SENATE BILL REPORT

SB 5601

AS REPORTED BY COMMITTEE ON WAYS & MEANS, FEBRUARY 26, 1991

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

SPONSORS: Senators Cantu, McDonald and Bluechel; by request of State Convention and Trade Center and Office of Financial Management.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators McDonald, Chairman; Craswell, Vice Chairman; Bailey, Bluechel, Cantu, Gaspard, Hayner, L. Kreidler, Newhouse, Owen, L. Smith, and Talmadge.

Staff: Mary Poole (786-7715)

Hearing Dates: February 25, 1991; February 26, 1991

BACKGROUND:

Construction of the Washington State Convention and Trade Center (WSCTC) was completed in 1989, yet several issues related to the construction phase of the project remain to be resolved. The first issue is the settlement of a lawsuit filed by the construction contractors against the WSCTC and its design team. Two years ago, the contractor filed the suit for $29 million in damages. The suit was based on claims of alleged errors and omissions by the architectural and engineering team which designed the center. As the project owner, WSCTC was also liable in the suit. A settlement was reached in January, 1991 for $11.6 million. One half of this amount is to be paid by the design team's insurance policy, leaving the state's share at $5,800,000 plus $1,060,000 for taxes and interest.

The state's share of the settlement is intended to come from four sources, three of which do not require additional appropriation authority. The three existing sources are as follows: 1) $600,000 is available in cash reserves remaining from the construction phase; 2) a $1,070,000 loan will be repaid by the city of Seattle; and 3) $2,200,000 from an appropriation made in the 1990 session to repay the center for expenditures which had previously been made on low-income housing. Throughout the construction phase, the project's contingency fund was used to replace low-income housing units which had been displaced by the center. The 1990 Legislature appropriated $3 million to the center for low income housing; $2.2 million of that amount was intended to replace the depleted contingency fund.

To pay the state's share of the settlement, an additional $2,990,000 appropriation from the state convention and trade center account is required. Additional bond authority will not be required to fund this appropriation, since the center has existing unused capacity.

A second issue involves the WSCTC's purchase of the McKay parcel, a piece of property adjacent to the convention center. The WSCTC received authority from the Legislature to purchase the McKay property through a $10.4 million bond issuance. The parcel was purchased for $8.9 million with a short term general fund-state loan. The WSCTC proposes to sell the parcel and use the proceeds to repay the general fund-state loan rather than sell the bonds authorized for that purpose. This would require altering the statutory limitation on the life of the general fund-state loan, since the center will not be able to secure the best possible price if constrained by the 1991 deadline.

A third issue involves bonds issued for expansion and conversion of the center. The 1988 Legislature approved the issuance of general obligation bonds to expand the convention center and convert certain retail space to meeting rooms. These bonds were to be repaid from a 1 percent excise tax, which was added to an existing 5 percent tax, assessed on hotels and motels in Seattle and King County and dedicated to the center construction. The State Treasurer was to make yearly assessments, beginning in 1993, of the amount of revenue generated by the tax and the cost of the bond debt service in order to determine when the original 5 percent tax would be able to support the debt service, and the 1 percent tax could be eliminated. A formula ratio of debt service to revenue would be used to determine when the revenue generated by the 5 percent tax had increased to the point at which it could cover the debt service without the additional 1 percent tax. The elimination of the additional 1 percent tax was projected to occur in the year 2002.

However, in the interest of securing more advantageous terms for the state, the Treasurer issued zero coupon bonds to pay for the expansion and conversion, rather than the standard serial bonds. Debt service on the zero coupon bonds will not begin until 1997. The switch to zero coupon bonds requires a change to the statutory conditions which were originally intended to be applied to serial bonds. Since debt service will not begin until 1997, the formula which will determine when the 1 percent tax will be eliminated, and which is based on the ratio between debt service and revenue, cannot be accurately applied until after 1997. If it were applied before 1997, revenues would exceed debt service by the formula amount within the first year the 1 percent tax was imposed, and the Treasurer would be forced to eliminate the 1 percent tax prematurely.

Without a statutory change, the 1 percent hotel/motel tax will be eliminated in 1993, four years before the debt service on the zero coupon bonds begins. When that debt service comes due in 1997, in the absence of the additional hotel/motel tax revenue, the center will be required to borrow from the general fund to pay the debt service on the bonds.

SUMMARY:

$2,990,000 is added to the appropriations made to the Washington State Convention and Trade Center from the convention and trade center account, for the fiscal period ending June 30, 1991.

The $2,200,000 of the appropriation made in 1990 for low-income housing may be expended for the purpose of settlement costs related to construction litigation involving the center, if at least $3,000,000 has been expended during the 1985-91 biennia for low-income housing.

The date by which the State Treasurer is required to begin assessing the revenues generated by the dedicated tax is changed from August 1, 1993 to 1998.

The intent language in the legislation is changed to allow appropriated funds to be spent on litigation and proceeds from the sale of property to be used for costs related to the completion of the center, including litigation.

Appropriation: $2,990,000

Revenue: none

Fiscal Note: none requested

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

TESTIMONY FOR: None

TESTIMONY AGAINST: None

TESTIFIED: No one