

HOUSE BILL REPORT

EHB 2115

As Passed House:
October 13, 1995

Title: An act relating to financing public sports facilities.

Brief Description: Financing public sports facilities.

Sponsors: Representatives Van Luven and Appelwick; by request of Governor Lowry.

Brief History:

Floor Activity:

Passed House: 62-29

Staff: Kenny Pittman (786-7392) and
Bob Longman (786-7139)

Background: In 1995, the Legislature authorized counties with population greater than 1 million to impose a 0.1 percent sales and use tax after voter approval. The tax revenue is dedicated to financing a professional baseball stadium. The King County Council placed before the King County voters a sales and use tax proposal on September 19, 1995. The proposal failed to receive a majority vote.

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 tax rate is 6.5 percent of the selling price. Local governments may levy additional sales taxes. The average local sales tax rate is 1.5 percent. The sales tax is paid by the purchaser and collected by the seller.

A sales and use tax deferral program is available for the construction of a baseball stadium with a retractable roof or canopy and natural turf. Taxes are deferred for five years from the date the facility is operationally complete and are repaid over the following 10 years.

The State Lottery Commission administers several games of chance that are collectively called the State Lottery. The commission is directed by statute to operate

the lottery to "produce the maximum amount of net revenues for the state consonant with the dignity of the state and the general welfare of the people."

A public facilities district may be created in any county by the county legislative authority and must be coextensive with the county. A public facilities district is authorized to acquire, construct, own, remodel, maintain, equip, reequip, repair, and operate sports facilities, entertainment facilities, and convention facilities. If the largest city in a county has a population less than 40 percent of the total county population (which is currently true in King County), the county legislative authority can decide whether the board of directors of the public facility district has five or seven members.

With voter approval, a public facilities district may impose a 0.1 percent sales and use tax and both single-year excess property tax levies and multiple-year excess levies to retire general obligation bonds issued for capital purposes. A hotel/motel tax of up to 2 percent may also be imposed, as long as the total state and local hotel/motel taxes do not exceed 11.5 percent. Currently, a district created in King County would be precluded from imposing the tax due to this restriction.

In addition, a county with a population of one million or more may impose a sales and use tax of 0.1 percent by resolution adopted by December 31, 1995, following approval by a majority of the voters in the county. Revenue from this tax revenue must be used to finance a baseball stadium with a retractable roof or canopy and natural turf. Tax revenue in excess of the amount needed for bond payments on the baseball stadium must be used for early retirement of the bonds or to pay costs to repair, remodel, or reequip a multipurpose stadium that seats in excess of 45,000 people. Before the tax can be collected, the county executive must certify that: (1) a professional baseball team will occupy the stadium for a period equal to or greater than the term of the bonds; (2) the baseball team will contribute \$45 million toward the cost of stadium construction, with interest paid on amounts deferred after the bonds are issued; and (3) the baseball team will share a portion of the profits from its operations, for a period not to exceed the term of the bonds, to retire the initial bonds on stadium construction. If the bonds are retired early, then the shared profits are paid to the public facilities district.

Cities and counties may impose a tax of up to 5 percent on admissions to events except elementary and secondary school events. The county tax may not apply within cities that impose the tax, except a county may impose an admission tax on events in a stadium with a seating capacity over 45,000, built after January 1, 1995, and owned by a public facility district. The city may not also impose an admission tax on such a facility.

Rather than following traditional public works bidding procedures, state agencies and large municipalities can use alternatives commonly known as "design-build" or

"general contractor/construction manager" procedures. Authority to use these procedures is limited to contracts signed before July 1, 1997.

Property owned by federal, state, or local governments is exempt from the property tax. However, private lessees of government property are subject to the leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly-owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The tax is collected by public entities that lease property to private parties. The tax rate of 12.84 percent is imposed on the amount paid in rent for the public property.

