

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 5813 SB	<b>Title:</b> Arena projects/taxes
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## Estimated Cash Receipts

Agency Name	2019-21		2021-23		2023-25	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(40,635,000)	(40,700,000)	10,794,000	10,810,000	12,562,000	12,578,000
<b>Total \$</b>	<b>(40,635,000)</b>	<b>(40,700,000)</b>	<b>10,794,000</b>	<b>10,810,000</b>	<b>12,562,000</b>	<b>12,578,000</b>

Local Gov. Courts *						
Loc School dist-SPI						
Local Gov. Other **		(21,483,000)		5,296,500		5,395,498
Local Gov. Total		(21,483,000)		5,296,500		5,395,498

## Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.1	81,300	81,300	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.1</b>	<b>81,300</b>	<b>81,300</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Breakout

NONE

<b>Prepared by:</b> Kathy Cody, OFM	<b>Phone:</b> (360) 902-9822	<b>Date Published:</b> Final 2/12/2019
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\* See Office of the Administrator for the Courts judicial fiscal note

\*\* See local government fiscal note

FNPID: 55658

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 5813 SB	<b>Title:</b> Arena projects/taxes	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

No Fiscal Impact

### Estimated Cash Receipts to:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	(22,863,000)	(17,772,000)	(40,635,000)	10,010,000	10,210,000
GF-STATE-State 01 - Taxes 75 - Penalties and Intrst				784,000	2,352,000
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	(37,000)	(28,000)	(65,000)	16,000	16,000
<b>Total \$</b>	(22,900,000)	(17,800,000)	(40,700,000)	10,810,000	12,578,000

### Estimated Expenditures from:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years		0.1	0.1		
GF-STATE-State 001-1	70,400	10,900	81,300		
<b>Total \$</b>	70,400	10,900	81,300		

### Estimated Capital Budget Impact:

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Jeffrey Mitchell	Phone: 360-786-7438	Date: 02/02/2019
Agency Preparation: Rachel Knutson	Phone: 360-534-1532	Date: 02/12/2019
Agency Approval: Kim Davis	Phone: 360-534-1508	Date: 02/12/2019
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 02/12/2019

Request # 5813-1-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

This bill creates a payment plan for certain taxes associated with a project for one or both of the following:

- A qualifying arena, defined as a multipurpose sports and entertainment facility owned by the largest city in a county with a population of at least 1.5 million that is being redeveloped to attract professional ice hockey and basketball league franchises.
- An ice hockey practice facility, defined as at least one structure of at least 200,000 square feet located within 10 miles of a qualifying arena that contains at least three ice rinks and is being developed to attract a professional ice hockey franchise.

#### Payment Plan and Application

Qualifying businesses may apply for a payment plan for certain taxes on an eligible project prior to October 1, 2019. The qualifying business must submit an application to the Department of Revenue (Department) in the form and manner prescribed. The application must contain:

- information about the project location
- estimated or actual costs of the project
- time schedules for completion and operation of the project
- other information as required

The Department must rule on the application within 60 days. A certificate for state and local retail sales tax, state and local use tax, and high capacity transportation systems must be issued. The certificate expires on the date the project becomes operationally complete and may only be used for sales and use tax liability incurred after the date the certificate was issued.

#### Payback of Taxes

The recipient of the certificate must begin repaying taxes in the first calendar year after the date certified by the Department as the operationally complete date. Payments are due January 1st and are equal to 12.5 percent of the tax due, plus interest. The interest rate is the rate assessed on delinquent taxes under Chapter 82.32 RCW and is retroactive to the operationally complete date and accrues until the deferred taxes are repaid.

The Department may authorize an accelerated repayment schedule upon request. If an eligible project is not operationally complete within three calendar years from the date the Department issued the certificate or is otherwise found to be ineligible, taxes outstanding are immediately due and payable.

