with a population greater than 35,000 in a county with a population of 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.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & INTERNATIONAL TRADE

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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.

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.

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.

Summary of Bill: The governing authority of a city with a population greater than 35,000 in a county with a population of 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. Commercial office space is defined as a high quality building that is at least 50,000 square feet in size and is at least three stories high. The building 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.

Qualifying Projects. In order to approve qualifying projects, a city is required to adopt an ordinance designating a commercial office space development area (area). The area must be wholly within an urban center and lack commercial office space to provide family living wage jobs. The area cannot exceed 25 percent of the total assessed value of taxable real property within the city.

In order to be approved for the sales and use tax remittance and property tax reinvestment program, an owner of a qualifying project must submit an application to the city. The application must include information on the number of family living wage jobs estimated to be generated, information on the cost and length of construction, 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 Remittance. If a project applicant is seeking a sales and use tax remittance, their application must include additional information, including an estimate of the amount of sales and use tax revenue that will be remitted, the approximate date of remittance, and the criteria by which the taxpayer is eligible for remittance. The application must also 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.

A qualifying project for which a building permit application was submitted prior to July 1, 2027 is eligible for a sales and use tax remittance on: (1) labor and service charges for project construction or rehabilitation; and (2) the sales or use of tangible personal property that will be a component of the project. The amount of the remittance is 100 percent of the local sales and use taxes paid for qualifying purchases or uses.

After a qualifying project has been operationally complete for 18 months, but not more than 36 months, and all local sales and use taxes for qualifying purchases have been paid, the project owner may apply for a remittance of local sales and use tax.

Local Property Tax Reinvestment 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, 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.

Upon approving an application, the city must deposit its share of the ad valorem property tax on the value of new construction and improvements for qualifying projects into a commercial office development public improvement fund for a period of ten successive years. The city may only make expenditures from the commercial office development public improvement fund 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 (JLARC). JLARC must study the effectiveness of the sales and use tax remittance and local property tax reinvestment program and submit a report with their findings and recommendations to the appropriate committees of the Legislature by October 1, 2028.

Appropriation: None.

Fiscal Note: Requested on January 31, 2018.

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

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