

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 1163 HB	<b>Title:</b> Leasehold tax/arenas
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## Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(600,000)	(600,000)	(600,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,100,000)	(3,100,000)	(3,100,000)
<b>Total \$</b>	<b>(600,000)</b>	<b>(600,000)</b>	<b>(600,000)</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>	<b>(3,100,000)</b>	<b>(3,100,000)</b>	<b>(3,100,000)</b>

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Total		(2,200,000)		(2,600,000)		(2,800,000)
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other		(2,200,000)		(2,600,000)		(2,800,000)

## Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.5	116,200	116,200	116,200	.2	44,000	44,000	44,000	.2	44,000	44,000	44,000
<b>Total \$</b>	<b>0.5</b>	<b>116,200</b>	<b>116,200</b>	<b>116,200</b>	<b>0.2</b>	<b>44,000</b>	<b>44,000</b>	<b>44,000</b>	<b>0.2</b>	<b>44,000</b>	<b>44,000</b>	<b>44,000</b>

## Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	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

<b>Prepared by:</b> Cheri Keller, OFM	<b>Phone:</b> (360) 584-2207	<b>Date Published:</b> Final
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# Department of Revenue Fiscal Note

<b>Bill Number:</b> 1163 HB	<b>Title:</b> Leasehold tax/arenas	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

**No Fiscal Impact**

### Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 59 - Leasehold Excise Tax	900,000	(1,500,000)	(600,000)	(3,000,000)	(3,100,000)
<b>Total \$</b>	900,000	(1,500,000)	(600,000)	(3,000,000)	(3,100,000)

### Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.7	0.3	0.5	0.2	0.2
GF-STATE-State 001-1	84,300	31,900	116,200	44,000	44,000
<b>Total \$</b>	84,300	31,900	116,200	44,000	44,000

### 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: Tracey Taylor	Phone: 60-786-7152	Date: 01/09/2023
Agency Preparation: Frank Wilson	Phone: 60-534-1527	Date: 01/17/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 01/17/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/17/2023

Request # 1163-1-1

## Part II: Narrative Explanation

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

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

#### CURRENT LAW:

Leasehold excise tax (LET) is paid by a private entity that leases/uses public property. This includes leases of government-owned property exempt from property taxes. The combined state and local rate for LET is 12.84% of the rent paid for the property. The state general fund receives 6.84% and the remaining 6% goes to local governments.

#### PROPOSAL:

This proposal creates an exemption from LET for all leasehold interests in the “public or entertainment areas” of any arena if the arena:

- Has a seating capacity of more than 4,000;
- Is located in a city with a population of over 100,000;
- Is located on city-owned land; and
- Private entities were responsible for 100% of the funds used for construction improvements to the arena not reimbursed by the public owner.

“Public or entertainment areas” have the same meaning as in current law for certain existing amphitheater or arenas, except that it also includes office areas used predominantly by the lessee.

Section 1 and section 2 share the same language creating the LET exemption, as a result of different expiration dates in current statute.

The new tax preference performance provisions do not apply to the proposal. However, a taxpayer that claims the exemption must annually file a tax performance report.

#### EFFECTIVE DATE:

Section 1 takes effect October 1, 2023, which addresses current provisions in effect until January 1, 2034.

Section 1 expires January 1, 2034.

Section 2 takes effect January 1, 2034, and does not expire.

### II. B - Cash receipts Impact

*Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.*

#### ASSUMPTIONS:

- This LET exemption applies only to the Climate Pledge Arena.
- Climate Pledge Arena meets the private entity funding the construction improvements not reimbursed by the public requirement.
- These estimates use LET collections data from Quarter 4, 2021 to Quarter 3, 2022.
- Growth mimics the Economic and Revenue Forecast Council's forecast for LET.

#### DATA SOURCES:

- Department of Revenue, leasehold excise tax data
- Economic and Revenue Forecast Council, November 2022 forecast

#### REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$0.9 million in the eight months of impacted collections in fiscal year

Request # 1163-1-1

2024, and by \$1.5 million in fiscal year 2025, the first full year of impacted collections. This bill also decreases local revenues by an estimated \$0.9 million in the eight months of impacted collections in fiscal year 2024, and by \$1.3 million in fiscal year 2025, the first full year of impacted collections.

**TOTAL REVENUE IMPACT:**

State Government (cash basis, \$000):

FY 2024 - (\$ 900)  
FY 2025 - (\$ 1,500)  
FY 2026 - (\$ 1,500)  
FY 2027 - (\$ 1,500)  
FY 2028 - (\$ 1,500)  
FY 2029 - (\$ 1,600)

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

FY 2024 - (\$ 900)  
FY 2025 - (\$ 1,300)  
FY 2026 - (\$ 1,300)  
FY 2027 - (\$ 1,300)  
FY 2028 - (\$ 1,400)  
FY 2029 - (\$ 1,400)

**II. C - Expenditures**

*Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.*

**ASSUMPTIONS:**

- This estimate affects 10 or less taxpayers.
- A taxpayer claiming this new tax preference must file an annual tax performance report (RCW 82.32.808). These expenditures include the costs to implement the new tax preference.

**FIRST YEAR COSTS:**

The department will incur total costs of \$84,300 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 0.66 FTE.

