

Background on Two Percent State Shared Hotel/Motel Tax in King County:

A "hotel-motel" tax is a special sales tax on lodging rentals by hotels, motels, rooming houses, private campgrounds, RV parks, and similar facilities. A local option hotel-motel tax was first authorized in 1967 for King County to build the Kingdome (SB 505, chapter 236, Laws of 1967). The tax was dedicated to the acquisition, construction, or operation of stadium facilities. The rate was 2 percent, but the tax was credited against the regular state sales tax which is imposed on lodging charges (SB 505, chapter 236 Laws of 1967) . Therefore, the total amount of tax paid by the consumer was not increased as a result of this tax.

Extension of tax to other cities and counties

Authority to impose a hotel-motel tax was broadened, first in 1970 to include the cities of Tacoma and Spokane (SHB 60, chapter 89, Laws of 1970 1st sp. sess.), and then in 1973 to include all counties, cities, and towns (ESB 2494, chapter 34, 1973 2nd sp. sess.) At the time, the state's sales tax rate was 4.5 percent. The extension of the state shared hotel motel tax to all cities and counties meant that a total of 4 percent could be offset against the state sales tax. The Governor vetoed the emergency clause to ESB 2494 and in the veto message asked the legislature to fix this "double dip" against the state sales tax.

The "double dip"

In 1975 (HB 225, chapter 225, Laws of 1975 1st sp. sess.), the Legislature required a county hotel-motel tax to allow a credit for the amount of a hotel-motel tax levied by a city within the county, thus preventing the county from taxing the same lodging transaction as the city. However, this credit requirement did not apply to a county that issued bonds before June 26, 1975, and pledged hotel-motel tax revenue for retirement of these bonds (King County) or to a county that pledged the hotel-motel revenue to retire city bonds issued before June 26, 1975 (Yakima County).

As a result, King and Yakima Counties impose 2 percent taxes without granting a credit for city taxes as is required for other counties. Therefore, Bellevue and Yakima impose a 2 percent hotel-motel tax and this tax is also credited against the state sales tax, as is the usual rule. Thus, the state gives up 4 percent of the state sales tax on lodging rentals in these cities. This is known as the "double-dip."

To prevent any additional double-dips other cities in King County were prohibited from imposing the hotel-motel tax that credits against the state sales tax.

The double-dip in King County expires December 31, 2012. At that time, King County must allow a credit for the tax imposed by Bellevue. SSB 5568 (chapter 189, Laws of 2007) extended the double dip for Yakima County to January 1, 2021, and expanded the purpose for which Yakima County may spend tax proceeds to include tourism-related facilities.

Expansion to other uses

The Legislature has amended the hotel-motel tax statutes several times to expand the allowed uses of hotel-motel tax revenue.

The use of tax revenue on convention center facilities was added in 1973 when the tax was authorized for all cities and counties (ESB 2494, chapter 34, Laws of 1973 2nd sp. sess.)

In 1985, ESSB 3723 (chapter 272, Laws of 1985) allowed hotel/motel tax revenue that exceeded the amount necessary for stadium bond payments to be used for stadium improvements, including a stadium restaurant, restrooms, turf, seating, parking and scoreboard and information systems.

The use of the tax revenue on art and cultural museums was added in 1986. HB 1954 (chapter 104, Laws of 1986) provided that taxes collected in excess of \$5.3 million per year were to be used for art and cultural museums.

In 1987, Yakima was allowed to use the state shared tax for county owned facilities for agricultural promotion. The provision requiring the tax collections in excess of \$5.3 million was expanded beyond art and cultural museums to include the arts and performing arts (ESSB 6064, chapter 483, Laws of 1987).

The provisions related to the use of taxes collected in excess of \$5.3 million for art and cultural museums and arts and performing arts were changed by EHB 2093 (chapter 336, Laws of 1991) as follows:

- a. 25 percent for the period January 1992 through December 2000 and 30 percent through December 2012 to stadium capital improvements, acquisition of open space lands, youth sports activities, and tourism promotion;
- b. 75 percent for the period January 1992 through December 2000 and 70 percent through December 2012 to art museums, cultural museums, heritage museums, the arts, and performing arts;
- c. Between January 2001 and through December 2012, 40 percent of the amount distributed for arts and culture are required to be deposited in an endowment fund.

EHB 2093 (chapter 336, Laws of 1991) also conditioned the county's nearly exclusive use of the state shared hotel/motel tax on repayment of bonds that mature before January 1, 2013.

ESSB 5943 (chapter 386, Laws of 1995) allowed King and Yakima Counties to continue to take advantage of the double dip within the cities of Bellevue and Yakima through 2012, as long as bonds issued at any time are outstanding as opposed to only bonds that were outstanding at the time the double dip was created.

2ESSB 6049 (chapter 14, Laws of 1995 1st sp. sess.) required the bonds on a public stadium for which the hotel/motel tax is pledged to be repaid if a substantial part of the operation or management of a public stadium is performed by a nonpublic entity.

Referendum 48 (ESHB 2192, chapter 220, Laws of 1997) provided for the financing of a new football stadium. Referendum 48: (a) prevents any city within King County (except Bellevue) from imposing the state shared hotel/motel until 2021; (b) requires all the revenue from the hotel/motel tax from January 1, 2013 through December 31, 2015 to be used to pay any remaining Kingdome debt; and (c) from January 1, 2016 through December 31, 2020 to pay debt on the new football stadium and for youth and community athletic facilities.

2008 Legislative Session Changes

SB 6638 (chapter 264, Laws of 2008) made a number of changes to the hotel/motel tax in King County. These changes are listed below. However, the bill limits the distribution changes to the hotel-motel tax in King County to the period of July 1, 2008 to July 1, 2009.

The 40 percent distributions of arts and heritage funds from the hotel-motel tax is no longer distributed to the endowment fund, but instead is distributed to an account dedicated to art museums, cultural museums, heritage museums, and heritage and preservation programs.

At the time the bonds used to pay for the repairs to the Kingdome are retired, the King County hotel-motel tax will be distributed into the account dedicated to the arts and heritage programs until December 31, 2015. The bonds are expected to be retired in late 2014.

Beginning January 1, 2021, at least 37.5 percent of the county hotel-motel tax revenues will be distributed to the account dedicated to the arts and heritage programs.

The January 1, 2021, expiration date for the "freeze out," which prohibits other cities from imposing the hotel-motel tax, is eliminated. Therefore, Bellevue would continue to be the only city in King County that can impose the tax.