

SUMMARY and FISCAL NOTE

Department:	Dept. Contact:	CBO Contact:
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1. BILL SUMMARY

Legislation Title:

AN ORDINANCE relating to taxes; creating a new sales and use tax deferral for the conversion of underutilized commercial property to housing; and adding a new Chapter 5.75 to the Seattle Municipal Code.

Summary and Background of the Legislation:

This legislation authorizes a sales and use tax deferral program for owners of underutilized commercial properties seeking to convert their buildings into housing and affordable housing. The legislation enacts the authority granted to the City by the State of Washington through Engrossed Second Substitute Senate Bill 6175 (E2SSB 6175), which became effective June 1, 2024. To activate the tax deferral locally, a City must pass a resolution of intention, provide draft program documents for public review, and announce the date of a future public hearing. As of this writing, the City Council Land Use Committee voted to approve the resolution on December 4, 2024, and the full City Council is expected to vote on the resolution on December 17, 2024. The public hearing is scheduled to take place in late January or February, 2025.

The intent of the tax deferral is to encourage the production of affordable housing and employment opportunities in targeted urban areas. Seattle has an acute shortage of affordable housing. Moreover, many commercial buildings downtown continue to experience high vacancy due to the shift in pandemic era work patterns. This in turn creates a drag on the City's economic recovery. Conversion of these buildings into residential units would both further the City's goals to increase the housing supply and support economic development, revitalization, and downtown activation. These goals align closely with the priorities outlined in Seattle's Downtown Activation Plan and draft Comprehensive Plan Update.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project? Yes No

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation have financial impacts to the City? Yes No

3.d. Other Impacts

Does the legislation have other financial impacts to The City of Seattle, including direct or indirect, one-time or ongoing costs, that are not included in Sections 3.a through 3.c? If so, please describe these financial impacts.

The financial impacts of the tax deferral to the City are negligible because the non-collection of sales tax on construction costs applies to projects that would not occur without this policy. Owners seeking to use this program must attest to a “but for” clause indicating that they would not undertake the conversion project in the absence of the tax deferral. That said, it is possible that developers will choose to construct projects that qualify for the tax deferral rather than pursuing a different project that does not qualify for the deferral; if that occurs, the City would lose sales tax revenue that would have been collected absent this legislation.

Office-to-residential conversions have received much attention since the pandemic, but there have been no conversions in Seattle to date. This is possibly because most of these projects are not financially feasible without public support given current economic conditions and development costs. The Office of Planning and Community Development (OPCD) has conferred with several developers who are strongly interested in conversion projects but unlikely to pursue them without this legislation.

Although we anticipate little to no direct negative fiscal impact to the City as a result of this legislation, we provide the following contextual information about sales and use tax collection for construction projects. The total sales and use tax rate in Seattle is 10.35%. The City receives only a fraction of the sales and uses taxes, while the majority is paid to the County, the Sound Transit District, and the State according to the rates in Figure 1. All of the sales and use tax is collected at the point of sale by the vendor business and remitted to the State Department of Revenue (DOR). The portion of the sales tax due to the City is provided by DOR.

	City	County	Sound Transit District	State	Total:
Tax Amount	1 %	1.45%	1.4%	6.5%	10.35%

Figure 1: Seattle Sales Tax Rate & Components (Source: [MRSC](#))

The City’s 1% share is made up of a 0.85% unrestricted sales and use tax that can be used for any governmental purpose and 0.15% for the local transportation benefit district.

Figure 2 illustrates how sales and use taxes would be collected on a \$140 million construction project. Sales and use taxes would be charged on the project’s total hard costs, including services of the contractor, but not on soft costs such as design and permitting fees or financing. This approximates the construction budget of a conversion project for a 200-unit residential development with ground floor retail in a historic-aged structure. If the project received the sales and use tax deferral, its total project costs would be reduced by approximately \$10 million, leading to a 7% reduction in total development costs.

Project Costs	With Sales Tax	Sales Tax Exempt
Land Acquisition	\$9,000,000	\$9,000,000
Hard Costs	\$100,000,000	\$100,000,000
WA Sales Tax	\$10,000,000	Waived
Tenant Improvements	\$2,000,000	\$2,000,000
Soft Costs	\$14,000,000	\$14,000,000
Financing	\$5,000,000	\$5,000,000
Project total:	\$140,000,000	\$130,000,000

Figure 2: Illustrative pro forma for \$140 million conversion project with, and without sales tax

In the Figure 2 example the City’s share of the sales and use taxes would be about \$1 million.

The City may experience positive indirect fiscal impacts by helping property owners initiate conversion development projects. Providing new housing options, especially in downtown buildings, will add residents that support the revitalization of the downtown economy including spending by those residents on other goods and services in downtown, which can support the survival of downtown businesses which pay business and operation taxes. The production of affordable housing units is a direct benefit to low- and moderate-income households who would occupy the housing. This legislation addresses the current shift in taxable consumption away from Seattle’s city center, a pandemic-induced phenomena that has lowered commercial and residential property values. Downtown real estate is currently experiencing a decrease in sales values of properties which is causing a reduction in the assessed values for property tax purposes. ([source](#)) Conversions of underutilized commercial buildings have the potential to stabilize property values in the center city. Moreover, new construction activity (so long as the conversion project is additive and not a shift of development projects) would lead to an increase in property tax revenue over time. The indirect positive fiscal impacts are difficult to project and quantify.

