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DEPARTMENT OF REVENUE
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June 17, 2021

TO: The Honorable Patty Kuderer, Chair The Honorable Christine Rolfes, Chair
 The Honorable Phil Fortunato The Honorable Lynda Wilson
 Housing & Local Government Ways & Means Committee
 Committee Washington State Senate
 Washington State Senate

 The Honorable Cindy Ryu, Chair The Honorable Noel Frame, Chair
 The Honorable Matt Boehnke The Honorable Ed Orcutt
 Community & Economic Finance Committee
 Development Committee Washington State House of
 Washington State House of Representatives
 Representatives

 The Honorable Timm Ormsby, Chair Keith Phillips, Executive Policy Director
 The Honorable Drew Stokesbary Office of the Governor
 Appropriations Committee
 Washington State House of
 Representatives

FROM: Vikki Smith, Director *Vikki Smith*
 Washington State Department of Revenue

SUBJECT: Pioneer Square-International District Community Preservation and Development
 Authority Funding Options Report

The Department of Revenue (department) is submitting this report as required by [Section 135\(9\), Chapter 357, Laws of 2020](#). This budget proviso required the department to:

- Evaluate long-term funding options to support the operations of the Pioneer Square-International District Community Preservation and Development Authority (Authority) established in RCW [43.167.060](#).
- Consult with specified stakeholders in developing recommendations for long-term funding options to support the operations of the Authority.
- Report the recommended funding options to the Governor and appropriate committees of the Legislature.

If you have any questions or need the report in an alternate format, please contact Michael Bailey, Legislative and External Affairs Liaison, Executive Division, at MichaelBa@dor.wa.gov or (360) 534-1545.

cc: Brad Hendrickson, Secretary, Washington State Senate
Bernard Dean, Chief Clerk, Washington State House of Representatives
Members, Senate Housing & Local Government Committee
Members, Senate Ways & Means Committee
Members, House Community & Economic Development Committee
Members, House Finance Committee
Members, House Appropriations Committee
David Schumacher, Director, Office of Financial Management
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**Pioneer Square-International District Community
Preservation and Development Authority
Funding Options Report**



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Introduction

This report is prepared as required by [Section 135\(9\), Chapter 357, Laws of 2020](#) (the 2019-2021 supplemental operating budget). This budget proviso required the Department of Revenue (department) to:

- Evaluate long-term funding options to support the operations of the Pioneer Square-International District Community Preservation and Development Authority¹ (Authority) established in [RCW 43.167.060](#).
- Consult with the Authority, King County, the city of Seattle, and the owners and operators of major public facilities projects located adjacent to the geographic area established by the Authority in developing the department's recommendations.
- Include in the department's recommendations an impact fee on tickets sold for events held in major public facilities located adjacent to the geographic area established by the Authority.
- Provide a report to the Governor and appropriate committees of the Legislature by June 30, 2021, with recommendations for funding options.

Background

In 2007, the Legislature passed, and the Governor signed, [Substitute Senate Bill 6156](#) (SSB 6156). This legislation created a new chapter in Title 43 RCW, codified as chapter [43.167](#) RCW. Among other things, SSB 6156 authorized the residents, property owners, employees, or business owners of an impacted community to propose the formation of a Community Preservation and Development Authority (CPDA). The legislation outlined the powers and duties of CPDAs and authorized the establishment of the Authority as the first CPDA.

The stated purpose of CPDAs is to restore or enhance the health, safety, and well-being of communities adversely impacted by the construction and operation of multiple major public facilities, public works, and capital projects with significant public funding or by other land use decisions. [RCW 43.167.007](#). The impacted communities must request from the Legislature the formation of a CPDA. [RCW 43.167.010](#).

SSB 6156 included the creation of the Community Preservation and Development Authority Account in the state treasury. However, SSB 6156, and subsequent amendments to chapter 43.167 RCW, did not provide a permanent funding source. CPDAs do not have authority to impose taxes or special assessments. [RCW 43.167.020](#).

In 2019, the Legislature passed, and the Governor signed, [House Bill 1918](#) (HB 1918). This legislation amended chapter 43.167 RCW, requiring CPDAs to have one or more specific purposes and establishing the Central District CPDA. Thus, there are currently two CPDAs in existence. HB 1918 also required CPDAs created after January 1, 2020, to identify one or more

¹ This entity refers to itself as the Historic South Downtown Community Preservation & Development Authority. See <http://www.historicsouthdowntown.org/>.

stable revenue sources that have a connection, or “nexus,” with the multiple publicly-funded facilities or other land use decisions that adversely impacted the community and can be used to support future operating or capital projects.

In 2021, the Legislature passed, and the Governor signed, [Engrossed House Bill 1471](#) (EHB 1471). This legislation modifies the length of terms for the members of the board of directors of a CPDA and also defines CPDAs as a “public body corporate and politic and instrumentality of the state of Washington.” It is unclear what effect, if any, this amendment to the definition of CPDA will have on the viability of the department’s recommended funding options.