- Computer system testing, monitoring, and maintenance to update annual tax reporting for the new incentive.
- Review and monitor reports, scrutinize data, and examine accounts and make corrections as necessary.
- Develop and maintain annual tax incentive report questions.
- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.
- Amend one administrative rule.

Object Costs - \$8,800.

- Computer system changes, including contract programming.

**SECOND YEAR COSTS:**

The department will incur total costs of \$31,900 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 0.3 FTE.

- Continue to review and monitor reports, scrutinize data, and examine accounts and make corrections as necessary.
- Develop and maintain annual tax incentive report questions.

- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.

**ONGOING COSTS:**

Ongoing costs for the 2025-27 biennium equal \$44,000 and include similar activities described in the second-year costs. Time and effort equate to 0.2 FTE per year.

**Part III: Expenditure Detail**

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

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.7	0.3	0.5	0.2	0.2
A-Salaries and Wages	46,400	20,800	67,200	29,400	29,400
B-Employee Benefits	15,300	6,900	22,200	9,600	9,600
C-Professional Service Contracts	8,800		8,800		
E-Goods and Other Services	9,400	3,300	12,700	3,800	3,800
J-Capital Outlays	4,400	900	5,300	1,200	1,200
<b>Total \$</b>	<b>\$84,300</b>	<b>\$31,900</b>	<b>\$116,200</b>	<b>\$44,000</b>	<b>\$44,000</b>

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
EXCISE TAX EX 3	61,632	0.2	0.2	0.2	0.1	0.1
MGMT ANALYST4	73,260	0.2		0.1		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.2	0.1	0.2	0.1	0.1
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
<b>Total FTEs</b>		<b>0.7</b>	<b>0.3</b>	<b>0.5</b>	<b>0.2</b>	<b>0.2</b>

**III. C - Expenditures By Program (optional)**

NONE

**Part IV: Capital Budget Impact**

**IV. A - Capital Budget Expenditures**

NONE

**IV. B - Expenditures by Object Or Purpose**

NONE

**IV. C - Capital Budget Breakout**

*Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.*

NONE

**Part V: New Rule Making Required**

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*

Should this legislation become law, the department will use the expedited process to amend WAC 458-29A-400, titled:

Request # 1163-1-1

"Leasehold excise tax-Exemptions." Persons affected by this rulemaking would include certain arenas and stadiums.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

**Bill Number:** 1163 HB

**Title:** Leasehold tax/arenas

## Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

### Legislation Impacts:

Cities: revenue decrease

Counties: revenue decrease

Special Districts:

Specific jurisdictions only: City of Seattle, King 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 2024	FY 2025	2023-25	2025-27	2027-29
City	(600,000)	(866,667)	(1,466,667)	(1,733,334)	(1,866,666)
County	(300,000)	(433,333)	(733,333)	(866,666)	(933,334)
<b>TOTAL \$</b>	<b>(900,000)</b>	<b>(1,300,000)</b>	<b>(2,200,000)</b>	<b>(2,600,000)</b>	<b>(2,800,000)</b>
<b>GRAND TOTAL \$</b>					<b>(7,600,000)</b>

### Estimated expenditure impacts to:

None

## Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 01/19/2023
Leg. Committee Contact: Tracey Taylor	Phone: 360-786-7152	Date: 01/09/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/19/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/19/2023

## Part IV: Analysis

### A. SUMMARY OF BILL

*Description of the bill with an emphasis on how it impacts local government.*

This bill creates a leasehold excise tax exemption for all leasehold interests for a certain arena. The Dept. of Revenue fiscal note assumes this arena is the Climate Pledge Arena.

This bill clarifies that “Public or entertainment areas” has the same meaning as in current law for certain existing amphitheater or arenas, and includes office areas used predominantly by the lessee.

### B. SUMMARY OF EXPENDITURE IMPACTS

*Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.*

This bill will not impact local government expenses.

### C. SUMMARY OF REVENUE IMPACTS

*Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.*

According to the Dept. of Revenue fiscal note, this bill decreases local revenues by an estimated \$0.9 million in the eight months of impacted collections in fiscal year 2024, and by \$1.3 million in fiscal year 2025, the first full year of impacted collections. The local leasehold tax rate is 6%.

According to the Municipal Research Services Center’s Revenue Guide, the maximum county rate that can be levied against the state is 6%. The maximum city rate that can be credited against the county is 4%. Assuming that the City of Seattle and King County levy the maximum rates possible, Seattle will bear 2/3 of the loss and King County will bear 1/3 of the loss in revenue.

Local Government loss	Seattle loss	King County loss
FY 2024 - (\$ 900,000) =	(\$ 600,000)	(\$ 300,000)
FY 2025 - (\$ 1,300,000) =	(\$ 866,667)	(\$ 433,333)
FY 2026 - (\$ 1,300,000) =	(\$ 866,667)	(\$ 433,333)
FY 2027 - (\$ 1,300,000) =	(\$ 866,667)	(\$ 433,333)
FY 2028 - (\$ 1,400,000) =	(\$ 933,333)	(\$ 466,667)
FY 2029 - (\$ 1,400,000) =	(\$ 933,333)	(\$ 466,667)

#### SOURCES

Association of Washington Cities

Municipal Research Services Center Revenue Guide

Dept. of Revenue Fiscal Note Draft