This bill contains an emergency clause and takes effect immediately upon the Governor's approval.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

#### ASSUMPTIONS

- This bill will pass prior to April 28, 2019, the end of the regular Legislative session.
- An application will be submitted and approved by the Department allowing the sales/use tax certificate to be issued by July 1, 2019.
- The project consists of a qualifying arena valued at \$657.7 million and a qualifying ice hockey practice facility valued at \$63.8 million. Note that this project cost information is current as of February 2019.
- The project will be complete by mid-2021, with the first repayment due on January 1, 2022.
- Based on the November 2018, IHS Markit forecast for the Federal Funds Rate, the interest rate for state excise tax

assessments is 5 percent for each year through CY 2029 when final payment is due.

- The average local retail sales tax rate for King County is 3.4684 percent.
- The fiscal impact could be significantly higher if project costs are higher than assumed or if the application and certificate are issued earlier than assumed.

#### DATA SOURCES

- Key Arena & Practice Facility, projected purchasing schedule, current information as of 2/6/2019
- Department of Revenue, Interest Rates for State Excise Taxes, August 2018
- IHS Markit, November 2018 forecast

#### REVENUE ESTIMATES

This bill decreases state revenues by an estimated \$22.9 million in Fiscal Year 2020, and by \$17.8 million in Fiscal Year 2021. This bill also decreases local revenues by an estimated \$12.2 million in Fiscal Year 2020, and by \$9.5 million in Fiscal Year 2021.

#### TOTAL REVENUE IMPACT:

##### State Government (cash basis, \$000):

FY 2020 -	(\$ 22,900)
FY 2021 -	(\$ 17,800)
FY 2022 -	\$ 5,109
FY 2023 -	\$ 5,701
FY 2024 -	\$ 6,093
FY 2025 -	\$ 6,485

##### Local Government, if applicable (cash basis, \$000):

FY 2020 -	(\$ 12,200)
FY 2021 -	(\$ 9,500)
FY 2022 -	\$ 2,625
FY 2023 -	\$ 2,725
FY 2024 -	\$ 2,725
FY 2025 -	\$ 2,725

#### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

#### ASSUMPTIONS:

- One taxpayer will be affected by this legislation.

#### FIRST YEAR COSTS:

The Department will incur total costs of \$70,400 in Fiscal Year 2020. These costs include:

Object Costs - \$70,400.

- Contract computer system programming to include this new deferral and tracking into existing systems.

#### SECOND YEAR COSTS:

The Department will incur total costs of \$10,900 in Fiscal Year 2021. These costs include:

Labor Costs - Time and effort equates to 0.1 FTE.

- Continued testing of computer systems.

**ONGOING COSTS:**

There are no ongoing costs.

**Part III: Expenditure Detail**

**III. A - Expenditures by Object Or Purpose**

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years		0.1	0.1		
A-Salaries and Wages		7,000	7,000		
B-Employee Benefits		2,100	2,100		
C-Professional Service Contracts	70,400		70,400		
E-Goods and Other Services		1,100	1,100		
J-Capital Outlays		700	700		
<b>Total \$</b>	\$70,400	\$10,900	\$81,300		

**III. B - Detail:** *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2020	FY 2021	2019-21	2021-23	2023-25
IT SPEC 4	70,320		0.1	0.1		
<b>Total FTEs</b>			0.1	0.1		

**Part IV: Capital Budget Impact**

None.

**Part V: New Rule Making Required**

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

No rule-making required.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

<b>Bill Number:</b> 5813 SB	<b>Title:</b> Arena projects/taxes
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**Part I: Jurisdiction**-Location, type or status of political subdivision defines range of fiscal impacts.

**Legislation Impacts:**

- Cities: Revenue impact
- Counties: Same as above
- Special Districts: Same as above
- Specific jurisdictions only: King County and taxing jurisdictions within the county
- Variance occurs due to:

**Part II: Estimates**

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time:

**Estimated revenue impacts to:**

Jurisdiction	FY 2020	FY 2021	2019-21	2021-23	2023-25
City	(3,954,337)	(3,079,197)	(7,033,534)	1,734,074	1,766,486
County	(4,110,143)	(3,200,522)	(7,310,665)	1,802,399	1,836,088
Special District	(4,013,519)	(3,125,282)	(7,138,801)	1,760,027	1,792,924
<b>TOTAL \$</b>	(12,077,999)	(9,405,001)	(21,483,000)	5,296,500	5,395,498
<b>GRAND TOTAL \$</b>					(10,791,002)

