



# Commercial Office Space Development and Rehabilitation Incentive

City of Tacoma | Community and Economic Development  
**Economic Development Committee**

**June 25, 2019**

**ITEM 3**



## OVERVIEW



- This presentation is to request approval for moving forward with an ordinance that implements the 2019 Washington State Legislation related to Commercial Office Space Development and Rehabilitation.
- CEDD intends to request approval from City Council of an ordinance to implement the program in Summer, 2019.

## BACKGROUND



- The Washington State Legislature authorized two distinct programs under Substitute House Bill 1746:
  - Local Sales and Use Tax Remittance
  - Local Property Tax Reinvestment
- Both programs apply to local tax revenue, which is a portion of the total taxes collected for Washington State

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## PROJECT TIMELINE



**GOAL:** City Council Passage of Ordinance related to Commercial Office Space Development/*Rehabilitation* Incentive

### MILESTONES:

- *Designate Commercial Office Space Development/Rehabilitation Areas*
- *Define Quality Buildings*
- *Model Financial Impacts*
- Discuss program with other potential taxing entities
- Complete template agreements and applications
- Hold public hearing
- Seek final approval

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## DEVELOPMENT AREAS



### Potential Area 1:

- North Downtown Subarea
  - 11.11% Total AV
- South Downtown Subarea
  - 4.59% Total AV
- Hilltop
  - 1.73% Total AV (excluding hospitals)

Total Assessed Value Percentage: 17.43

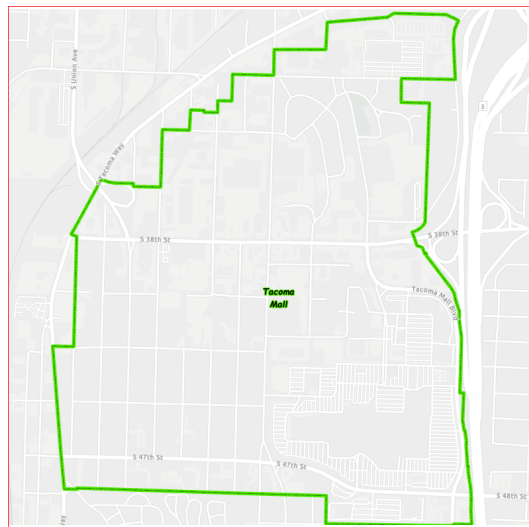


## DEVELOPMENT AREAS



### Potential Area 2:

- Tacoma Mall Subarea
  - 7.51% AV



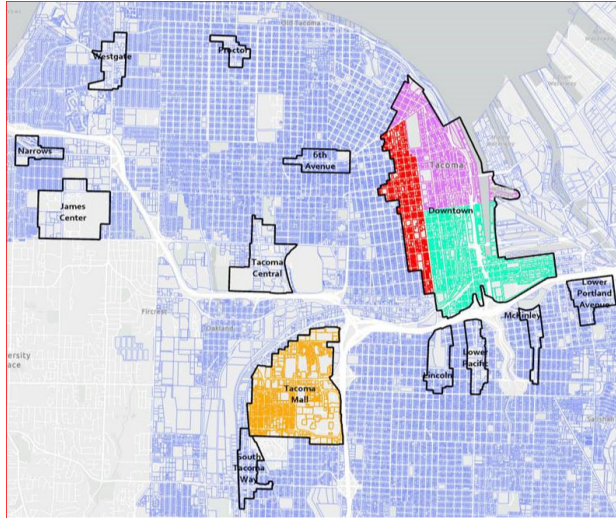
## DEVELOPMENT AREAS



### Potential Other Development Areas:

- Mixed Use Centers
- Port of Tacoma

Boundaries can be adjusted to stay within the 25% limit



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## QUALITY BUILDINGS\*



**Class A:** *Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.*

**Class B:** Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area. Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same price.

