SENATE BILL REPORT
ESHB 1253

As Reported by Senate Committee On:
Trade & Economic Development, April 3, 2013
Ways & Means, April 9, 2013

Title: An act relating to the lodging tax.

Brief Description: Concerning the lodging tax.

Sponsors: House Committee on Finance (originally sponsored by Representatives Blake, Orcutt, Takko, Dahlquist, Haigh, Hunt, Walsh, Lytton, Nealey, Morris, Hudgins, McCoy, Zeiger, Maxwell, Pettigrew, Bergquist, Van De Wege, Upthegrove and Freeman).

Brief History: Passed House: 3/13/13, 71-26.
Committee Activity: Trade & Economic Development: 3/21/13, 3/26/13, 3/28/13, 4/03/13 [DPA-WM].
Ways & Means: 4/08/13, 4/09/13 [DPA].

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Braun, Chair; Smith, Vice Chair; Chase, Ranking Member; Schlicher and Shin.

Staff: Edward Redmond (786-7471)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.
Signed by Senators Hill, Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Nelson, Assistant Ranking Member; Bailey, Becker, Braun, Conway, Dammeier, Fraser, Hasegawa, Hatfield, Hewitt, Keiser, Kohl-Welles, Murray, Padden, Parlette, Ranker, Rivers, Schoesler and Tom.

Staff: Dean Carlson (786-7305)

Background: A hotel-motel tax is a special sales tax on lodging rentals by hotels, motels, rooming houses, private campgrounds, RV parks, and other similar facilities. Cities and counties are authorized to levy a basic or state-shared hotel-motel tax of up to 2 percent.

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.

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 is often referred to as a special hotel-motel tax.

Prior to 2007, lodging taxes were to be used only for tourism purposes. Tourism purposes included tourism promotion and tourism facilities. Tourism promotion included expenditures designed to increase tourism, such as advertising, publicizing, and other methods of distributing information to attract tourists. Tourism-related facilities were 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 or performing arts or to accommodate tourist activities.

In 2007, SSB 5647 expanded the allowed uses for tourism promotion to include operations. This allowed lodging tax revenues to be used for operations expenditures for tourism promotion as well as to fund and operate festivals and special events. The definition of tourism-related facility was amended to mean property that is owned by a public entity or a nonprofit organization, which includes both 501(c)(3) and 501(c)(6) nonprofit organizations. This authorized local lodging tax revenues to be used for tourism-related facilities owned by a public entity or a nonprofit organization, including organizations such as business organizations, destination marketing organizations, main street organizations, lodging associations, and chambers of commerce. The legislation also required annual accountability reports on the use of funds for festivals, special events, and tourism-related facilities owned by a nonprofit organization. The data in the report must include the following: total lodging tax collected for the year; list of events and organizations that received funds; list of events or tourism facilities either owned or sponsored by the local jurisdiction that received funds; the estimated number or tourists and overnight guests generated by the events and tourism facilities; and any other data that demonstrates an impact from the increased tourism which can be attributed to the events or tourism-related facilities.

A report by the Joint Legislative Audit and Review Committee (JLARC) to the Legislature and Governor was submitted on May 17, 2012, regarding the expenditures and economic impact of the festivals, special events, and tourism-related facilities owned by nonprofit organizations. JLARC's report stated that approximately 8 percent of lodging tax revenues were spent on the newly authorized purposes, and 92 percent of revenues were spent on previously allowed purposes. They were not, however, able to determine an economic impact from these changes due to incomplete reporting by local governments and concerns about the reliability of the tourist-related data that local governments collected. Moreover, local governments were not asked to collect and report information on tourist spending, which the JLARC study found was necessary for estimating economic impact. The JLARC study concluded that if the Legislature wishes to obtain reliable information for estimating the impact of these expenditures, additional data, collection guidance, and oversight would be needed; however, there would be costs associated with improved data collection and oversight, particularly for collecting reliable information on tourist spending.

The expanded uses for tourism promotion and reporting requirements created under SSB 5647 expire on June 30, 2013.

Summary of Bill (Recommended Amendments): The June 30, 2013, expiration date is removed. Lodging tax revenues may be used to fund (1) tourism marketing, (2) the marketing and operations of special events and festivals designed to attract tourists, (3) the operations and capital expenditures of tourism-related facilities owned or operated by a municipality or a public facilities district, and (4) the operations of tourism-related facilities owned by nonprofit organizations.

The specified measurement requirements under current law are removed. Applicants must instead give estimates on how the monies they receive will result in increases in the number of people traveling for business or pleasure on a trip: away from their place of residence or business, staying overnight in paid accommodations; to a place 50 miles or more, one way, from their place of residence or business, for the day or staying overnight; or from another country or state outside of their place of residence or business.

Applicants in a municipality with a population of over 5000 must submit their applications to the local tax advisory committee. The local tax advisory committee must select candidates, recommended amounts of funding, and provide a list of those candidates to the local jurisdiction for final determination. The local jurisdiction is only authorized to choose recipients from the list provided by the local tax advisory committee.

