

HOUSE BILL REPORT

HB 1746

As Reported by House Committee On:
Local Government
Finance

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

Sponsors: Representatives Fey, Gildon, Kilduff, Leavitt, Chambers, Reeves, Jinkins, Robinson and Barkis.

Brief History:

Committee Activity:

Local Government: 2/12/19, 2/19/19 [DPS];
Finance: 2/26/19, 2/27/19 [DPS(LG)].

Brief Summary of Substitute Bill

- Allows a city 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: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Pollet, Chair; Peterson, Vice Chair; Griffey, Assistant Ranking Minority Member; Appleton, Goehner and Senn.

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

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.

Staff: Robbi Kesler (786-7153).

Background:

Local 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. Local sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on the location.

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.

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. In addition, 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 Substitute Bill:

The governing authority of a city 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" 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 3 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 commercial office space development 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 commercial office space development 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. A qualifying project may include mixed-use buildings, but does not include any portion of the project intended for residential use. A qualifying project may include new construction or rehabilitation of an existing building

which includes an area intended to be used for childcare facilities at or near the commercial office space.

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:

- 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.

Substitute Bill Compared to Original Bill:

The substitute bill adds the construction or rehabilitation of a building for childcare to the definition of a qualifying project.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Areas outside of King County have a lack of Class A office space. This bill would allow areas outside of King County to grow and attract jobs to their area. This bill does not have an effect on other special purpose districts; only the city may opt to forgo the taxes in order to support public amenities that would support commercial office space. This bill differs from past versions because it removes any minimum size requirements in order to apply to all cities in counties with a population less than 1.5 million. There are similar programs for residential and multifamily homes and there should be similar tools to attract commercial office space.

(Opposed) None.

Persons Testifying: Representative Fey, prime sponsor; Michael Transue, Tacoma Pierce County Chamber; and Briahna Murray, City of Tacoma.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Local Government be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Morris, Orwall, Springer, Stokesbary, Vick and Wylie.

Staff: Rachelle Harris (786-7137).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Local Government:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) There is no class-A commercial office space being built anywhere in the state, except in King County. The Legislature should encourage economic growth throughout the state, and this bill provides a mechanism to do that. No state revenues are on the line; the bill is merely a dedication of local revenues from the development of new office space to make additional improvements in local communities. The goal of the bill is to allow people to not have to drive into King County and Seattle in order to get to their jobs. The cost of construction is generally the same cross the Puget Sound region, but office buildings get leased in Seattle at much higher rental rates. This bill provides tools at the local level to incentivize the development of office space. The reason for a remittance program instead of an exemption is to allow for easier administration. The reason a bill is needed for local revenue decisions is that localities do not have full independence over fiscal matters. There are many strings attached to local authority, and so locals come before the Legislature often to ask permission. Additionally, the Department of Revenue is responsible for collecting the money and redistributing it back to local governments, so they need statutory direction to do so.

(Opposed) None.

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

Persons Signed In To Testify But Not Testifying: None.