SENATE BILL REPORT
SB 5052

As of March 3, 2023

Title: An act relating to establishing leasehold excise tax parity and accountability for certain arenas and stadiums.

Brief Description: Establishing leasehold excise tax parity and accountability for certain arenas and stadiums.

Sponsors: Senators Liias, King, Mullet and Van De Wege.

Brief History:

Committee Activity: Business, Financial Services, Gaming & Trade: 1/19/23, 2/14/23 [DPS-WM, DNP].

Ways & Means: 3/09/23.

Brief Summary of First Substitute Bill

- Creates a Leasehold Excise Tax (LET) exemption for leasehold interests in the public or entertainment areas of arenas with a seating capacity of at least 4000 and meeting several other requirements.
- Requires a review of the LET exemption prior to its expiration in 2033 by the Joint Legislative Audit and Review Committee (JLARC).

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES, GAMING & TRADE

Majority Report: That Substitute Senate Bill No. 5052 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Stanford, Chair; Frame, Vice Chair; Dozier, Ranking Member; Boehnke, Gildon, Lovick, MacEwen and Mullet.

Minority Report: Do not pass.

Signed by Senator Hasegawa.

Staff: Jeffrey Mitchell (786-7438)

SENATE COMMITTEE ON WAYS & MEANS

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Background: Leasehold Excise Tax. Leasehold excise tax (LET) is paid by a private entity that leases or uses public property under current law. This includes leases of government-owned property exempt from property taxes. The combined state and local rate for LET is 12.84 percent of the rent paid for the property. The state general fund receives 6.84 percent and the remaining 6 percent goes to local governments. The Legislature has exempted a variety of leasehold interests including several public stadiums and arenas such as the stadiums used for professional football and baseball, as well as several other types of public facilities.

Tax Preference Review Requirements. State law provides 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. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics the Joint Legislative Audit and Review Committee (JLARC) can use to review the effectiveness of the preference in achieving its stated public policy objectives. Tax preferences must be reviewed by JLARC at least once every ten years, unless state statute requires otherwise. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided or the tax preference is exempted from expiration. To assist the Legislature in its evaluation of economic development-related tax preferences, taxpayer beneficiaries are required to file annual tax preference performance reports detailing wages and employment of the taxpayer as well as tax savings from the tax preference.

Summary of Bill (First Substitute): All leasehold interests in the public or entertainment areas of an arena are exempted from LET if:

- the arena has a seating capacity of more than 4000;
- the arena is located on city-owned land;
- the arena is located within a city with a population over 100,000; and
- private entities were responsible for 100 percent of the cost of constructing improvements to the arena, which were not reimbursed by the public owner.

The LET exemption expires January 1, 2034.

Two separate TPPS are established for the new LET exemption.

The first TPPS is for arenas with a seating capacity of more than 17,000. The stated public policy objectives are to provide tax parity resulting in leasehold excise tax relief for large arena facilities used for professional sports with the expectation that an operational entity overseeing operations at a facility will provide substantial economic benefits to its specific region with a focus on:

- providing employment opportunities for women and minority-owned businesses;
- fostering equity and social justice with an emphasis on arena-impacted communities;
- providing general community resource support; and
- ensuring quality access to the facility for people across a range of income levels.

JLARC will specifically review:

- state and local fiscal impacts;
- to the extent data is available, the number of employment positions and wages at the facility for all employers, the degree to which employment positions at the facility have been filled by people residing in economically distressed regions of the county in which the facility is located, and the race and ethnicity of the employees;
- the extent to which the operational entity provides opportunities for patrons of all income levels to enjoy programming by offering seating at a range of price points that are equitably distributed throughout the facility; and
- the extent to which the operational entity generally contributes resources to organizations that serve the region, the communities surrounding the facility, and programs and services for youth, arts, music, and culture.

The second TPPS is for arenas with a seating capacity of 17,000 or less. The stated public policy objectives are to provide tax parity resulting in leasehold excise tax relief with the expectation that employees employed at the facilities receive competitive wages and benefits and the facilities advance and promote diverse and inclusive voices, experiences, perspectives, and employment opportunities.

JLARC will specifically evaluate:

- state and local fiscal impacts;
- the number of employment positions and wages at the facility for all employers operating at the facility;
- the financial stability of the facility;
- the types of programming and events scheduled at the facility; and
- the economic impact of the facility in the county in which the facility is located.

EFFECT OF CHANGES MADE BY BUSINESS, FINANCIAL SERVICES, GAMING & TRADE COMMITTEE (First Substitute):

- Removes the Tacoma Dome, Lumen, and T-Mobile facilities from JLARC review and eliminates the requirement for the facilities to file an annual tax performance report.
- Adds a requirement for JLARC to summarize employment positions at Climate Pledge Arena based on race and ethnicity, to the extent data is available.
- Makes other technical updates and clarifications.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: The Climate Pledge Arena has contributed majorly to the community through investments, support for BIPOC artists, and a deep commitment to access and equity in the sports world. The addition of the climate pledge arena has aided in the creation of thousands of jobs during and after its construction. The creative sector has taken a hit due to the pandemic, and this could open that sector back up by providing a space for creative efforts. The arena has committed to contributing 20 million dollars to arts, culture, and social causes over the lease term. In the last 3 years, the 501(c)(3) has raised more than 8 million dollars in support of local non-profits and programming. Programming initiatives include developing youth curricula with on focus on gender and ethnic diversity. More than 40 artists have been commissioned to design art for the arena and practice facility. Community focus is at the core of the combined organization. The Climate Pledge arena is the only arena that is paying the leasehold tax. The building is ultimately owned by the city. We ask for tax parity going forward to give us the opportunity to continue the commitment to our communities that we have made since day 1.

OTHER: Most other facilities have the leasehold excise tax. We are currently supportive of a reasonable tax preference evaluation standard, which the companion house bill captures nicely. The language in this bill specific to JLARC does not align with the stated public policy goal surrounding these leasehold excise tax exemptions. It is unclear if the required reporting standards align with the stated public policy associated with the exemption. T-Mobile, CenturyLink, and Climate Pledge all have a primary tenant leaseholder while the Tacoma Dome does not, which makes reporting requirements far more challenging for the Tacoma Dome. The city of Tacoma is not confident that they could identify and track a majority of event attendees and their traveling situations. The measurements of employee positions are also difficult because a majority of staff working in the Tacoma Dome are working for third-party contractors that do not provide the data requested under the requirements in this bill.

Persons Testifying (Business, Financial Services, Gaming & Trade): PRO: Senator Marko Liias, Prime Sponsor; Brad Boswell, Seattle Kraken/Climate Pledge Arena; Eric Jaeger, Climate Pledge Arena, SVP of Finance; Hewan Teshome; Eric Pettigrew, Seattle Kraken, VP of Gov Relations and Outreach.

OTHER: Briahna Murray, City of Tacoma.

Persons Signed In To Testify But Not Testifying (Business, Financial Services, Gaming & Trade): No one.