**Class C:** Buildings competing for tenants requiring functional space at rents below the average for the area.

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\* Building Owners and Managers Association [https://www.boma.org/BOMA/Research-Resources/Industry\\_Resources/BuildingClassDefinitions.aspx](https://www.boma.org/BOMA/Research-Resources/Industry_Resources/BuildingClassDefinitions.aspx)



## PROPERTY TAX ALLOCATIONS



CONSERVATION FUTURES	0.04061
FLOOD CONTROL ZONE	0.07624
PORT OF TACOMA	0.18341
CENTRAL PS REGIONAL TRANSIT AUTHORITY	0.207
CITY/TOWN OF TACOMA EMS	0.4168
<b>CITY/TOWN OF TACOMA</b>	<b>2.5650</b>
METRO PARKS TACOMA	1.3599
PIERCE COUNTY	1.0850
STATE OF WASHINGTON	2.6165
TACOMA SCHOOL DISTRICT	4.4135
<b>TOTAL</b>	<b>12.9640</b>

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## SALES & USE TAX ALLOCATIONS



STATE OF WASHINGTON	6.50%
SOUND TRANSIT	1.40%
<b>CITY OF TACOMA</b>	<b>1.00%</b>
PIERCE TRANSIT	0.60%
TRANSPORTATION BENEFIT DIS	0.10%
TACOMA CREATES	0.10%
CITY MENTAL HEALTH	0.10%
SOUTH SOUND 911	0.10%
JUVENILE DETENTION	0.10%
METROPARKS	0.10%
COUNTY CRIMINAL JUSTICE	0.10%
	<b>10.20%</b>

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## CONSIDERATIONS



- CEDD and Finance will continue to evaluate this program to understand relationships with other financing tools/programs and the total impact.
- Each project will have different infrastructure requirements so difficult to establish impact at this time.
- Project approval process should include a cross departmental review of long term project impacts.
  - Jobs Created
  - Overall Sales and Use Taxes generated by project once completed
  - Impact to total property tax base

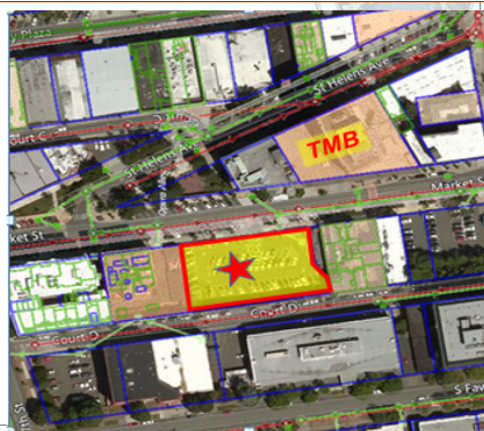
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## PROJECT EXAMPLE



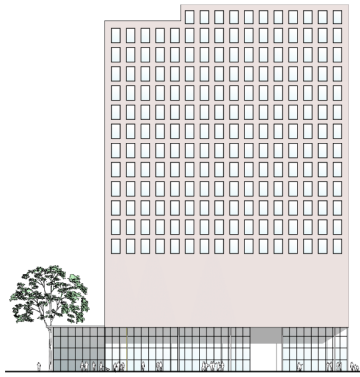
*This example originated from the 2018 NAIOP Real Estate Competition:*

- .56 Acres
- City parking lot
- Located within the Downtown Regional Growth Center
- Zoned for Downtown Commercial Core



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# PROJECT EXAMPLE



MARKET STREET FACADE

CITY OF TACOMA, WA COMMERCIAL OFFICE SPACE DEVELOPMENT AREA PROJECT / TAX RECEIPTS EXAMPLE		
<b>BUILDING EXAMPLE-PC TOWER (UW NAJOP REAL ESTATE CHALLENGE)</b>		
SITE AREA	24,209	
<b>BUILDING SUMMARY</b>		
PARKING	264 STALLS	78,660
SERVICES/RETAIL AREA		38,568
OFFICE		251,432
GROSS BUILDING AREA		290,000 SF
LEASEABLE AREA		274,474 SF
<b>DEVELOPMENT BUDGET</b>		
LAND COSTS	\$98 SF	\$2,372,482
HARD CONSTRUCTION COSTS	\$278 GSF	\$76,303,772
PARKING COSTS	\$49,200 STALL	\$12,988,800
TENANT IMPROVEMENTS	\$85 GSF	\$23,330,290
SUB-TOTAL CONSTRUCTION COSTS	\$363	\$112,622,862
SOFT COSTS	\$79 GSF	\$21,683,446
TOTAL DEVELOPMENT COSTS	\$463	\$134,306,308
ESTIMATED MARKET VALUE	\$484	\$140,323,888

