SENATE BILL REPORT
ESHB 1253

As of March 28, 2013

Title: An act relating to the lodging tax.

Brief Description: Concerning the lodging tax.

Sponsors: House Committee on Finance (originally sponsored by Representatives Blake, Orcutt, Takko, Dahlquist, Haigh, Hunt, Walsh, Lytton, Nealey, Morris, Hudgins, McCoy, Zeiger, Maxwell, Pettigrew, Bergquist, Van De Wege, Upthegrove and Freeman).

Brief History: Passed House: 3/13/13, 71-26.
Committee Activity: Trade & Economic Development: 3/21/13, 3/26/13.

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Staff: Edward Redmond (786-7471)

Background: A hotel-motel tax is a special sales tax on lodging rentals by hotels, motels, rooming houses, private campgrounds, RV parks, and other similar facilities. Cities and counties are authorized to levy a basic or state-shared hotel-motel tax of up to 2 percent. These taxes are credited against the state sales tax on the furnishing of lodging. Other hotel-motel taxes are imposed in addition to ordinary state and local sales taxes and are added to the amount paid by the customer. The latter type is often referred to as a special hotel-motel tax.

Prior to 2007, lodging taxes were to be used only for tourism purposes. Tourism purposes included tourism promotion and tourism facilities. Tourism promotion included expenditures designed to increase tourism, such as advertising, publicizing, and other methods of distributing information to attract tourists. Tourism-related facilities were defined as real or tangible personal property with a usable life of three or more years or constructed with volunteer labor and used to support tourism or performing arts or to accommodate tourist activities.

In 2007, SSB 5647 expanded the allowed uses for tourism promotion to include operations. This allowed lodging tax revenues to be used for operations expenditures for tourism promotion as well as to fund and operate festivals and special events. The definition of tourism-related facility was amended to mean property that is owned by a public entity or a nonprofit organization, which includes both 501(c)(3) and 501(c)(6) nonprofit organizations.

This authorized local lodging tax revenues to be used for tourism-related facilities owned by a public entity or a nonprofit organization, including organizations such as business organizations, destination marketing organizations, main street organizations, lodging associations, and chambers of commerce. The legislation also required annual accountability reports on the use of funds for festivals, special events, and tourism-related facilities owned by a nonprofit organization. The data in the report must include the following: total lodging tax collected for the year; list of events and organizations that received funds; list of events or tourism facilities either owned or sponsored by the local jurisdiction that received funds; the estimated number or tourists and overnight guests generated by the events and tourism facilities; and any other data that demonstrates an impact from the increased tourism which can be attributed to the events or tourism-related facilities.

A report by the Joint Legislative Audit and Review Committee (JLARC) to the Legislature and Governor was submitted on May 17, 2012, regarding the expenditures and economic impact of the festivals, special events, and tourism-related facilities owned by nonprofit organizations. JLARC's report stated that approximately 8 percent of lodging tax revenues were spent on the newly authorized purposes, and 92 percent of revenues were spent on previously allowed purposes. They were not, however, able to determine an economic impact from these changes due to incomplete reporting by local governments and concerns about the reliability of the tourist-related data that local governments collected. Moreover, local governments were not asked to collect and report information on tourist spending, which the JLARC study found was necessary for estimating economic impact. The JLARC study concluded that if the Legislature wishes to obtain reliable information for estimating the impact of these expenditures, additional data, collection guidance, and oversight would be needed; however, there would be costs associated with improved data collection and oversight, particularly for collecting reliable information on tourist spending.

The expanded uses for tourism promotion and reporting requirements created under SSB 5647 expire on June 30, 2013.

Summary of Bill: The June 30, 2013, expiration date is removed. Local jurisdictions may use lodging tax revenues to fund festivals and special events designed to attract tourist and local travelers and to fund the capital expenditures and operations of tourism-related facilities owned by nonprofit organizations. Lodging tax revenues used for capital expenditures may not supplant current funding or be used to pay off bonds issued after July 1, 2013.

The specified measurement requirements under current law are removed. Applicants must instead supply the local jurisdiction with estimates of how the lodging tax funds result in increases to: tourists and local travelers visiting the jurisdiction including anticipated overnight stays, and economic benefits to the jurisdictions from such tourist visits.