If the legislation has costs, but they can be absorbed within existing operations, please describe how those costs can be absorbed. The description should clearly describe if the absorbed costs are achievable because the department had excess resources within their existing budget or if by absorbing these costs the department is deprioritizing other work that would have used these resources.

The cost of administering the tax deferral can be absorbed within OPCD’s existing budget and staff. The resources required to manage the program would be small and can be assigned to existing staff – particularly the Downtown Activation Coordinator position during 2025-2027 – and other staff within the Land Use Policy division of the department thereafter. We estimate a total of approximately one dozen or less conversion projects within a 7-year time horizon.

Please describe any financial costs or other impacts of *not* implementing the legislation.

There is a likelihood that not implementing this legislation would deter office-to-residential conversions from moving forward, hindering the City’s Downtown Activation Plan and affordable housing goals. The indirect positive fiscal impacts described above would be less likely to occur in the absence of this legislation.

4. OTHER IMPLICATIONS

a. Please describe how this legislation may affect any departments besides the originating department.

The tax deferral program would be managed entirely by OPCD in partnership with the State Department of Revenue (DOR) with the exception of any appeals filed by property owners in the event of application or certificate denial. In such cases, the Office of the Hearing Examiner would hold a closed record hearing and issue a determination. Office of Housing (OH) and Seattle Department of Construction Inspections (SDCI) staff participated in formulating the administrative approach and concur.

b. Does this legislation affect a piece of property? If yes, please attach a map and explain any impacts on the property. Please attach any Environmental Impact Statements, Determinations of Non-Significance, or other reports generated for this property.

The legislation is expected to spur construction on several commercial buildings located primarily downtown.

c. Please describe any perceived implication for the principles of the Race and Social Justice Initiative.

The legislation has the potential to make Seattle’s downtown a more inclusive space for communities at risk of displacement by increasing the availability of affordable housing.

i. How does this legislation impact vulnerable or historically disadvantaged communities? How did you arrive at this conclusion? In your response please consider impacts within City government (employees, internal programs) as well as in the broader community.

This legislation does not impact vulnerable or historically disadvantaged communities. Conversions are expected to occur in downtown in census tracts with high to moderate risk of displacement. However, construction is unlikely to displace anyone since it will occur within commercial buildings.

ii. Please attach any Racial Equity Toolkits or other racial equity analyses in the development and/or assessment of the legislation.

None.

iii. What is the Language Access Plan for any communications to the public?

OPCD will provide the application for tax deferral in the languages specified in our office's language access plan, including Spanish, Chinese, Vietnamese, Somali, and Togalog. ([source](#)) Initial rollout of program materials will be in English. It will take approximately 6 – 8 months for OPCD to identify resources and make translations into the other languages.

d. Climate Change Implications

i. Emissions: How is this legislation likely to increase or decrease carbon emissions in a material way? Please attach any studies or other materials that were used to inform this response.

The short-term emissions from construction activities will be offset through a combination of improved energy efficiency in refurbished buildings, the reduced per capita energy consumption of multi-family buildings, and increasing the number of residents located within walking distance to transit which will reduce vehicle trips. ([source](#))

ii. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.

The legislation will improve Seattle's climate resiliency by increasing the number of residents located in areas that can rely on transit over personal vehicles, and by creating new homes outside of areas that will be impacted by sea level rise. Any conversions downtown are likely to occur in areas outside the projected Sea Level Rise (SLR) zone for 2100. ([source](#))

e. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)? What mechanisms will be used to measure progress towards meeting those goals?

The legislation does not establish a major new program for monitoring. However, property owners are required to report the number of housing units and affordable housing units that are created within their projects over a 10-year period, which should provide the city with a useful performance measure to evaluate this policy in the long run.

5. CHECKLIST

Is a public hearing required?

A City Council public hearing must be conducted before this legislation is adopted. The public hearing and consideration of the ordinance is expected to take place on January 30, 2025, beginning at 2 p.m. in Seattle City Hall, located at 600 4th Avenue.

Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required?

Yes. Publication is required for the passage of this legislation. Publication of notice for the public hearing on January 30, 2025 is provided at least 30 days in advance of the hearing per City requirements. In addition, E2SSB 6175 requires that notice be published twice, not more than 30 days in advance of the public hearing and not less than seven days prior to the public hearing. Therefore a total of three notices are being published in both the City's Land Use Information Bulletin Public Notices and the Seattle Daily Journal of Commerce.

If this legislation changes spending and/or revenues for a fund, have you reviewed the relevant fund policies and determined that this legislation complies?

Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization?

6. ATTACHMENTS

Summary Attachments: None.