Stakeholder Consultation

As required by the legislation, the department consulted with representatives of the Authority, King County, the city of Seattle, and the owners and operators of the major public facilities located adjacent to the Authority’s geographic area. These consultations included:

- Soliciting concepts for funding options from the stakeholders.
- Presenting department-developed funding options to the stakeholders.
- Requesting feedback from the stakeholders on funding options.
- Sharing the list of recommendations included in this report with the stakeholders.

Factors Considered

Following are the seven most significant factors the department considered in developing its recommendations for this report.

1. Funding

Would the funding option provide long-term, sustainable funding to support the operations of the Authority?

For example, a funding option that authorizes an additional local real estate excise tax could be subject to economic swings due to fluctuations in sales of real property and, for this reason, may not be a good long-term funding option for the Authority.

During the stakeholder consultation process for this report, the Authority indicated that its targeted funding level is about \$10 million annually.

2. Administration

Would the funding option be complex and costly to administer or relatively simple and less costly to administer?

Funding options that require administration by multiple government agencies are more complex and costly to administer. For example, a funding option that authorizes a tax

increment financing-type program with a state contribution² would require administration by both local governments and state agencies.

3. Legislation

While all of the funding options require action by the Legislature, would the funding option also require local legislation?

For example, a funding option that includes a local sales and use tax would require the local jurisdiction to enact legislation to impose the tax.

4. Risk of challenges

Would the funding option withstand legal or other challenges?

For example, a funding option that imposes a fee or tax on cruise ship tickets would appear to be prohibited by federal law under [33 U.S.C. § 5\(b\)](#).

5. Direct connection to impact on community

Would the revenue source have a direct connection between the impacted community and the major public facilities, public works, and capital projects located adjacent to the Authority?

For example, a funding option that imposes a statewide sales and use tax with the revenue dedicated to the Authority would have very little direct connection, or nexus, to the community impacted by a decision to build sports facilities adjacent to the Authority. But a local sales and use tax imposed within the Authority's boundaries would have a strong nexus to that community.

6. Funding option for other CPDAs

Would the funding option be a viable funding option for other CPDAs?

Because CPDAs created after January 1, 2020, must identify one or more stable revenue sources that have a connection with the multiple publicly-funded facilities or other land use decisions that have adversely impacted their community, we took into account a funding option's suitability for CPDAs other than the Authority.

7. Cooperation with local taxing authorities

Would the funding option be dependent on a local authority imposing or increasing a tax or fee and dedicating that revenue to the Authority?

There are additional considerations for funding options to be administered at a local level. Perhaps the most significant consideration being the likelihood that a local taxing authority

² For an example of such a program, see the summaries of the Local Infrastructure Financing Tool, Hospital Benefit Zone Financing, and Local Revitalization Financing programs in the Department's summary of [tax increment financing-type programs in Washington](#).

might oppose the funding option, especially if the taxing authority believes the funding option would be administratively burdensome or costly.

Recommendations

The department evaluated numerous funding options. Ultimately the department decided on the following six recommendations. All of the options require legislation, and more than one option could be adopted to achieve the desired funding level.

1. Transfer a fixed amount each fiscal year from the State General Fund into the Community Preservation and Development Authority Account.
2. Authorize the city of Seattle to impose a local sales and use tax.
3. Authorize the city of Seattle or King County to impose a “state-shared” local sales and use tax.
4. Authorize the city of Seattle to increase its admissions tax.
5. Authorize the city of Seattle to impose a food and beverage tax.
6. Authorize the city of Seattle, King County, or the state to impose an impact fee on tickets sold for events held in major public facilities located adjacent to the geographic area established by the Authority.³

1. Transfer a fixed amount each fiscal year from the General Fund.

This funding option would require the State Treasurer to transfer a fixed amount from the State General Fund into the Community Preservation and Development Authority Account (CPDA Account) under [RCW 43.167.040](#). The transfer amount would be \$10 million per fiscal year to reach the target revenue amount. The Legislature would appropriate funds to the Authority from the CPDA Account through the budgeting process.

Benefits	Considerations
<ul style="list-style-type: none"> • Stable funding source • Simple to administer • Does not require local legislation • Does not require cooperation of local taxing authorities • No additional cost to the consumer 	<ul style="list-style-type: none"> • No direct connection to impacted community • Impacts the State General Fund

2. Authorize the city of Seattle to impose a local sales and use tax.

This funding option would authorize the city of Seattle to impose a local sales and use tax, with that revenue dedicated to the Authority. The tax would be imposed within the entire city of Seattle. This tax could be structured to require voter approval or allow the city to impose the tax by councilmanic action. The tax rate would need to be 0.03% to reach the target revenue amount of \$10 million per fiscal year.

