Multiple Agency Fiscal Note Summary

Bill Number: 5052 SB	**Title:** Leasehold tax/arenas, etc.

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	(2,400,000)	(2,400,000)	(2,400,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,100,000)	(3,100,000)	(3,100,000)
Total $	(2,400,000)	(2,400,000)	(2,400,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,100,000)	(3,100,000)	(3,100,000)

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other		(2,200,000)		(2,600,000)		(2,800,000)
Local Gov. Total		(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
Joint Legislative Audit and Review Committee	.1	26,700	26,700	26,700	.0	13,400	13,400	13,400	.0	13,400	13,400	13,400
Department of Revenue	.5	116,200	116,200	116,200	.2	44,000	44,000	44,000	.2	44,000	44,000	44,000
Total $	0.6	142,900	142,900	142,900	0.2	57,400	57,400	57,400	0.2	57,400	57,400	57,400

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total $	0.0	0	0	0.0	0	0	0.0	0	0

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Breakout

Prepared by: Cheri Keller, OFM	Phone: (360) 584-2207	Date Published: Revised 3/ 9/2023

Individual State Agency Fiscal Note

Bill Number: 5052 SB	Title: Leasehold tax/arenas, etc.	Agency: 014-Joint Legislative Audit and Review Committee

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.0	0.1	0.0	0.0
Account					
General Fund-State 001-1	20,000	6,700	26,700	13,400	13,400
Total $	20,000	6,700	26,700	13,400	13,400

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:	Clinton McCarthy	Phone: 360-786-7319	Date: 01/07/2023
Agency Preparation:	Pete van Moorsel	Phone: 360-786-5185	Date: 01/12/2023
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 01/12/2023
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 01/16/2023

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.

The bill creates a new leasehold excise tax (LET) exemption for leasehold interests in public or entertainment areas of an arena that meet the following criteria:
• Capacity of more than 4,000.
• Located on city-owned land within a city of more than 100,000.
• Paid for by private entities with no public reimbursement.

There is an annual tax performance report requirement. The preference does not apply to leasehold interests after October 1, 2033.

The bill also creates annual tax performance report requirements for existing LET exemptions for leasehold interests in public or entertainment areas of:
• Baseball stadiums with natural turf, retractable roof, and a seating capacity of more than 40,000 (82.29A.130(14)).
• Stadiums and exhibition centers constructed after January 1, 1998 (RCW 82.29A.130(15)).
• Arenas with capacity of more than 2,000 owned by a city of more than 200,000 in a county with a population less than 1,500,000 (RCW 82.29A.130(18)).

TAX PREFERENCE PERFORMANCE STATEMENT DETAILS

The bill categorizes the new tax preference as one intended to:
• Induce certain designated behavior by taxpayers as indicated in RCW 82.32.808(2)(a).
• Provide tax parity as indicated in RCW 82.32.808(2)(f).

The specific policy objective for the preference is to provide tax parity resulting in LET relief:
• For large arenas used for professional sports, the expectation is that the operational entities overseeing operations at these facilities will provide substantial economic benefits to their specific region with a focus on:
o Providing employment opportunities for women and minority-owned businesses.
o Fostering equity and social justice with an emphasis on arena-impacted communities.
o Providing general community resource support.
o Ensuring quality access to the facilities for people across a range of income levels.
• For small arenas (capacity less than or equal to 17,000), the expectation is that
o Employees employed at the facilities receive competitive wages and benefits.
o The facilities advance and promote diverse and inclusive voices, experiences, perspectives, and employment opportunities.

The bill directs specific areas for JLARC's review. For large arenas, these include:
• State and local fiscal impacts.
• Employment and wages at the facility for all employers, and the degree to which employment positions have been filled by people residing in economically distressed regions of the county in which the facility is located.
• The extent to which the operational entity provides opportunities for patrons of all income levels to enjoy programming.
• 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.

For small arenas, these include:
• State and local fiscal impacts.
• Employment and wages at the facility for all employers.
• The financial stability of the facility through an examination of revenues and expenditures.

• The types of programming and events scheduled at the facility.
• The economic impact of the facility in the county in which the facility is located.

