SENATE BILL REPORT
SHB 1746

As of March 20, 2019

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: House Committee on Local Government (originally sponsored by Representatives Fey, Gildon, Kilduff, Leavitt, Chambers, Reeves, Jinkins, Robinson and Barkis).

Brief History: Passed House: 3/13/19, 96-0.
Committee Activity: Financial Institutions, Economic Development & Trade: 3/19/19.

Brief Summary of 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.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE

Staff: Kellee Gunn (786-7429)

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 the property, digital product, or service when used in this state. The state, cities, and all counties levy retail sales and use taxes. The state

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.

sales and use tax rate is 6.5 percent. Local sales and use tax rates vary depending on the location.

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 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 three 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. These areas must:

- be within an urban center;
- be limited to contiguous lots, pieces, or parcels of land without the creation of islands of property not included in the area;
- be lacking sufficient commercial office space to provide family living wage jobs; and
- not contain more than 25 percent of the total-assessed value in a city.

A family living wage job must have an average wage of $18 dollars an hour or more, working 2080 hours per year, as adjusted annually by the consumer price index, and may be increased based on regional factors and wage conditions.

For a sales and use tax remittance or property tax reinvestment to be approved, there must be:

- a public hearing and approval by ordinance from the governing authority of a city the designation of the area;
- written agreement from the taxing authority that imposes either the sales and use tax or property tax; and
- certification from the governing authority of a city to the project owner confirming eligibility.

Remittance is available for approved qualifying projects on 100 percent local sales and use tax on the sale of or charge for labor and services used in the project and sales and use of tangible personal property incorporated into the project.

Local Sales and Use Tax Exemption. A qualifying project may only apply for a remittance of local sales and use taxes paid to the city after a qualifying project has been operationally complete for 18 months, but not later than 36 months. Certification from the governing authority of a city verifying that the qualifying project has satisfied the criteria on their application is required. A qualifying project owner must specify the amount of exempted tax claimed and the qualifying purchases or uses for which the exemption is claimed.

The application must also include the following information:
- whether the qualifying project is located within the qualifying 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 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 Property Tax Exemption Program. If a city intends to approve a qualifying project for a property tax reinvestment, the project application must include certain information including the 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.

For approved qualifying projects, the local property tax that would have been paid to the taxing authority shall instead be deposited by the city or participating taxing district into a commercial office development public improvement fund for a period of ten years. Payment from the fund shall go to qualifying projects that:
- construct the public improvement 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.

Projects must be new construction or rehabilitation of a building or group of buildings intended for use as commercial office space and does not include land associated with the new construction or rehabilitation but does not include any portion of a project intended for residential use. Projects must also be within a designated commercial office space area and does not result in relocating a business from outside the designated area, but within the state

If a qualifying project participating in the property tax reinvestment program under this chapter changes ownership, the property continues to qualify for the reinvestment, if the new owner complies with all of the application requirements, procedures, terms, conditions, and reporting requirements under this chapter, and meets all of the criteria established by the city and included on their application.

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.

Appropriation: None.

Fiscal Note: Requested on March 16, 2019.

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: This bill has been around for a couple of years, in a couple of different forms. Because of the ability of landlords to get high rents in King County, there is not much incentivizing class A office space in other parts of the region. This allows local governments to reinvest the property tax credit into the commercial office space area. This is a tool in the toolkit to draw in these class A office spaces into their communities. The version that passed off of the Senate floor changed the population requirements. The House version added a provision to allow the reinvestment funds to be used for day care centers within the qualifying areas.

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.