

# HOUSE BILL REPORT

## HB 3054

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**As Reported by House Committee On:**  
Community & Economic Development & Trade

**Title:** An act relating to reallocation of existing lodging taxes for support of heritage and arts programs in a county with a population of one million or more.

**Brief Description:** Reallocating existing lodging taxes for heritage and arts programs in a county with a population of one million or more.

**Sponsors:** Representatives Hunter, Priest, Sullivan, Kagi, McIntire, Anderson, Pettigrew, Pedersen, Goodman, Jarrett, Ericks, Springer, Eddy, Clibborn, Schual-Berke, Chase, Miloscia, Roach, Hurst, Kessler and Nelson.

**Brief History:**

**Committee Activity:**

Community & Economic Development & Trade: 1/31/08, 2/4/08 [DP].

**Brief Summary of Bill**

- Shifts hotel-motel tax revenues currently deposited in a permanent and irreducible arts and heritage program endowment fund into a special arts and heritage program account and allows its principal to be available for expenditure.
- Directs all revenues from the hotel motel tax in King County to arts and heritage programs from the time the KingDome bonds are retired through December 31, 2015.
- Directs at least 37.5 percent of hotel-motel revenues in King County to arts and heritage programs beginning January 1, 2021.
- Prohibits cities in King County from imposing the hotel-motel tax.

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**HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE**

**Majority Report:** Do pass. Signed by 6 members: Representatives Kenney, Chair; Pettigrew, Vice Chair; Chase, Darneille, Rolfes and Sullivan.

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*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.*

**Minority Report:** Do not pass. Signed by 3 members: Representatives Bailey, Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Haler.

**Staff:** Meg Van Schoorl (786-7105).

**Background:**

Local Hotel-Motel Tax

A hotel-motel tax is a special sales tax on lodging rentals by hotels, motels, rooming houses, private campgrounds, RV parks, and similar facilities. Cities and counties are authorized to levy a "basic" or "state-shared," hotel-motel tax of up to 2 percent. These taxes are credited against the state sales tax on the furnishing of lodging. Other hotel-motel taxes are imposed in addition to ordinary state and local sales taxes and are added to the amount paid by the customer. The latter type are often referred to as "special" hotel-motel taxes.

A county hotel-motel tax must allow a credit for the amount of any tax levied by the cities within the county, thus precluding both the city and county tax from applying to the same lodging transaction. Except for the city of Bellevue, cities in King County cannot impose a basic hotel-motel tax until January 1, 2021. Thereafter, cities may impose the tax and the county will only receive revenues generated in the unincorporated areas.

Hotel-Motel Tax Funding for King County Arts

Beginning in 1987, the hotel-motel tax in King County not only applied to servicing the debt on the KingDome, but a portion of the tax revenues above \$5.3 million per year was dedicated to arts and heritage programs in King County. Currently, 70 percent of the excess revenue is dedicated to the arts and heritage programs; however, 40 percent of the arts revenue is for the arts endowment fund, of which the principal cannot be touched. The remaining 30 percent of the revenue in excess of \$5.3 million is dedicated first to retiring the KingDome debt, then to acquisition of open space lands, youth sports activities, and tourism promotion. This is to continue until the KingDome debt is retired, then the full portion of the local hotel-motel tax in King County is dedicated to retiring the debt on Qwest Field. Beginning in 2012, the only known source of funding for the arts and heritage programs in King County is the earnings off the arts endowment.

4Culture

Established in January 2003, 4Culture is King County's cultural services agency. It continues the work of the King County Arts Commission, Public Art Commission, and the heritage programs of the Landmarks Commission. 4Culture is a tax-exempt public corporation, with a 15-member board of directors, who are nominated by the King County Executive and confirmed by the Metropolitan King County Council.

4Culture receives a portion of the hotel-motel tax revenues to provide funding to support the visual and performing arts, public art, heritage programs, and historic preservation.

Throughout King County, annual funding supports the activities of more than 200 arts and heritage organizations, hundreds of artists and heritage specialists, capital construction and fixed asset purchases, project support, and cultural education in public schools. In 2007, 4Culture awarded 564 grants totaling \$5.8 million.

### Qwest Field and Exhibition Center

In 1997 state and local financing was authorized for a new football stadium and exhibition center in King County. It is currently known as Qwest Stadium. The state's contribution to retiring the stadium and exhibition center bonds includes various tax credits, deferrals, exemptions, lottery revenues, and general obligation bonds. The Seattle Seahawks had to contribute at least \$100 million to the construction. Locally-generated tax contributions include:

- **Admissions & Vehicle Tax:** A 10 percent tax was authorized on admission charges to events in the stadium and exhibition center. A 10 percent tax on vehicle parking at the new facility was also authorized. Revenues from these taxes go first to retire the bonds, then into an account for future repairs and improvements.
- **Hotel-Motel Tax:** King County's share of the 2 percent hotel-motel tax is extended to 2020. The revenues may be used for KingDome repairs and debt until 2015 or until the debt is repaid. Revenues may then be used for bond payments for the new stadium and exhibition center until 2020 and for Youth Athletic Facility Grants to cities, counties, or nonprofit organizations if sufficient money is available.
- **Car Rental Tax:** Seventy-five percent of the county-imposed 1 percent car rental tax must be used for KingDome repairs and debt.

