

# SENATE BILL REPORT

## SSB 5647

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As Amended by House, April 12, 2007

**Title:** An act relating to clarifying the use of existing lodging tax revenues for tourism promotion.

**Brief Description:** Clarifying the use of existing lodging tax revenues for tourism promotion.

**Sponsors:** Senate Committee on Economic Development, Trade & Management (originally sponsored by Senators Fraser, Morton, McAuliffe, Fairley, Swecker, Regala, Hatfield, Spanel, Rockefeller, Kohl-Welles and Rasmussen).

**Brief History:**

**Committee Activity:** Economic Development, Trade & Management: 2/09/07, 2/21/07 [DPS].

Passed Senate: 3/08/07, 35-12.

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### SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

**Majority Report:** That Substitute Senate Bill No. 5647 be substituted therefor, and the substitute bill do pass.

Signed by Senators Kastama, Chair; Kilmer, Vice Chair; Zarelli, Ranking Minority Member; Clements, Kauffman and Shin.

**Staff:** Jacob White (786-7448)

**Background:** Lodging tax revenues can be used for activities and expenditures designed to increase tourism, including tourism related facilities. Tourism related facilities are defined as real or tangible personal property with a usable life of three or more years, or constructed with volunteer labor, and used to support tourism, performing arts, or to accommodate tourist activities.

In 2006, the Attorney General's Office (AGO) released an opinion entitled "AGO 2006 No. 4", in response to a letter from Senator Fraser. The opinion concluded: that there must be some governmental interest in facilities receiving lodging tax funds; that the lodging statute expressly limits the use of lodging taxes on special events and festivals designed to attract tourists to marketing activities only, and; that advance payment of lodging tax revenues to tourist promotion agencies for tourist promotion activities is prohibited.

**Summary of Substitute Bill:** The definition of "tourism promotion" includes operations. This allows lodging tax revenues to be used for operations expenditures for tourism promotion

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as well as to fund and operate special events and festivals. Lodging tax funds may go towards the marketing or the operation of special events and festivals designed to attract tourists.

The definition of "tourism-related facility" includes property that is owned by a public entity or a non-profit organization. This authorizes local lodging tax revenues to be used for tourism related facilities owned by a public entity or a nonprofit organization.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: The purpose of the bill is to allow local governments to use hotel-motel tax for the substance of the events, as well as the continued use for advertisements. King County can spend their hotel-motel tax on substance, while most of the state can not. Many cities used these funds in the way this bill prescribes before the AGO finding brought this use into question.

The current definition unduly limits the opportunities for tourism-related funding. Currently, the interpretation only allows funding for marketing, not promotion. This bill will increase tourism and bolster B&O tax revenue.

The funding from this bill could go to visitor centers in the case of small festivals in rural towns. Without this funding, many visitor centers will be closed down.

Under this bill, the funds must still be designed to increase tourism; this will just add additional flexibility to the funds.

CON: The efforts of the State Auditor brought everyone back into compliance with the original intent of these funds. The definition was reaffirmed by the AGO opinion. This bill would expand where the money goes which raises concerns from hotel owners.

This bill is a change of where the revenues go, not a clarification. The original intent of the law was for the funding to go to marketing in order to bring tourists to these areas. By striking the word marketing, this bill dilutes not only the funds that go to marketing but changes the intent of the law.

A lot of these festivals are community events that do not bring in tourists. Therefore, allowing these funds to go to community events would be an improper use of the funds. Those not supporting the bill are willing to work on the issue of visitor centers with the proponents of the bill.

**Persons Testifying:** PRO: Senator Fraser, prime sponsor; Jeff Kingsbury, Olympia City Council; Al Carter, Grays Harbor County; Jim Justin, Association of Washington Cities.

CON: T K Bentler, Washington Hotel and Lodging Association; Becky Bogard, Washington Association of Convention and Visitors Bureaus; Sandra Miller, Washington Hotel and Lodging Association, The Governor Hotel.

**House Amendment(s):** The amended bill clarifies 501(c)(6) like organizations such as business organizations, destination marketing organizations, main street organizations, lodging associations, and chambers of commerce may operate a tourism-related facility.

The amended bill requires annual accountability reports on the use of funds for festivals, special events, and tourism-related facilities owned by a 501(c)(3) or 501(c)(6) nonprofit.

The amended bill requires a report by the Joint Legislative Audit and Review Committee to the Legislature and the Governor by September 1, 2012, regarding the expenditures and economic impact of the festivals, special events, and tourism-related facilities owned by a 501(c)(3) or 501(c)(6) nonprofit organization.

The amended bill expires on June 30, 2013.