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# PROJECT EXAMPLE



CITY OF TACOMA, WA COMMERCIAL OFFICE SPACE DEVELOPMENT AREA PROJECT / TAX RECEIPTS EXAMPLE		
<b>SUMMARY</b>		
BUILDING AREA	290,000	
LEASEABLE AREA	274,474	
OFFICE PORTION	251,432	
TOTAL DEVELOPMENT COSTS	\$134,306,308	
ESTIMATED MARKET VALUE	\$140,323,888	
<b>COMMERCIAL OFFICE DEVELOPMENT PUBLIC IMPROVEMENT FUND</b>		
<b>SALES AND USE TAX - 1</b>		
TOTAL DEVELOPMENT COSTS	\$134,306,308	
PORTION SUBJECT TO TAX - 2	\$112,622,862	
SALES AND USE TAX RATE - 3	1.00%	
SALES AND USE TAX GENERATED	\$1,126,229	
<b>PROPERTY TAX - 4</b>		
ESTIMATED MARKET VALUE	\$140,323,888	
PROPERTY TAX RATE - 5	3.833470135	
PROPERTY TAX GENERATED - 6	\$537,927	
<b>TOTAL ANNUAL PORTION</b>		
\$359,933	Potential Contribution - TACOMA	
\$152,258	Potential Contribution - COUNTY	
\$25,736	Potential Contribution - PORT	
\$5,379,274	10 YR TOTAL	

**NOTES:**

- 1 - Sales and Use Tax Eligible for Funding Improvements  
 2 - Assumes construction portion of project is subject to Sales and Use Tax  
 3 - Portion of Sales Tax Projected for Use - Only Tacoma's Share- 1% of 10.1% Total Sales Tax  
 4 - Property Tax Eligible For Funding Improvements  
 5 - Portion of Property Tax Projected for Use - Tacoma, Pierce County & Port of Tacoma - 3.833470135 of 12.96  
 Total Property Tax Mill Rate

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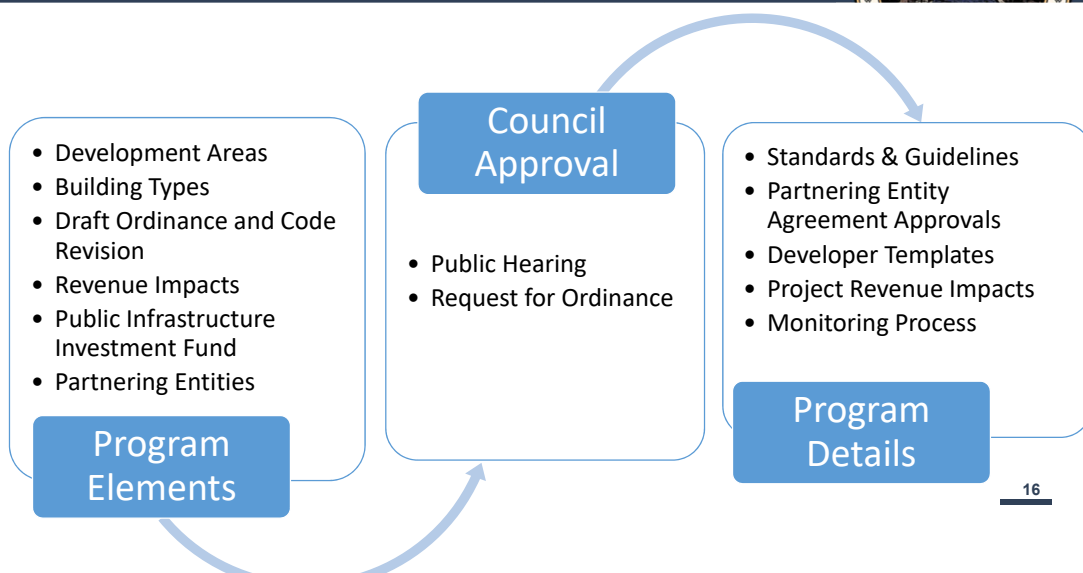
## PROPOSED LEGISLATION



- Ordinance aligns with State Legislation
- Includes Code Revision Language
- Sets process for further implementation, to include standards and guidelines for approving a project for either program

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## IMPLEMENTATION PROCESS



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## RECOMMENDATIONS



Staff recommends that CEDD continue to move forward with implementing this legislation, to include scheduling a public hearing in July.