DOR is directed to provide data needed for JLARC to perform the review. JLARC is authorized to contact the entities that manage and operate beneficiary facilities or arenas to establish documentation needed to perform the review.

The performance statement also creates criteria for reviews of the three existing LET exemptions for which the bill creates new reporting requirements. Reviews of these preferences must use the criteria for large arena facilities.

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.

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.

JLARC staff would work with the Department of Revenue and the Employment Security Department immediately after passage of the bill to ensure project contacts are established and data necessary for JLARC staff's future evaluation needs are identified and collected.

JLARC staff would also establish contacts with the entities that manage and operate beneficiary facilities or arenas to establish documentation needed to perform the review.

JLARC staff would likely review this preference in 2031, beginning work in 2030, outside of the range of this fiscal note. Costs associated with the review are therefore not included in this fiscal note, which reflects only the costs associated with establishing data collection and other work to prepare for the future review of the preference.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2023 legislative session.

This audit will require an estimated 2 audit months.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately $22,100 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	20,000	6,700	26,700	13,400	13,400
		Total $	20,000	6,700	26,700	13,400	13,400

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.1		
A-Salaries and Wages	12,900	4,300	17,200	8,600	8,600
B-Employee Benefits	4,100	1,400	5,500	2,800	2,800
C-Professional Service Contracts					
E-Goods and Other Services	2,700	900	3,600	1,800	1,800
G-Travel	300	100	400	200	200
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	20,000	6,700	26,700	13,400	13,400

III. C - Operating FTE 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 2024	FY 2025	2023-25	2025-27	2027-29
Research Analyst	126,694	0.1		0.1		
Support staff	89,671					
Total FTEs		0.1		0.1		0.0

III. D - 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

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

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.

Department of Revenue Fiscal Note

Bill Number: 5052 SB	**Title:** Leasehold tax/arenas, etc.	**Agency:** 140-Department of Revenue

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)	(2,400,000)	(3,000,000)	(3,100,000)
Total $	(900,000)	(1,500,000)	(2,400,000)	(3,000,000)	(3,100,000)

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.7	0.3	0.5	0.2	0.2
Account					
GF-STATE-State 001-1	84,300	31,900	116,200	44,000	44,000
Total $	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:	Clinton McCarthy	Phone: 360-786-7319	Date: 01/07/2023
Agency Preparation:	Frank Wilson	Phone: 360-534-1527	Date: 03/08/2023
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 03/08/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 03/08/2023

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.

Note: This fiscal note reflects a revision to the revenue impact, and replaces fiscal note number 5052-1.

CURRENT LAW:
Leasehold excise tax (LET) is paid by a private entity that leases/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% 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 responsible for 100% of the funds used for construction improvements to the arena not reimbursed by the public owner.

The proposal also requires taxpayers claiming a LET exemption for certain stadiums and arenas to file a complete annual tax performance report.

The proposal expires January 1, 2034.

EFFECTIVE DATE:
This proposal takes effect October 1, 2023.

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 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 bill affects 10 or less taxpayers.

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
Total $	$84,300	$31,900	$116,200	$44,000	$44,000

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		
Total FTEs		0.7	0.3	0.5	0.2	0.2

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

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5052 SB	**Title:** Leasehold tax/arenas, etc.

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

Legislation Impacts:

- [X] Cities: revenue decrease
- [X] Counties: revenue decrease
- [X] Special Districts: Public Facility Districts filing annual tax performance reports
- [X] 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:
- [X] Key variables cannot be estimated with certainty at this time: costs of filing annual tax performance reports

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)
TOTAL $	(900,000)	(1,300,000)	(2,200,000)	(2,600,000)	(2,800,000)
GRAND TOTAL $					(7,600,000)

Estimated expenditure impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 01/16/2023
Leg. Committee Contact: Clinton McCarthy	Phone: 360-786-7319	Date: 01/07/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/16/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/17/2023

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 will require organizations operating certain stadiums and arenas to file an annual tax performance report beginning in the calendar year 2024.

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.

An indeterminate and minimal cost is expected for public facility districts filing annual tax performance reports with the Dept. of Revenue. It is unknown if these costs will fit into current job responsibilities or if they will require additional time and effort.

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