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### **Summary of Bill:**

#### Intent

The Legislature finds that locally funded heritage and arts programs build vital communities and preserve community history and culture, and that local governments should be able to maintain these programs in the future using existing revenue sources.

#### Hotel-Motel Tax Funding for King County Arts

Heritage and preservation programs are added to the statutory list of arts and cultural programs that may receive hotel-motel tax revenues.

The 40 percent of the 70 percent of the hotel-motel tax revenues currently required to be deposited into an arts and heritage endowment fund must instead be deposited in a special account dedicated to arts and heritage programs. The requirement that the endowment fund principal be permanent and irreducible is removed.

Hotel-motel tax revenues must be used to retire the KingDome debt, and may not be deposited into the Stadium and Exhibition Center Account until the debt is retired. From that time and continuing through December 31, 2015, all revenues from the hotel-motel tax in King County will be deposited into a special account dedicated to arts and heritage programs. As in current law, from January 1, 2016 through December 31, 2020, all revenues from the hotel-motel tax will be deposited in the Stadium and Exhibition Center Account to retire the debt on the

stadium. Beginning on January 1, 2021, at least 37.5 percent of basic hotel-motel revenues in King County must be deposited into the special account.

Other provisions

Cities in King County are not authorized to impose the hotel-motel tax on January 1, 2021, and thereafter.

King County must use at least 75 percent of its 1 percent car rental tax to retire the debt on the stadium.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2008.

**Staff Summary of Public Testimony:**

(In support) 4Culture is a cultural development authority, not a public facilities district. Its mission is to ensure that arts and heritage grants go to organizations in every corner of King County. In 1990, 4Culture funded 40 organizations. In 2008, 250 organizations will receive sustained support and 250 others will receive grants. Grants average in the \$5,000 to \$20,000 range, and make a huge impact on grantee organizations and their communities. Hotel-motel tax revenues leverage municipal and private funding as well as volunteers. At the time that the endowment was first created, there were excess revenues coming in above the amount needed to retire the KingDome debt. With the "dot-com boom" of the 1980s, interest rates were double digit, and there was an expectation that creating a permanent and irreducible endowment would generate interest enough to sustain significant arts and heritage grants. The unfortunate fact is that the maximum interest that can be earned on the endowment is about 3.4 percent, so even an endowment of \$30 to \$40 million will not be able to sustain funding. 4Culture would be faced with 75 percent cuts in grant-making after 2012. Passage of this bill will allow the endowment to be the bridge for arts and heritage funding between 2012 and 2021. Without it, artists may find it necessary to leave King County. With a talent drain like that, Seattle/King County will not be the place it is today and will not draw tourists and conventions from outside the county, state, and country. It is not all about the money: 4Culture provides technical assistance. It impacts quality of life and the experiences available in communities. This is also an economic development catalyst. Producing this CD employed 25 artists and non-artists. 4Culture supports the symphony and ballet but also unknown artists.

(Neutral) In 1997 Referendum 48 was passed, approving not only public financing of the Seahawks Stadium but also establishing the Youth Athletic Facilities Account (YAFA) and grant program. Any excess revenues from the hotel-motel tax or other revenues used to finance the football stadium bonds would go into the YAFA. Legislative staff should do a financial model to project whether, when, and to what extent this legislation could impact the

funding stream for YAFA. If there is an impact, the youth recreation community should get a chance for input.

(Opposed) None.

**Persons Testifying:** (In support) Representative Hunter, prime sponsor; Louise Miller and Margaret Lowe, 4Culture Board of Directors; Richard Anderson, Northwest Railway Museum; Vivian Phillips, Langston Hughes Performance Arts Center; Eduardo Mendonca; Paul Rucker; Paul Pauper; Donna Moodie and Stephanie Ellis Smith, Central District Forum Arts and Ideas; Guillermo Carvajal, National Association of Latino Arts and Culture; Karen Toering; and Mary Pat Byrne, Eastside Arts Coalition.

(Neutral) Jim Fox, Recreation and Conservation Office.

**Persons Signed In To Testify But Not Testifying:** (In support) Matthew Kwatinetz, Capitol Hill Arts Center and Capitol Hill Chamber of Commerce; and Doreen Mitchum.