Applicants in a municipality with a population of over 5000 must submit their applications to the local tax advisory committee. The local tax advisory committee must select candidates and recommended amounts of funding and provide a list of those candidates to the local jurisdiction for final determination. The local jurisdiction is only authorized to choose recipients from the list provided by the local tax advisory committee. However, the local jurisdiction is not prevented from independently selecting recipients for funding if the local tax advisory committee fails to provide a list of candidates for final determination.

All applicants must submit to the local jurisdiction a report comparing the estimated tourism and local visitor benefits with the actual outcomes to the local jurisdiction. Local jurisdictions receiving the post report must make it available to the local legislative body and the public, and must distribute copies of the report to COM and the local lodging tax advisory committees.

On a biennial basis, JLARC must use the reports distributed to the Department of Commerce (COM) to determine the economic impacts of the lodging tax revenues. JLARC must brief the Legislature on this report beginning 2015.

The definition of tourist is amended. Tourist means a person who travels for business or pleasure on a trip: away from their place of residence or business and stays overnight in paid accommodations; to a place 50 miles or more, one way, from their place of residence or their business for the day or stays overnight; or from another country or state outside of their place of residence or their business.

A new definition of local traveler is added. A local traveler means a person who travels less than 50 miles from their residence or business, or a person who travels by ferry, to attend a special event or festival.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2013.

Staff Summary of Public Testimony: PRO: Community festivals are critical to the economic activity in smaller communities. The Central Fair brings over 300,000 visitors to Yakima each year. Other special events brought in people from all over Washington and even northern California. These types of events provide the opportunity to bring economic value to the community and "heads-in-beds." Many cities relied on the expanded use of lodging dollars. One example would include the use of revenues for the 2012 summer Olympic trials, which brought people to the city and put heads-in-beds.

CON: Lodging is a risky business with small margins that needs all the marketing dollars it can get. Tourism is important to the restaurant industry. Restaurants rely heavily on tourism dollars that provide a steady stream of diners, but not by the one-time festivals or events. Since the state no longer has a state tourist office, the dollars need to be spent on marketing to help build the pot. The intent of lodging tax dollars is for marketing to drive tourists into communities to spend money and then generate revenue for that community. The definition of tourist needs to be amended so it will not include a traveler that goes from Olympia to Lacey. Lodging tax revenues are already spent on marketing fairs and special events, including once-a-year events. The money needs to stay in marketing.

OTHER: The Housing Development Consortium is seeking bonding authority within King County. The committee heard a similar bill this session sponsored by Senator Fain. The language in that bill has been worked about by the bonding counsel; King County and Seatac have resolved their differences regarding the use of the funds for tourism marketing to make it an open and transparent process.

Persons Testifying: PRO: Representative Blake, prime sponsor; Senator Fraser; Paul Jewell, Kittitas; Lee Grose, Lewis County; Jim Misner, Cowlitz County; Todd Mielke, Spokane County; Jaime Stephens, San Juan County; Terry Harris, City of Chehalis; Eli Sterling, Earthbound Productions; Jeanne Burbage, City of Federal Way; Ryan Miller, General Manager Hampton Inn and Suites; Dana Anderson, City of Federal Way; Thomas Anderson, citizen; Briahna Taylor, Port Orchard, Lakewood, Pasco, and Tacoma; Heather Hanson, WA State Fairs Assn.; Greg Stewart, Central WA State Fair Assn.; Ron Newbry, Central WA Fair; Glenn Hull, City of Fife; John Spencer, City of North Bonneville; Marfa Scheratski, Bonneville Hotsprings Resort; Victoria Lincoln, Assn. of WA Cities.

CON: Jan Simon, WA Lodging Assn.; Claes Hagstromer, Bainbridge Lodging Assn.; Chami Ro, Comfort Inn and Korean Hotel Owners Assn.; Sandra Miller, Governor Hotel; Becky Bogard, WA Destination Marketing Assn.; Mary Kay Nelson, Visit Rainer.

OTHER: Majken Ryherd, Housing Development Consortium of King County.