

SENATE BILL REPORT

EHB 2093

AS REPORTED BY COMMITTEE ON WAYS & MEANS, APRIL 8, 1991

**Brief Description:** Modifying authorized uses of the excise tax on lodgings.

**SPONSORS:** Representatives Locke, Miller, Anderson, Hine, Ferguson, Brough and Valle.

**HOUSE COMMITTEE ON REVENUE**

**SENATE COMMITTEE ON WAYS & MEANS**

**Majority Report:** Do pass as amended.

Signed by Senators McDonald, Chairman; Craswell, Vice Chairman; Bailey, Bauer, Bluechel, Cantu, Hayner, Johnson, Metcalf, Murray, Niemi, Owen, Rinehart, L. Smith, Talmadge, and Williams.

**Staff:** Terry Wilson (786-7715)

**Hearing Dates:** April 4, 1991; April 8, 1991

**BACKGROUND:**

The hotel/motel tax was first authorized in 1967 for King County to build the Kingdome. The rate was 2 percent and was levied on the rental of hotel and motel rooms throughout the county. The Legislature allowed the tax to be credited against the state sales tax rate. The 1973 Legislature extended this taxing authority to all cities and counties, and expanded the uses to include convention centers as well as sports facilities. With two exceptions, counties must allow a credit against the county tax for any city tax. Thus, with two exceptions, the total tax and the credit against the state sales tax may not exceed 2 percent anywhere in the state.

The two exceptions occur in the cities of Bellevue and Yakima. The 1975 Legislature enacted a restriction precluding cities in Yakima and King counties from levying the tax until bonds issued prior to 1975 by these counties are retired. However, Bellevue and the city of Yakima were excluded from this restriction, since they had already pledged tax revenues to bond payments when the Legislature enacted the restriction. In the cities of Yakima and Bellevue, both the city and county levy the tax and the total credit against the state sales tax rate is 4 percent, commonly referred to as the "double-dip."

In recent years, the Legislature has authorized additional local option hotel/motel taxes that are not credited against the state sales tax rate and has significantly expanded the uses of revenues. Bellevue, Pierce County and its cities, Ocean Shores, and Yakima County and its cities have additional

local option authority. The 1982 Legislature authorized a state hotel/motel tax, currently levied at 6 percent in Seattle and 2.4 percent in King County outside of Seattle, to fund construction and operation of the Washington State Convention and Trade Center. Uses of the basic 2 percent have also been expanded to include performing arts, visual arts, and tourism promotion.

There is currently some interest in revising the distribution of hotel/motel tax revenues in King County. The 1986 and 1987 Legislatures capped the revenues to be used for the Kingdome at \$5.3 million per year and directed that the excess be used for arts purposes. Under a King County ordinance, money dedicated to the arts must be split among three uses: 40 percent for an Arts and Cultural Education program, 40 percent for a Cultural Tourism and Enrichment program, and 20 percent for a Cultural Challenge Grant program.

Revenue collections in King County have exceeded the predictions made when the cap was imposed, and various interest groups are now arguing that the excess should be split among the Kingdome, sports and tourism promotion, and arts purposes instead of just the arts. King County Executive Tim Hill has proposed a split of the excess such that the arts would retain 50 percent, sports and tourism promotion would receive 17 percent, and the Kingdome would receive 33 percent.

**SUMMARY:**

From January 1, 1992, through December 31, 2000, the following amounts of King County hotel/motel revenues collected in excess of the \$5.3 million cap are to be used solely for art and cultural museums, the arts, and the performing arts:

CY 1992	\$ 828,000
CY 1993	\$ 1,318,000
CY 1994	\$ 1,848,000
CY 1995	\$ 2,420,000
CY 1996	\$ 3,037,000
CY 1997	\$ 3,704,000
CY 1998	\$ 4,424,000
CY 1999	\$ 5,202,000
CY 2000	\$ 6,042,000
Total	\$28,823,000

Any revenues collected in excess of the above amounts are distributed as follows:

1. Fifty percent to art and cultural museums, the arts, and the performing arts; and
2. Fifty percent to one or more of the following: stadium capital improvement projects, tourism promotion, recreational sports activities, or promotion of professional and amateur sports. A portion of any moneys used for tourism and lodging promotion must be directed

to benefit areas of the county outside of any city with a population greater than 500,000.

