

HOUSE BILL REPORT

HB 1818

*As of House Second Reading
March 8, 1991*

Title: An act relating to the state convention and trade center.

Brief Description: Changing project completion costs for the state convention and trade center.

Sponsor(s): Representatives Locke, Prince, H. Sommers, Ferguson, Betrozoff and Wineberry; by request of State Convention and Trade Center and Office of Financial Management.

Brief History:

Reported by House Committee on:
Capital Facilities & Financing, March 1, 1991, DP;
Second Reading, March 8, 1991.

**HOUSE COMMITTEE ON
CAPITAL FACILITIES & FINANCING**

Majority Report: *Do pass.* Signed by 11 members: Representatives H. Sommers, Chair; Rasmussen, Vice Chair; Neher, Assistant Ranking Minority Member; Brough; Casada; Fraser; Heavey; Jacobsen; Ogden; Peery; and Wang.

Staff: Susan Kavanaugh (786-7130).

Background:

Additional Hotel/Motel Tax: In 1988, the Legislature authorized additional bonds for conversion of Convention Center retail and other space to meeting rooms and for expansion of the facility. To cover the debt service on these new bonds, the Legislature also provided for a 1 percentage point increase in the existing 5 percent Seattle hotel motel tax, and a 0.4 percentage point increase in the 2 percent tax levied in King County outside of Seattle. This additional tax is to begin January 1, 1993 and cease as soon as the treasurer certifies that the base 5 percent tax is sufficient to cover the cost of Convention Center bond debt service.

In 1988, it was assumed that conventional serial bonds requiring annual debt service would be issued. In the

interest of getting the most advantageous terms for the State, the treasurer chose to issue zero coupon bonds, for which no debt service is paid for several years. As a result, without a change in statute, the additional hotel/motel tax will be eliminated as soon as it goes into effect in 1993. Four years later, when debt service on the zero coupon bonds begins, the 5 percent hotel/motel tax will not be sufficient to cover debt service and additional borrowing from the general fund will be required.

Borrowing Repayment: In 1987, the Legislature authorized temporary borrowing from the state treasury until bonds were sold to pay for Convention Center project completion. One of the purposes for which bonds are authorized is purchase of the McKay parcel, located adjacent to the enter. This borrowing is to be repaid by June 30, 1991.

Because the Convention Center intends promptly to resell a portion of the McKay parcel, the treasurer advised that the \$8.95 million purchase be financed with temporary borrowing through bonds. The Convention Center now owns the McKay parcel and owes the treasury \$8.95 million, most or all of which it intends to repay with proceeds from sale of the property.

The Convention Center is seeking to sell the property but is concerned that it will be unable to secure the best possible price if constrained by the 1991 deadline.

Settling Contractor Claims: In January 1991, the Convention Center reached a settlement with Paschen Contractors, Inc., regarding a \$29 million claim for damages related to construction of the Convention Center facility.

Under the settlement, the Convention Center is required to pay Paschen \$5.8 million. \$3.87 million of this amount has already been paid. \$1.93 million more, up to \$2.99 million with sales tax and interest, must be paid by July 15, 1991, and additional appropriation is needed to cover this final portion of the settlement.

Summary of Bill:

Change in Date Treasurer Begins to Consider Reducing Hotel/Motel Tax: The date when the treasurer first considers eliminating the additional 1 percent tax is changed from 1993 to 1998, when debt service on the zero coupon bonds will have begun.

Change in the Date for Temporary Convention Center Borrowing To Be Repaid: The date by which temporary borrowing from the state treasury must be repaid is changed from June 30,

1991 to June 30, 1993. It is made clear that proceeds from the sale of property owned by the Convention Center, but not needed for center operations, may be used to pay project completion costs.

Covering the Cost of Settling Contractor Claims: It is also made clear that settlement costs related to construction litigation are a part of "project completion" costs for the Convention Center. Up to \$2.99 million is appropriated from the state convention and trade center account for this purpose. Because the Convention Center currently has unused bond authorization, no additional bonding authority is needed to cover this appropriation.

Technical Correction: It is made clear that once the Convention Center has met the Legislature's goal of spending \$3 million for low-income housing, moneys remaining from an appropriation for that purpose may be used for settlement costs from construction litigation.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: The settlement reached with Paschen Contractors is in the state's best interest. Other changes are needed to be consistent with legislative intent.

Testimony Against: None.

Witnesses: Egil Krogh, Washington State Convention and Trade Center (in favor).