Summary: State and local financing is provided for a baseball stadium with natural turf and a retractable roof, to be constructed in the largest city in a county with a population of one million or more. Based on current population estimates, this stadium would be built in Seattle, King county.

State contribution

The additional 0.1 local sales and use tax option for a baseball stadium is eliminated. The legislative authority of a county with a population of one million or more may impose a sales and use tax at a rate of .017 percent. This tax is credited against the state sales and use tax. Therefore, consumers will not see an increase in tax. The tax and credit expire when the bonds are retired, but not later than 20 years after the bonds are issued.

The State Lottery Commission is directed to conduct at least two but not more than four games with sports themes per year. During 1996, three million dollars of lottery revenue is dedicated to baseball stadium bond retirement. This amount will increase by 4 percent each year.

Local funding

Before issuing bonds or collecting special local taxes for a baseball stadium, the county must create a public facilities district. The district will determine the amount of bonds necessary for the stadium. The county must pay the proceeds of the bonds to the district.

The county legislative authority may impose the following taxes: (1) a special sales and use tax on food and beverage sales in restaurants, taverns, and bars, at a rate not exceeding 0.4 percent and (2) a special sales and use tax on car rentals at the rate not exceeding 2 percent. Revenue from these taxes must be used to repay baseball stadium bonds. Excess revenue must be used for early retirement of the baseball stadium bonds or placed in a contingency fund which may only be used to pay unanticipated capital costs on the baseball stadium. These taxes cannot be collected

until the current law requirements are met regarding the team commitment to occupy the stadium for the term of the bonds, financial contribution by the team, and profit-sharing by the team. These taxes expire when the baseball stadium bonds are retired, but not later than 20 years after the taxes are first collected.

The \$45 million contribution required under current law from the baseball team may be used for pre-construction costs as well as bond retirement. Consent of the public facilities district is required before the team may make any contributions.

The county may impose admissions taxes on events in the baseball stadium as follows. A 5 percent tax may be imposed for the purpose of baseball stadium bond retirement. If the revenue from this tax exceeds the amount needed for that purpose, the excess must be placed in a contingency fund which may only be used to pay unanticipated capital costs on the baseball stadium. An additional 5 percent tax may be imposed for the sole purpose of baseball bond retirement. This additional tax expires when the baseball stadium bonds are retired, but not later than 20 years after the tax is first collected.

Miscellaneous provisions

County and city property can be transferred to a public facilities district, either at creation of the district or later. Property encumbered by debt must be accompanied by adequate revenue to retire the debt.

In counties with a population of one million or more, three members of a public facilities board of directors will be appointed by the Governor subject to confirmation by the senate, and two members shall be appointed and confirmed by the county legislative authority. If the county legislative authority decides the board shall have seven members rather than five, the extra two members shall be appointed by the county executive subject to confirmation by the county legislative authority.

A public facilities district that constructs a baseball stadium has, in consultation with the team that will use the stadium, the power to: determine the stadium site, determine the overall scope of the stadium project, make the final determination of stadium design, obtain professional services for the stadium design, establish stadium budget and bidding specifications, and structure the stadium financing.

The expiration date for the alternative public works contracting procedure known as "design-build" is extended to include baseball stadium contracts signed before December 31, 1997.

A leasehold excise tax exemption is provided for public or entertainment areas of a baseball stadium with natural turf and a retractable roof, if constructed in a county with a population of one million or more.

The public facilities district, the county, and the city with the largest population in the county shall enter into an agreement regarding the construction and operation of a baseball stadium. The agreement shall address, but not be limited to expedited permit processing for the design and construction of the project; expedited environmental review processing; expedited processing of requests for street, right-of-way, or easement vacations necessary for the construction of the project; and other items deemed necessary for the design and construction of the project.

Appropriation: None.

Fiscal Note: Requested October 12, 1995.

Effective Date: The bill contains an emergency clause and takes effect immediately, except the provisions relating to the new lottery games that take effect January 1, 1996.