

# HOUSE BILL REPORT

## HB 2698

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**As Passed House:**

January 19, 1998

**Title:** An act relating to resolving conflicts in lodging tax statutes enacted in 1997.

**Brief Description:** Resolving conflicts in lodging tax statutes enacted in 1997.

**Sponsors:** Representatives B. Thomas, Dunshee, Wensman, Gardner and Ballasiotes; by request of Governor Locke.

**Brief History:**

**Floor Activity:**

**Passed House:** 1/19/98, 92-3.

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**Staff:** Bob Longman (786-7139).

**Background:** During the 1997 legislative session, the Legislature enacted a bill that made more uniform hotel-motel tax rates and allowed uses of revenue (SSB 5867). The bill provided a 4 percent total hotel-motel tax rate authorization for most counties and cities, with 2 percent credited against the state sales tax. Cities and counties with authorized hotel-motel tax rates higher than 4 percent were allowed to continue those rates.

After the close of the session, the Governor vetoed the effective date section and another section of SSB 5867. The veto message stated that the effective date section was "unnecessary" and the other section conflicted with legislation authorizing a football stadium bill.

The veto of these sections interacted in a complex manner unintended by the Governor. The maximum hotel-motel tax rate was reduced for several cities. Bellevue was reduced from 5 percent to either 2 percent or 0 percent, depending on how the bill after the veto is interpreted. Yakima was reduced from 5 percent to 4 percent. Ocean Shores and Westport were reduced from 5 percent to 2 percent. Tacoma, Buckley, Eatonville, Fife, and Puyallup were reduced from 4 percent to 2 percent. Lakewood was reduced from 7 percent to 2 percent. Pierce County and the cities in that county lost the ability to increase their hotel-motel taxes to 7 percent. The ability of Bellevue and Yakima City to credit their taxes against the state tax was also lost.

Most of the municipalities with rate reductions after the partial veto obtained court injunctions delaying the effect of the partial veto until after the 1998 legislative session. These injunctions are generally based on the argument that lowering a hotel-motel tax rate would be an unconstitutional impairment of contracts (typically bonds issued in reliance on the tax). The injunctions continue the higher rates until May 15, 1998.

SSB 5867 repealed a 2 percent general hotel-motel authorization and several individual additional authorizations for particular municipalities, and replaced these authorizations with a 4 percent general authorization. The partial veto left both the original 2 percent and new 4 percent authorizations intact. As a result, the partial veto increased the total hotel-motel tax authority of some cities and counties to 6 percent, subject to some other rate limits in law. Wenatchee and East Wenatchee imposed hotel-motel taxes totaling 6 percent in September and October, respectively. No other municipalities had relied on this aspect of the partial veto as of January 1, 1998.

**Summary of Bill:** Hotel-motel statutes are amended in a manner that resolves the conflict between last year's hotel-motel legislation and the football stadium legislation, without the adverse consequences of the Governor's partial veto of the hotel-motel legislation. A long-standing hotel-motel authorization of 2 percent, which was preserved by the Governor's veto, is not amended in this bill. Instead, the 4 percent authorization provided last year by SSB 5867 is reduced to 2 percent. Therefore, the total authorization will remain at 4 percent for most municipalities. Higher hotel-motel rate authorizations existing before the partial veto are restored, retroactive to the date of the veto.

The opportunity created by the partial veto for 6 percent total hotel-motel tax rates is preserved for those municipalities that imposed a 6 percent total rate before January 1, 1998. This applies to Wenatchee and East Wenatchee.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** None.

**Testimony Against:** None.

**Testified:** None.