All recipients must submit a report to the municipality describing the actual number of people traveling for business or pleasure on a trip: away from their place of residence or business, staying overnight in paid accommodations; to a place 50 miles or more, one way, from their place of residence or business, for the day or staying overnight; or from another country or state outside of their place of residence or business.

On a biennial basis, JLARC compile the reports of the uses of the lodging tax revenues. JLARC must brief the Legislature on this report beginning 2015.

King County is exempt from the application and reporting requirements.

The definition of tourist is removed from statute.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Amendments): Removes the requirement that JLARC do an economic impact study on all the uses of the lodging taxes. Instead they will do a report on all the information they receive from local governments as to the uses of the funds. King County is removed from the reporting requirements in the bill. Inadvertent references to the Department of Commerce are removed.

EFFECT OF CHANGES MADE BY TRADE & ECONOMIC DEVELOPMENT COMMITTEE (Recommended Amendments): Provides that lodging tax revenues may be used to fund (1) tourism marketing, (2) the marketing and operations of special events and festivals designed to attract tourists, (3) the operations and capital expenditures of tourism-related facilities owned or operated by a municipality or a public facilities district, and (4) the operations of tourism-related facilities owned by nonprofit organizations.

Requires applicants to give estimates on how the monies they receive will result in increases in the number of people traveling for business or pleasure on a trip: away from their place of residence or business, staying overnight in paid accommodations; to a place 50 miles or more, one way, from their place of residence or business, for the day or staying overnight; or from another country or state outside of their place of residence or business.

Requires all recipients to submit a report to the municipality describing the actual number of people traveling for business or pleasure on a trip: away from their place of residence or business, staying overnight in paid accommodations; to a place 50 miles or more, one way, from their place of residence or business, for the day or staying overnight; or from another country or state outside of their place of residence or business.

Removes the definition of tourist from statute.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2013.

Staff Summary of Public Testimony on Engrossed Substitute House Bill (Trade & Economic Development): PRO: Community festivals are critical to the economic activity in smaller communities. The Central Fair brings over 300,000 visitors to Yakima each year. Other special events brought in people from all over Washington and even northern California. These types of events provide the opportunity to bring economic value to the community and "heads-in-beds." Many cities relied on the expanded use of lodging dollars. One example would include the use of revenues for the 2012 summer Olympic trials, which brought people to the city and put heads in beds.

CON: Lodging is a risky business with small margins that needs all the marketing dollars it can get. Tourism is important to the restaurant industry. Restaurants rely heavily on tourism dollars that provide a steady stream of diners, but not by the one-time festivals or events. Since the state no longer has a state tourist office, the dollars need to be spent on marketing to help build the pot. The intent of lodging tax dollars is for marketing to drive tourists into communities to spend money and then generate revenue for that community. The definition of tourist needs to be amended so it will not include a traveler that goes from Olympia to Lacey. Lodging tax revenues are already spent on marketing fairs and special events, including once-a-year events. The money needs to stay in marketing.

OTHER: The Housing Development Consortium is seeking bonding authority within King County. The committee heard a similar bill this session sponsored by Senator Fain. The language in that bill has been worked about by the bonding counsel; King County and Seatac resolved their differences regarding the use of the funds for tourism marketing to make it an open and transparent process.

Persons Testifying (Trade & Economic Development): PRO: Representative Blake, prime sponsor; Senator Fraser; Paul Jewell, Kittitas County; Lee Grose, Lewis County; Jim Misner, Cowlitz County; Todd Mielke, Spokane County; Jaime Stephens, San Juan County; Terry Harris, City of Chehalis; Eli Sterling, Earthbound Productions; Jeanne Burbage, Dana Anderson, City of Federal Way; Ryan Miller, General Manager Hampton Inn and Suites; Briahna Taylor, Port Orchard, Lakewood, Pasco, and Tacoma; Heather Hanson, WA State Fairs Assn.; Greg Stewart, Central WA State Fair Assn.; Ron Newbry, Central WA Fair; Glenn Hull, City of Fife; John Spencer, City of North Bonneville; Marfa Scheratski, Bonneville Hotsprings Resort; Victoria Lincoln, Assn. of WA Cities; Thomas Anderson, citizen.

CON: Jan Simon, WA Lodging Assn.; Claes Hagstromer, Bainbridge Lodging Assn.; Chami Ro, Comfort Inn, Korean Hotel Owners Assn.; Sandra Miller, Governor Hotel; Becky Bogard, WA Destination Marketing Assn.; Mary Kay Nelson, Visit Rainer.

OTHER: Majken Ryherd, Housing Development Consortium of King County.

Staff Summary of Public Testimony on Bill as Amended by Trade & Economic Development (Ways & Means): PRO: The counties were looking to maintain flexibility at the local level and political accountability in this bill. The bill does that. The role the local tax advisory committee has makes us uneasy but we will take it. The reporting requirements in the bill are important. We think these amendments will target the people who will bring in economic impact to our municipalities. This is an important bill to the lodging industry. This bill is a good compromise. The opportunity for the funds to be used for production costs is important in this bill.

Persons Testifying (Ways & Means): PRO: Josh Weiss, WA State Assn. of Counties; Victoria Lincoln, Assn. of WA Cities; Becky Bogard, Destination Marketing; Eli Sterling, Earthbound Productions.