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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, Jenkins, and Doglio)

READ FIRST TIME 02/24/17.

1 AN ACT Relating to incentivizing the development of commercial  
2 office space in cities with a population of greater than fifty  
3 thousand and located in a county with a population of less than one  
4 million five hundred thousand; adding a new section to chapter 82.14  
5 RCW; adding a new chapter to Title 35 RCW; and creating new sections.

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

7 NEW SECTION. **Sec. 1.** The legislature finds that the cost of  
8 developing high-quality, commercial office space is prohibitive in  
9 cities located outside of a major metropolitan area. The legislature  
10 finds these cities have designated urban centers and plan to locate  
11 high-quality, commercial office space within those urban centers. The  
12 legislature also finds that solely planning for commercial office  
13 space within urban centers is inadequate and an incentive should be  
14 created to stimulate the development of new commercial office space  
15 in urban centers. The legislature intends to provide these cities  
16 with local options to incentivize the development of commercial  
17 office space in urban centers with access to transit, high capacity  
18 transportation systems, and other amenities.

19 NEW SECTION. **Sec. 2.** A governing authority of a city may adopt  
20 a local sales and use tax exemption program to incentivize the

1 development of commercial office space in urban centers with access  
2 to transit, high capacity transportation systems, and other  
3 amenities.

4 NEW SECTION. **Sec. 3.** In order to use the sales and use tax  
5 exemption authorized in section 2 of this act, a city must:

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

14 (2) Hold a public hearing on the proposed use of the exemption.  
15 (a) Notice of the hearing must be published in a legal newspaper  
16 of general circulation at least ten days before the public hearing  
17 and posted in at least six conspicuous public places located within  
18 one mile of the proposed location of a qualifying project.

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

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

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

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

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

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

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

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

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

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

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

8 NEW SECTION. **Sec. 4.** The definitions in this section apply  
9 throughout this chapter unless the context clearly requires  
10 otherwise.

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

14 (2) "Commercial office space" means among the most competitive  
15 and highest quality building or buildings in the local market, as  
16 determined by a city's governing authority. High quality must be  
17 reflected in the finishes, construction, and infrastructure of the  
18 project building. The building or buildings must be at least fifty  
19 thousand square feet, and at least three stories. The building must  
20 be centrally located in a city, provide close access to public  
21 transportation and freeways, be managed professionally, and offer  
22 amenities and advanced technology options to tenants.

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

25 (4) "Family living wage job" means a job with a wage that is  
26 sufficient for raising a family. A family living wage job must have  
27 an average wage of eighteen dollars an hour or more, working two  
28 thousand eighty hours per year, as adjusted annually by the consumer  
29 price index. The family living wage may be increased by the local  
30 authority based on regional factors and wage conditions.

31 (5) "Governing authority" means the local legislative authority  
32 of a city having jurisdiction over the property for which an  
33 exemption may be applied for under this chapter.

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

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

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

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

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

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

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

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

27 NEW SECTION. **Sec. 5.** A new section is added to chapter 82.14  
28 RCW to read as follows:

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

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

35 (b) The sales or use of tangible personal property that will be  
36 incorporated as an ingredient or component of a qualifying project  
37 located in a city during the course of the constructing or  
38 rehabilitating.

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

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

13 (3)(a) After the qualifying project has been operationally  
14 complete for four years, but not later than five years after all  
15 local sales and use taxes for purchases and uses qualifying under  
16 subsection (1) of this section have been paid, a qualifying project  
17 owner who submits an application for a building permit for that  
18 qualifying project prior to July 1, 2027, may apply to the department  
19 for a remittance of local sales and use taxes.

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

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

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

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

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

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

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

8 (iii) Any other documentation the department requires.

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

11 NEW SECTION. **Sec. 6.** (1) The joint legislative audit and review  
12 committee must study the effectiveness of the local sales and use tax  
13 exemption program and submit a report with recommendations to the  
14 appropriate committees of the legislature.

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

18 (a) The availability of quality office space;

19 (b) The effects on affordable housing;

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

22 (d) Job creation.

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

26 (4) This section expires December 31, 2025.

27 NEW SECTION. **Sec. 7.** Sections 2 through 4 and section 6 of this  
28 act constitute a new chapter in Title 35 RCW.

29 NEW SECTION. **Sec. 8.** Section 5 of this act applies to sales and  
30 use taxes paid on or after October 1, 2017.

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