SENATE BILL REPORT
SB 5262

As of February 21, 2013

Title: An act relating to the lodging tax.

Brief Description: Concerning the lodging tax.

Sponsors: Senators Fraser, Dammeier, Ranker, King, Eide, Becker, Hasegawa and Shin.

Brief History:
Committee Activity: Trade & Economic Development: 2/14/13, 2/19/13.

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

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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 that 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 continue to use lodging tax revenues to fund festivals and special events designed to attract tourism and to fund the operations and capital expenditures of tourism-related facilities owned by nonprofit organizations.

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 visiting the jurisdiction, and economic benefits to the jurisdictions from such tourist visits. Applicants also must submit to the local jurisdiction a post-event report comparing the estimated tourism benefits with the actual outcomes to the local jurisdiction.

The requirement for local jurisdictions to submit an annual impact report to the Department of Commerce is removed. Local jurisdictions receiving the post-event report must, however, make it available to the local legislative body and the public, and must distribute copies of the report to the local lodging tax advisory committees.

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: This bill is about a local option tax on lodging for the purpose of promoting tourism. The issue in this bill is what promotes tourism. A few years ago the state auditor made a determination that the lodging tax revenues could not be used for helping to put on an event. Following that determination, the legislature passed a bill that said for for up to five years funds could be used to help local nonprofit groups put on events that attract tourists. There are a lot of nonprofits across the state that put on such event but need financial assistance. This bill eliminates the June 30, 2013 sunset clause and permits local jurisdictions to continue to us a portion of their lodging tax revenues, at their discretion, to assist nonprofit organizations to put on events that attract tourists. If the sunset takes effect, there are only two ways the funds could be used. One is for advertising the event but not helping to put it on, and the second is for local jurisdictions put on their own events without assisting a nonprofit. To help a nonprofit all a local jurisdiction would be able to do is advertise the event.

CON: This is a special tax on one category of business. It is designed to promote tourism and that is how it should be aimed. Over the years some of the funding has been abused. There are lodging tax advisory committees that were created to in the mid 1990s and they are supposed to review the uses of the lodging tax. In some communities, however, this does not happen. The JLARC report found that there was not enough data to determine if those added expenditures had any economic impacts. We should not continue these expanded uses if we cannot figure out, or the local jurisdictions did not care enough to report on, the economic impacts. This state does not have a tourism office. Since 2011, we are the only state in the nation without a statewide marketing program. The lodging tax revenues are the only tourism marketing funds the state provides. Local jurisdictions have been using them to work together to try and market the state in the absence of a tourism office.

Persons Testifying: PRO: Senator Fraser, Prime sponsor; Ken Hays, City of Sequim; Craig Ritchie, City of Sequim; Lee Grose, Lewis County Commissioner; Becky Bogard, Washington State Destination Marketing Organizations; Johanna Jones, Lewis County Historical Museum; Andy Skinner, Lewis County Historical Museum; Ron Cridlebaugh, Kittitas County Chamber of Commerce; Skip Priest, Mayor of Federal Way; Ryan Miller, Hampton Inn and Suites; Joe Marine, City of Mukilteo; Glenn Hull, City of Fife Mayor Pro Tem; Fawn Bowles, Staybridge Suites; Mukilteo LTAC Committee; Jean Marie Trapp, Mukilteo Chamber of Commerce; John Binns, Bellingham Festival of Music; Walt Bowen, Greater Olympia Dixieland Jazz Society; Josh Weiss, Washington State Association of Counties; Victoria Lincoln, Association of Washington Cities; Greg Stewart, Central Washington Fair Association; Ron Newbry, Central Washington Fair Association; Eli Sterling, Earthbound Productions.

CON: Kris Kelley-Watkins, Tri Cities CVB; Jan Simon, Washington Lodging Association; Andy Olsen, Columbia Hospitality; Sang Chae, Korean American Hotel Association; Sandra Miller, Governor Hotel; Washington Lodging Association; Patrick Doherty, City of Federal Way; Arthur West, citizen.