Seventy percent of tax revenues spent for arts purposes must be used only for the purchase, design, construction, and remodeling of arts facilities, and the purchase of fixed assets that would benefit arts organizations. Arts facilities receiving proceeds of the tax must demonstrate financial stability and meet various criteria.

From January 1, 2001 through January 31, 2012, revenues collected in excess of \$5.3 million but not exceeding \$11.3 million are to be used only for arts purposes. Any revenues collected in excess of \$11.3 million are to be distributed as follows:

1. Sixty percent to art and cultural museums, the arts, and the performing arts; and
2. Forty percent to one or more of the following: stadium capital improvement projects, tourism promotion, recreational sports activities, or promotion of professional and amateur sports. A portion of any moneys used for tourism and lodging promotion must be directed to benefit areas of the county outside of any city with a population greater than 500,000.

At least 40 percent of the revenues distributed to the arts after January 1, 2001 must be deposited in an account and used to establish an endowment. Only interest earned on the account may be distributed for arts purposes. The authorization for counties who have pledged revenues to bonds sold before 1975 to preclude cities within the county from levying the tax is terminated December 31, 2012.

Tax revenues distributed to arts purposes may not be used to replace or supplant any other arts funding.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** requested March 1, 1991

**Effective Date:** January 1, 1992

**SUMMARY OF PROPOSED SENATE AMENDMENT:**

The revenues are distributed as follows:

- 1) For art museums, cultural museums, heritage activities and projects, the arts, and the performing arts, including performing arts facilities constructed by municipalities with consideration to the proportional location of lodging facilities generating the revenues: 75 percent from January 1, 1991, through December 31, 2000, and 70 percent from January 1, 2001, through December 31, 2012;

2) For stadium capital improvement projects: 19 percent from January 1, 1991, through December 31, 2000, and 26.5 percent from January 1, 2001, through December 31, 2012; and

3) For tourism promotion: 6 percent from January 1, 1991, through December 31, 2000, and 3.5 percent from January 1, 2001, through December 31, 2012.

Only qualifying organizations eligible to receive capital moneys and general purpose local governments are eligible to receive non-capital moneys for art museums, cultural museums, heritage activities and projects, the arts, and the performing arts.

At least 19.5 percent of the amount distributed to the arts beginning January 1, 2001 shall be used to establish an endowment.

\$500,000 of the moneys distributed each year for stadium capital improvements shall be used to fund the capital and operating costs of youth sports activities.

"Tourism promotion" is defined to include activities intended to attract visitors for overnight stays, arts, heritage, and cultural events, and recreational, professional, and amateur sports events. Moneys allocated to tourism promotion shall be allocated to nonprofit organizations formed for the express purpose of tourism promotion in a class AA county.

**TESTIMONY FOR:**

Projected revenues have increased over projections made when the cap was instituted. There is interest in using the excess for other purposes. The arts will give up money for the needs of the Kingdome. Many people come to Seattle for the arts. The arts are second only to scenic areas as reasons to come to this state. Great cities are known for their arts. King County began supplanting arts funds when moneys started coming in. There needs to be an oversight committee to ensure the funds go where they are supposed to go.

**TESTIMONY AGAINST:**

There is a need to invest in the industry that ensures a continuation of the revenue stream by using moneys for promotion. King County will use all the money for the Kingdome and nothing will be left for promotion. Language changes seem to exclude use for heritage purposes. Too much money goes to the arts under this proposal. Some of the moneys should go to the areas that generate the money.

**TESTIFIED:** Rep Gary Locke, (pro); Ed Birdwell, Seattle Symphony, (pro); Don Campbell, King County Arts Commission, (pro); Susan Moritz, ACT, (pro); Steven Morris, Seattle-King County Convention and Visitors Bureau; Joe Terzi, Seattle Hotel Assn.; Susan Clawson, King County; Robert Gruhn, King County Landmarks Commission, (con); John Thompson, Seattle-King County Sports and Events Council, (con); Ron Main, King

County; Robert Frazier, Assn. of King County Historical Organizations, (pro); Jim Metcalf, City of Sea-Tac; Charles Roland, Seattle Mayor's Office, (pro); Arnette Holloway, Central Area Neighborhood District Council, Seattle International Baseball League, (pro); Megan Trayer, Seattle International Baseball League, (pro); Wayne Holloway, Seattle International Baseball League, (pro)