
**Technology & Economic Development
Committee**

HB 1690

Brief Description: Providing a tax deferral for the expansion of certain existing public facilities district convention centers.

Sponsors: Representatives Walkinshaw, Rodne, Tarleton, Magendanz, Fitzgibbon, Stokesbary, Farrell and Morris.

Brief Summary of Bill

- Extends a state and local retail sales and use tax deferral program, currently applicable only to construction by a Public Facilities District (PFD) of a certain baseball stadium, to apply also to new expansion by a PFD of an existing PFD convention center in King County.

Hearing Date: 2/4/15

Staff: Jasmine Vasavada (786-7301).

Background:

Washington State Convention and Trade Center.

In 2010, the Legislature authorized creation of a new public facilities district (PFD) in King County to take over the Washington State Convention and Trade Center (Center), located in Seattle. The Center 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.

The Center was originally established by the Legislature as a public nonprofit corporation in 1982 and financed through state-issued general obligation bonds. Expansion of the Center, authorized by the Legislature in the 1995-97 biennium, was financed through the use of

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

Certificates of Participation. The Center was transferred to the PFD in 2010 after provisions were made for all assets and liability of the nonprofit corporation to be assumed by the PFD.

Public Facilities District.

Public facilities districts (PFDs) are corporate municipal bodies, established by statute as independent taxing authorities. A county legislative authority may adopt a resolution creating one or more PFDs, each with boundaries that are the same as the boundaries of the county. Such county PFDs are authorized to acquire, build, own and operate sports facilities, entertainment facilities, or convention facilities, or any combination of such facilities, together with contiguous parking facilities.

Lodging Tax Financing.

For the purposes of acquiring, owning, and operating a convention and trade center, the Center PFD is authorized to impose an excise tax on lodging sales or charges made by hotels, motels, and similar facilities with at least 60 units (convention center tax). The convention center tax rate is 7 percent in Seattle and 2.8 percent in the rest of King County. 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 revenues from this tax allowed the PFD to issue revenue bonds in 2010 to assume the assets and liabilities for the Center from the state, and also provided additional funding for future improvement and expansion of the Center.

Local Convention Center Tax.

The Center PFD may impose, in Seattle only, an additional 2 percent excise tax (local convention center tax) on the same sales or charges subject to the convention center tax. The state issues a tax credit, against the retail sales tax, to the hotels, motels and other lodging facilities paying the local convention center tax, and as a result, the local convention center tax does not increase the cost of room rentals to customers. The local convention center tax may be imposed only for: (1) paying the principal and interest on the debt of the PFD; and (2) paying an “annual payment amount” to the state. The “annual payment amount” is equal to the revenues received by the PFD from the local convention center tax, plus an interest charge. The local convention center tax ends on July 1, 2029, or the date the debt is issued to redeem, prepay, or defease the state’s obligations related to the Center, whichever comes first. If the Center PFD is not able to make the annual payment because it needs to use a portion of the additional tax revenues to pay the principal and interest on its debt, then any deficiency in the annual payment made to the state is deemed a loan from the state, and principal and interest must be paid on the loan.

Retail Sales and Use Taxes.

The state sales tax is imposed on each retail sale of most articles of tangible personal property and certain services. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms. The state retail sales and use tax rate is 6.5 percent. Local retail sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on location.

State and Local Sales and Use Tax Deferral for a New Baseball Stadium.

Sales and use tax deferral is a mechanism that has been utilized to help fund major capital projects, helping lower up-front construction costs and allowing later payment of taxes, at a time when the completed facility is producing revenues. In 1995, the Legislature established a sales

tax deferral applicable only for construction by a PFD of a new baseball stadium with a retractable roof or canopy and natural turf. Pursuant to this authority, sales tax was deferred on costs of construction, including site preparation and the acquisition of related machinery and equipment, of the professional baseball stadium in King County (Safeco Field). The deferral period lasted until December 31 of the fifth year after the facility was operationally complete, at which point the repayment obligation began.

Independent Financial Feasibility Review.

In 2012, the Legislature established a new independent financial feasibility review requirement for certain PFD activities. An independent financial review of a PFD is required prior to any of the following three events: (a) formation of a new PFD; (b) a PFD's issuance of any indebtedness, excluding debt issuances for the sole purpose of refinancing existing debt; and (c) the long-term lease, purchase, or development of a facility. The Department of Commerce conducts the review through a contract with the Municipal Research and Services Center or another independent party. The review is financed by the PFD or, in the case of a new PFD, by the local government proposing to form the new PFD. The review must examine the potential costs to be incurred by the PFD and the adequacy of anticipated revenues.

Summary of Bill:

State and Local Retail Sales and Use Tax Deferral Authority.

A state and local retail sales and use tax deferral, currently applicable only to construction by a PFD of a new baseball stadium with a retractable roof or canopy and natural turf, is made available to a PFD for the purposes of a new expansion of an existing PFD convention center located in King County. The governing board of the Center PFD may apply to the Department of Revenue (DOR) for authority to defer the taxes for 5 years from the date the expanded facility is operationally complete, and to repay the deferred taxes in ten equal payments over 10 years, beginning on December 31st of the fifth calendar year after the facility is operationally complete.

Deferrable taxes includes state and local retail sales and use taxes on construction of buildings, site preparation, and the acquisition of related machinery and equipment for a new public facility.

Conditions on the Payment of the Deferred Taxes.

Each payment must equal ten percent of the deferred tax. Repayments may be made on an accelerated schedule if so authorized by the DOR. Interest may not be charged on any taxes deferred during the period of deferral, but if the Center does not make its payments on time, interests and penalties apply. Any debt of the Center for unpaid deferred taxes is not extinguished by insolvency or other failure of the PFD.

Public Facilities Districts Financial Feasibility Review.

An independent financial feasibility review, paid for by the Center PFD, is required prior to issuance of any new debt or the long-term lease, purchase, or development of a facility necessitated by the Center expansion.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 2015.