

HOUSE BILL REPORT

SHB 1163

As Passed Legislature

Title: An act relating to exempting certain leasehold interests in arenas with a seating capacity of more than 2,000 from the leasehold excise tax.

Brief Description: Exempting certain leasehold interests in arenas with a seating capacity of more than 2,000 from the leasehold excise tax.

Sponsors: House Committee on Finance (originally sponsored by Representative Fey).

Brief History:

Committee Activity:

Finance: 1/19/23, 1/26/23 [DPS].

Floor Activity:

Passed House: 3/6/23, 93-2.

Senate Amended.

Passed Senate: 4/19/23, 42-7.

House Concurred.

Passed House: 4/20/23, 87-9.

Passed Legislature.

Brief Summary of Substitute Bill

- Provides an exemption from the state leasehold excise tax for public or entertainment areas as well as some of the office areas of a qualified arena.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Walen and Wylie.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Tracey Taylor (786-7152).

Background:

Leasehold Excise Tax.

State leasehold excise taxes are levied and collected on the act or privilege of occupying or using publicly owned real or personal property through a leasehold interest. A leasehold interest is an interest in publicly owned real or personal property that exists by virtue of any lease, permit, license, or other written or verbal agreement between a public owner and a person who would not be exempt from property taxes if that person owned the property. The leasehold excise tax is levied at a rate of 12.84 percent of taxable rent.

The legislative body of any county or town may also levy and collect a leasehold excise tax on leasehold interests in publicly owned property within the territorial limits of the county or city. The tax levied by a county may not exceed 6 percent of taxable rent and, by a city, may not exceed 4 percent of taxable rent. If imposed, the local leasehold tax is credit against the state tax, so the maximum total rate remains 12.84 percent.

There are several leasehold excise tax exemptions. The exemptions include subsidized military housing as well as space in state prisons used by the division of the Department of Corrections. In addition, several sports and entertainment facilities utilize a leasehold excise tax exemption, including the Tacoma Dome, T-Mobile Park, CenturyLink Stadium, and Sunlight Supply Amphitheater.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Washington has over 650 tax preferences. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Substitute Bill:

All leasehold interest in the public or entertainment areas, as well as some of the office areas, of a qualified arena are exempt from the state leasehold tax. A qualified arena has a seating capacity of at least 4,000, is located on city-owned land, is located in a city with a population of over 100,000, and the cost of constructing improvements to the arena were incurred by private entities that were not reimbursed by the public owner. Any taxpayer claiming the exemption must file a complete annual tax performance report.

There is a tax preference performance statement that states that the Legislature intends for this tax preference to induce certain taxpayer behavior and provide tax parity. The tax preference is subject to a JLARC review and the automatic 10-year expiration.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on October 1, 2023.

Staff Summary of Public Testimony:

(In support) The conversion of the former Key Arena into the Climate Pledge Arena (CPA) was the largest private investment in a public facility with \$1.2 billion in improvements made. The costs increased significantly due to the global pandemic. There were over 3,000 construction workers, earning \$152 million in wages, and \$91.9 million in state and local taxes paid on the construction. Now there are about 95 full-time employees and 1,200 part-time employees that call the CPA home. The CPA hosts 44 Kraken home games, 19 Seattle Storm games, and Seattle University basketball games. There have also been 90 concerts held at the CPA since it opened in October 2021.

In addition to investing in the arena, the Kraken, the CPA, and their One Roof Foundation have made a significant commitment to the community. Focusing on youth homelessness, youth access to hockey for underserved and BIPOC youth and communities, and environmental justice, they have donated over \$8 million so far. At every home Kraken game, a local hero is honored and \$32,000 is donated to their designated organization.

Arenas similar to the CPA benefit from an exemption from the LET. It is only fair that this exemption be extended to the CPA as well. It is a matter of fairness.

(Opposed) None.

Persons Testifying: Representative Jake Fey, prime sponsor; Brad Boswell and Hewan Teshome, Seattle Kraken and Climate Pledge Arena; Eric Jaeger, Climate Pledge Arena; and Eric Pettigrew, Seattle Kraken.

Persons Signed In To Testify But Not Testifying: None.