

SENATE BILL REPORT

SHB 2032

As Reported by Senate Committee On:
Ways & Means, March 9, 2020

Title: An act relating to providing a tax deferral for the expansion of certain existing public facilities district convention centers.

Brief Description: Providing a tax deferral for the expansion of certain existing public facilities district convention centers.

Sponsors: House Committee on Finance (originally sponsored by Representatives Tarleton, Morris, Ryu, Springer and Macri).

Brief History: Passed House: 2/27/20, 94-4.

Committee Activity: Ways & Means: 3/02/20, 3/09/20 [DPA, w/oRec, DNP].

Brief Summary of Amended Bill

- Authorizes a state retail sales and use tax deferral in the form of a remittance for the expansion of the Washington State Convention Center.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Braun, Ranking Member; Billig, Carlyle, Conway, Dhingra, Hunt, Keiser, Liias, Pedersen, Schoesler and Warnick.

Minority Report: That it be referred without recommendation.

Signed by Senators Brown, Assistant Ranking Member, Operating; Becker, Darneille, Muzzall, Wagoner and Wilson, L..

Minority Report: Do not pass.

Signed by Senators Honeyford, Assistant Ranking Member, Capital; Hasegawa and Van De Wege.

Staff: Jeffrey Mitchell (786-7438)

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.

Background: Retail 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 tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Public Facilities District. Public facilities districts (PFDs) are corporate municipal bodies with independent taxing authority. State law authorizes a PFD to impose a local sales and use tax of 0.033 percent to finance the construction of regional centers. A PFD that has experienced an annual net loss of at least 0.5 percent due to streamlined sales tax destination sourcing may increase its rate up to 0.037 percent. This tax is not an additional tax for consumers, and it does not change the overall retail sales or use tax rate. Rather, the receipts are credited against the state 6.5 percent tax, and therefore the burden is shifted to the state general fund.

Regional centers are defined to include convention and conference centers and special events facilities, such as facilities for community events, sporting events, trade shows, and artistic performances. Authority to levy the PFD sales and use tax for regional centers is limited to districts that were created by certain dates and commenced the construction, improvement, or rehabilitation of eligible projects prior to certain dates. Once imposed, the tax may remain in place until bonds that finance the construction of the facility are retired, but in no case may the tax be levied for longer than 20 years. To use the state-credited tax receipts, the statute requires public or private matching funds be obtained for the project. The 0.033 percent tax is currently used to finance 22 projects statewide.

The PFDs in Cowlitz and Yakima counties are also authorized to levy an additional local sales and use tax of 0.02 percent to finance the construction of regional theaters. The same restrictions that apply to the 0.033 percent tax also apply to the 0.02 percent tax.

Washington State Convention Center. In 1982, the Legislature created a public, nonprofit corporation to acquire land and to design, construct, promote, and operate the Washington State Convention Center (Convention Center). Construction was completed in 1988.

Since 2010, the Convention Center operates as a PFD created by King County. It is directed by a nine-member board of community members appointed by the State of Washington, King County, and the City of Seattle.

Leadership in Energy and Environmental Design Standards. In 2005, the Legislature enacted high-performance public building standards. These standards require all major facility projects over 5,000 square feet, or renovation projects greater than 50 percent of the building replacement value, either of which use state resources, to be certified to at least the Leadership in Energy and Environmental Design (LEED) Silver standard. This requirement applies to any state entity, including public agencies and public school districts, although school districts may use the Washington sustainable school design protocol. The stated purpose of the standard is to improve the built environment and emphasize design and

construction practices that reduce energy consumption and water use, improve indoor air quality, and minimize the impact on the natural environment.

Developed by the U.S. Green Building Council, LEED is the most widely used green building rating system in the world. The LEED standard is a fee-based third-party certification with the following four ranks: LEED Certified; LEED Silver; LEED Gold; and LEED Platinum. The LEED standard and the related logo is a trademark owned by the U.S. Green Building Council and is used with permission.

Tax Preference Performance Statement. State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation establishing or expanding a tax preference must include a tax preference performance statement (TPPS) identifying the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Amended Bill: A PFD may apply for a deferral of state sales and use taxes on the construction of buildings, site preparation, and the acquisition of related machinery and equipment for a new public facility. The deferral will be in the form of a remittance and only applies to the state portion of the sales and use tax. Under the remittance deferral program, the Department of Revenue (DOR) will make monthly remittance payments to the public facilities district upon complete applications, including receipts. The deferral is capped at \$30 million. "Public facility" is defined as the expansion of an existing PFD convention center located in a county with 1.5 million persons.

The application for deferral must include a statement that the convention center will be designed and constructed to at least the LEED Silver standard. Upon completion, a certificate must be obtained from the Department of Enterprise Services that the facility meets or exceeds this standard and that the convention center is operationally complete. This must be submitted to DOR prior to the first repayment. Failure to provide the certificate will result in a \$5 million penalty.

The repayment of deferred taxes will be paid in five equal payments to begin the third year after operationally complete or December 31, 2025, whichever is first. Interest will apply from the date the project is operationally complete, or January 1, 2026, whichever is sooner.

According to the TPPS, the purpose of this tax preference is to provide tax relief to certain businesses or individuals. It is the Legislature's public policy objective to insure plans to expand an existing PFD convention center located in a county of at least 1.5 million persons to proceed on schedule and take advantage of attractive financing and construction costs.

JLARC will review the tax preferences by assessing:

- whether the interest rate obtained on the loan was lower than it would have been 24 months later;

- whether construction costs at the time meaningful construction began are lower than such costs would have been if meaningful construction began two years later; and
- whether the expanded convention center generated increased revenues, as measured three years after completion of an expanded facility, and as compared to the convention center's average revenues over the two-year period prior to such completion.

"Meaningful construction" is defined as an active construction site, where excavation of a building site, laying of a building foundation, or other tangible signs of construction are taking place such that a progression in the construction process is clearly demonstrated. Planning, permitting, or land clearing before excavation of a building site, without more, does not constitute meaningful construction.

EFFECT OF WAYS & MEANS COMMITTEE AMENDMENT(S):

- Lowers the maximum amount of deferred state sales and use tax from \$45 million to \$30 million.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on July 1, 2020

Staff Summary of Public Testimony on Substitute House Bill: *The committee recommended a different version of the bill than what was heard.* PRO: We are looking to double the size of the state convention center but will have two separate buildings. Construction costs have gone up considerably, which has impacted the amount of funding for the renovation of the existing building. We would like to do finance both projects at the same time. The project has experienced construction cost escalation, project delays due to archaeological concerns and environmental concerns, tariffs on steel, additional public benefit costs required from the city of Seattle as well as labor market increases. This is about \$150 million for these cost escalations. Because of these increases, there may not be adequate funds to finish the project on time and have sufficient funds to renovate the current facility.

Persons Testifying: PRO: Jeff Blosser, Washington State Convention Center PFD; Becky Bogard, Washington State Convention Center PFD.

Persons Signed In To Testify But Not Testifying: No one.