SENATE BILL REPORT
SHB 1163

As Reported by Senate Committee On:
Business, Financial Services, Gaming & Trade, March 21, 2023

Title: An act relating to exempting certain leasehold interests in arenas with a seating capacity of more than 2,000 from the leasehold excise tax.

Brief Description: Exempting certain leasehold interests in arenas with a seating capacity of more than 2,000 from the leasehold excise tax.

Sponsors: House Committee on Finance (originally sponsored by Representative Fey).

Brief History: Passed House: 3/6/23, 93-2.
Committee Activity: Business, Financial Services, Gaming & Trade: 3/16/23, 3/21/23 [DPA-WM].

Brief Summary of Amended Bill

- Creates a Leasehold Excise Tax exemption for leasehold interests in the public or entertainment areas of arenas with a seating capacity of at least 2000, and meeting several other requirements.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES, GAMING & TRADE

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Stanford, Chair; Frame, Vice Chair; Dozier, Ranking Member; Boehnke, Gildon, Lovick, MacEwen and Mullet.

Staff: Jeffrey Mitchell (786-7438)

Background: Leasehold Excise Tax. Leasehold excise tax (LET) is paid by a private entity that leases or uses public property under current law. This includes leases of government-owned property exempt from property taxes. The combined state and local rate for LET is 12.84 percent of the rent paid for the property. The state general fund receives 6.84 percent

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

and the remaining 6 percent goes to local governments. The Legislature has exempted a variety of leasehold interests including several public stadiums and arenas such as the stadiums used for professional football and baseball, as well as several other types of public facilities.

Tax Preference Review Requirements. State law provides 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. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics the Joint Legislative Audit and Review Committee (JLARC) can use to review the effectiveness of the preference in achieving its stated public policy objectives. Tax preferences must be reviewed by JLARC at least once every ten years, unless state statute requires otherwise. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided or the tax preference is exempted from expiration. To assist the Legislature in its evaluation of economic development-related tax preferences, taxpayer beneficiaries are required to file annual tax preference performance reports detailing wages and employment of the taxpayer as well as tax savings from the tax preference.

Summary of Amended Bill: All leasehold interests in the public or entertainment areas of an arena are exempted from LET if:
- the arena has a seating capacity of more than 4000;
- the arena is located on city-owned land;
- the arena is located within a city with a population over 100,000; and
- private entities were responsible for 100 percent of the cost of constructing improvements to the arena, which were not reimbursed by the public owner.

The LET exemption expires January 1, 2034.

Two separate TPPS are established for the new LET exemption.

The first TPPS is for arenas with a seating capacity of more than 17,000. The stated public policy objectives are to provide tax parity resulting in leasehold excise tax relief for large arena facilities used for professional sports with the expectation that an operational entity overseeing operations at a facility will provide substantial economic benefits to its specific region with a focus on:
- providing employment opportunities for women and minority-owned businesses;
- fostering equity and social justice with an emphasis on arena-impacted communities;
- providing general community resource support; and
- ensuring quality access to the facility for people across a range of income levels.

JLARC will specifically review:
- state and local fiscal impacts;

- to the extent data is available, the number of employment positions and wages at the facility for all employers, the degree to which employment positions at the facility have been filled by people residing in economically distressed regions of the county in which the facility is located, and the race and ethnicity of the employees;
- the extent to which the operational entity provides opportunities for patrons of all income levels to enjoy programming by offering seating at a range of price points that are equitably distributed throughout the facility; and
- the extent to which the operational entity generally contributes resources to organizations that serve the region, the communities surrounding the facility, and programs and services for youth, arts, music, and culture.

The second TPPS is for arenas with a seating capacity of 17,000 or less. The stated public policy objectives are to provide tax parity resulting in leasehold excise tax relief with the expectation that employees employed at the facilities receive competitive wages and benefits and the facilities advance and promote diverse and inclusive voices, experiences, perspectives, and employment opportunities.

JLARC will specifically evaluate:
- state and local fiscal impacts;
- the number of employment positions and wages at the facility for all employers operating at the facility;
- the financial stability of the facility;
- the types of programming and events scheduled at the facility; and
- the economic impact of the facility in the county in which the facility is located.

EFFECT OF BUSINESS, FINANCIAL SERVICES, GAMING & TRADE COMMITTEE AMENDMENT(S):

- Adds a ten-year expiration date.
- Requires a JLARC review.
- Modifies the criteria of eligibility for the new leasehold excise tax exemption.
- Requires any taxpayer claiming the new exemption to file an annual tax performance report.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill takes effect on October 1, 2023.

Staff Summary of Public Testimony on Substitute House Bill: *The committee recommended a different version of the bill than what was heard.* This bill is about fairness and creating a level playing field. The Legislature has created similar exemptions recently. One facility should not have an advantage over another. Climate Pledge Arena has done a good job making sure people can get to the arena without necessarily getting in an automobile and has shown a commitment to disadvantaged communities. We also support the language in the Senate bill adopted by the committee.

Persons Testifying: PRO: Representative Jake Fey, Prime Sponsor.

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