

HOUSE BILL REPORT

HB 3027

As Reported by House Committee On: Finance

Title: An act relating to the governance and financing of the Washington state convention and trade center.

Brief Description: Regarding the governance and financing of the Washington state convention and trade center.

Sponsors: Representatives Ormsby, White and Kenney.

Brief History:

Committee Activity:

Finance: 2/3/10, 3/1/10 [DPS].

Brief Summary of Substitute Bill

- Creates a new public facility district in King County to take over the Washington State Convention and Trade Center.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, Santos and Springer.

Minority Report: Without recommendation. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Condotta.

Staff: Susan Howson (786-7142).

Background:

The Washington State Convention and Trade Center (Center) is a public nonprofit corporation created by the Legislature in 1982 for the purpose of constructing and operating a nationally competitive convention and trade facility in the City of Seattle. The Center is governed by a nine-member board of directors appointed by the Governor. Initial

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construction of the Center facility was completed in 1988 and financed through state-issued general obligation bonds, which are projected to be retired by Fiscal Year 2020. Expansion of the Center, authorized by the Legislature in the 1995-97 biennium, was completed in Fiscal Year 2002 and financed through the use of Certificates of Participation, which are expected to be paid off by Fiscal Year 2029.

A state "convention center" tax applies to lodging within King County. This special sales and use tax applies only to the sale of lodging in hotels, motels, and similar facilities in King County with at least 60 units. The tax applies only when a lodging unit is used for a continuous period of less than one month (longer use is considered as a rental of real property, rather than a "license" to use the property). The tax rate is 7 percent within the City of Seattle and 2.8 percent throughout the remainder of King County. The rates will drop to 6 percent and 2.4 percent, respectively, when the bonds to finance construction or expansion of the Center are retired. All proceeds of the convention center tax are devoted to the state convention center facility located in Seattle. Receipts are deposited into two accounts within the State Treasury: (1) the State Convention and Trade Center Account (used for acquisition, design, and construction of facilities and retirement of bonds), and (2) the State Convention and Trade Center Operations Account.

The City of Seattle imposes a 2 percent tax (local convention center tax) to the same charges for accommodations as the state convention center tax. The 2 percent tax is credited against the state retail sales tax, so that it does not increase the cost of room rentals to customers. All of the revenues are deposited in the State Convention and Trade Center Account and are dedicated to costs of expanding the convention center. Thus, the effect of this tax is to shift funds from the State General Fund to the State Convention and Trade Center Account within the State Treasury.

Public facilities districts (PFD) are municipal corporations and independent taxing districts. A PFD may be created by resolution of the county legislative authority and their boundaries are coextensive with those of the county. Public facilities districts are authorized to acquire, build, own, and operate sports facilities, entertainment facilities, or convention facilities or any combination of such facilities, and for districts formed after January 1, 2000, recreational facilities other than ski areas together with contiguous parking facilities.

Summary of Substitute Bill:

An additional public facility district (PFD) in King County may be created for the purpose of acquiring and operating the convention and trade center transferred from the public nonprofit corporation that operates the Washington State Convention and Trade Center (Center). The new PFD is governed by a nine-member board of directors. Three members are appointed by the Governor, three by King County, and three by the City of Seattle. At least one of the Governor's appointments and one of the county appointments must be a representative of the lodging industry. One of the city's appointments must be a representative of organized labor. The initial board of the PFD is made up of the nine-member board of the Center. The Governor must designate which of the initial board members must serve two-year terms and

which must serve four-year terms. Four of the initial nine board members must serve two-year terms of office.

A PFD created for the purpose of acquiring and operating the Center may contract with the Seattle-King County Convention and Visitors' Bureau to market the convention center. The new PFD has the authority to acquire property by condemnation.

The convention and trade center will be transferred to the new PFD when provisions are made for all of the debt and certificate of participation obligations of the state on the convention center to be redeemed, prepaid, or defeased; for the balance in the State Convention and Trade Center Operations Account, the State Convention and Trade Center Account, and other accounts related to the convention center are transferred to the new PFD; for the imposition of lodging taxes by the new PFD; for transfer of the assets and liabilities of the public nonprofit corporation to the new PFD; for the execution of a settlement agreement of the court case related to the convention center funds; for payment of fees, costs, and expenses related to the transfer; and for payment of an amount to the state equal to the value of the 2 percent sales tax credit for Fiscal Year 2011.

The new PFD is authorized to impose lodging taxes on hotels, motels, and similar facilities with at least 60 units. The rate is 7 percent in Seattle and 2.8 percent in the rest of King County. In addition, the new PFD may impose a 2 percent lodging tax in Seattle that credits against the state sales tax rate.

Starting in the first full fiscal year after the convention and trade center is transferred to the new PFD, annual payments will be made to the state in an amount equal to the amount of the state tax credit. The 2 percent tax may be imposed only for paying the debt of the PFD and making the annual payment to the state. The 2 percent tax ends on the earlier of July 1, 2029, or the date the debt was issued to redeem, prepay, or defease the state's obligations related to the convention and trade center. If the new PFD is not able to make the annual payment due to insufficient tax revenue to pay debt, then any deficiency will be considered a loan from the state, and principal and interest must be paid on the loan.

The new PFD is authorized to designate a qualified person other than the county treasurer to serve as its treasurer. This may include a fiscal agent, paying agent, or trustee for obligations issued or incurred by the district.

The securities of the new PFD are eligible investments for the state and other public entities.

The new PFD is eligible to participate in the State Treasurer's Local Option Capital Asset Lending program (local government pooled financing program).

Substitute Bill Compared to Original Bill:

The original bill was a title only bill. The substitute bill creates a new public facility district in King County to take over the Washington State Convention and Trade Center.

Appropriation: None.

Fiscal Note: Requested on March 1, 2010.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) An advisory committee was convened last interim to review the right sizing and financing of the Washington State Convention and Trade Center (Center) as a tourism and convention destination. The Center is a jewel in the crown of our state's tourism, convention, and economic development. A stable funding source is needed to support future expansion. The language in this bill is being negotiated as part of a lawsuit settlement brought forward by the Tourism Alliance regarding use of the hotel/motel tax. Negotiations are underway. Elements of the settlement include expansion, continued financing, and the 2 percent state sales tax credit. Future expansion of the Center represents up to 3,500 construction jobs. Ancillary development is also expected if future expansion occurs. The state is missing out on a lot of convention opportunities due to the size of the existing facility. Currently the Center doesn't have the capacity to house all who like to come to Seattle. This is a needed element of our economic development for the metropolitan Seattle area, as well as outlying areas.

(Opposed) None.

Persons Testifying: Representative Ormsby, prime sponsor; Becky Bogard, Seattle Convention and Visitors Bureau; and David Johnson, Washington State Building and Construction Trades Council.

Persons Signed In To Testify But Not Testifying: None.