**Estimated expenditure impacts to:**

None

**Part III: Preparation and Approval**

Fiscal Note Analyst: Renee Martine-Tebow	Phone: 360-725-5045	Date: 02/12/2019
Leg. Committee Contact: Jeffrey Mitchell	Phone: 360-786-7438	Date: 02/02/2019
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/12/2019
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 02/12/2019

## Part IV: Analysis

### A. SUMMARY OF BILL

*Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.*

This bill would create a payment plan for certain taxes associated with a project for one or both of the following:

- A qualifying arena, defined as a multipurpose sports and entertainment facility owned by the largest city in a county with a population of at least 1.5 million that is being redeveloped to attract professional ice hockey and basketball league franchises.
- An ice hockey practice facility, defined as at least one structure of at least 200,000 square feet located within 10 miles of a qualifying arena that contains at least three ice rinks and is being developed to attract a professional ice hockey franchise.

#### Payback of Taxes

The recipient of the certificate must begin repaying taxes in the first calendar year after the date certified by the Department of Revenue (DOR) as the operationally complete date. Payments are due January 1st and are equal to 12.5 percent of the tax due, plus interest. The interest rate is the rate assessed on delinquent taxes under Chapter 82.32 RCW and is retroactive to the operationally complete date and accrues until the deferred taxes are repaid. DOR may authorize an accelerated repayment schedule upon request. If an eligible project is not operationally complete within three calendar years from the date the Department issued the certificate or is otherwise found to be ineligible, taxes outstanding are immediately due and payable.

This bill contains an emergency clause and takes effect immediately upon the Governor's approval.

### B. SUMMARY OF EXPENDITURE IMPACTS

*Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.*

This bill would not impact local government expenditures.

### C. SUMMARY OF REVENUE IMPACTS

*Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.*

This bill would decrease local revenues by an estimated \$12.2 million in Fiscal Year 2020, and by \$9.5 million in Fiscal Year 2021.

#### ASSUMPTIONS

- This bill will pass prior to April 28, 2019, the end of the regular Legislative session.
- An application will be submitted and approved by DOR allowing the sales/use tax certificate to be issued by July 1, 2019.
- The project consists of a qualifying arena valued at \$657.7 million and a qualifying ice hockey practice facility valued at \$63.8 million. Note that this project cost information is current as of February 2019.
- The project will be complete by mid-2021, with the first repayment due on January 1, 2022.
- Based on the November 2018, IHS Markit forecast for the Federal Funds Rate, the interest rate for state excise tax assessments is 5 percent for each year through CY 2029 when final payment is due.
- The average local retail sales tax rate for King County is 3.4684 percent.
- The fiscal impact could be significantly higher if project costs are higher than assumed or if the application and certificate are issued earlier than assumed.

#### County

FY 2020	-4,110,143
FY 2021	-3,200,522
FY 2022	884,355
FY 2023	918,044
FY 2024	918,044
FY 2025	918,044

#### City and Towns

FY 2020	-3,954,337
FY 2021	-3,079,197
FY 2022	850,831
FY 2023	883,243
FY 2024	883,243

FY 2025 883,243

Special Districts

FY 2020	-4,013,519
FY 2021	-3,125,282
FY 2022	863,565
FY 2023	896,462
FY 2024	896,462
FY 2025	896,462

METHODOLOGY:

The distributions in this note for cities, counties, and special districts are based on Department of Revenue (DOR) data for local sales and use tax distributions from calendar year 2015 (the most current year available). Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. School districts are also not included in the special districts distribution. This results in a distribution of 34.03 percent to counties, 32.74 percent to cities, and 33.23 percent to special districts. The one percent DOR administrative fee has also been accounted for.

Note: School district impacts, including construction costs, operating costs, levy shifts, and other revenue impacts are described in fiscal notes prepared by the OSPI School District Fiscal Note process. Local Government Fiscal Notes include impacts to all other local governments (cities, counties, special districts).

SOURCES:

Department of Revenue fiscal note  
Department of Revenue Local Tax Distributions (2016)  
Local Government Fiscal Note program "Local Sales Tax" model (2019)  
Local Government Fiscal Note program "Sales and Use Tax Distribution" model (2019)