³ The legislation providing for this report requires that the department include this funding option in its recommendations.

Benefits	Considerations
<ul style="list-style-type: none"> • Reliable funding source • Some direct connection to impacted community, as the imposition of tax would be limited to the city of Seattle as opposed to the entire state • Potential funding option for future CPDAs • No impact to the State General Fund 	<ul style="list-style-type: none"> • Requires legislation at the state and local level • Requires cooperation with the local taxing authority • Additional cost to the consumer

3. Authorize the city of Seattle or King County to impose a state-shared local sales and use tax.

State-shared local sales and use taxes do not increase the amount of sales and use tax paid by consumers. Rather, the tax is deducted from or credited against the state portion of the sales and use tax (6.5%), which results in a transfer of these tax revenues from the State General Fund to the jurisdiction imposing the tax.

This funding option would authorize the city of Seattle or King County to impose a state-shared local sales and use tax, and dedicate that revenue to the Authority. The tax would be imposed within the entire county or the entire city of Seattle. The model would be based on the state-shared local sales and use tax that was imposed to pay the principal and interest payments on bonds issued by King County to construct Safeco Field, now known as T-Mobile Park ([RCW 82.14.0485](#)). This tax expired in 2011. The tax rate would be based on the target revenue amount of \$10 million per fiscal year.

Benefits	Considerations
<ul style="list-style-type: none"> • Reliable funding source • Some connection to impacted community, as the imposition of tax would be limited to the city of Seattle or King County, as opposed to the entire state • Relatively simple to administer • Potential funding option for future CPDAs • No additional cost to the consumer 	<ul style="list-style-type: none"> • Requires legislation at the state and local level • Requires cooperation with the local taxing authority • Impacts the State General Fund

4. Authorize the city of Seattle to increase its admissions tax.

This funding option would authorize the city of Seattle to increase the city’s admissions tax, with the additional revenue dedicated to the Authority. Currently, the admissions tax rate is 5% and is added to the ticket price or other charge that attendees pay to enter entertainment venues or events in the city of Seattle ([RCW 35.21.280](#) and [SMC Chapter 5.40](#)). Because the department does not administer this tax or have the data to provide an estimate, the rate needed to reach the target revenue amount is unknown.

Benefits	Considerations
<ul style="list-style-type: none"> • Reliable funding source • Connection to impacted community • Potential funding option for future CPDAs • Tax currently administered • No impact to the State General Fund 	<ul style="list-style-type: none"> • Requires legislation at the state and local level • Requires cooperation with the local taxing authority • Additional cost to the consumer

5. Authorize the city of Seattle to impose a food and beverage tax.

This funding option would authorize the city of Seattle to impose a food and beverage tax and dedicate that revenue to the Authority. The tax would be similar to the King County food and beverage tax that expired October 1, 2011 ([RCW 82.14.360](#)). However, to reduce the risk that the tax would conflict with the [Streamlined Sales and Use Tax Agreement](#),⁴ the tax would either be imposed as a state-shared sales and use tax that is credited against the state sales and use tax, or it would be imposed as a stand-alone local tax that would be collected by the seller from the consumer and would have no complimentary use tax. The tax would apply to the sale of food and beverages sold by restaurants, taverns, and bars in the city of Seattle. The tax rate would need to be 0.3% to reach the target revenue amount of \$10 million per fiscal year.

Benefits	Considerations
<ul style="list-style-type: none"> • Connection to impacted community • Relatively easy to administer • Potential funding option for future CPDAs • No impact to the State General Fund if the tax is structured as a standard local tax 	<ul style="list-style-type: none"> • Requires legislation at the state and local level • Requires cooperation with the local taxing authority • Additional cost to the consumer if the tax is structured as a stand-alone local tax

⁴ Washington is a member of the SSUTA. The purpose of this multi-state agreement is to simplify and modernize sales and use tax administration in member states in order to substantially reduce the tax compliance burden for retailers. Among other provisions, the SSUTA limits local sales and use tax rates to a single rate per local taxing authority.

<ul style="list-style-type: none"> No additional cost to the consumer if the tax is structured as a state-shared local sales and use tax 	<ul style="list-style-type: none"> Impacts the State General Fund if the tax is structured as a state-shared local sales and use tax
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6. Authorize the city of Seattle, King County, or the state to impose an impact fee on tickets sold for events held in major public facilities located adjacent to the geographic area established by the Authority.⁵

This funding option would impose an impact fee⁶ on attendees who buy tickets for events held at the major public sports facilities located adjacent to the Authority. These facilities are T-Mobile Park and Lumen Field. The tax rate would need to be 6.5% to reach the target funding amount of \$10 million per fiscal year.

Benefits	Considerations
<ul style="list-style-type: none"> Connection to impacted community No impact to the State General Fund 	<ul style="list-style-type: none"> If imposed at the local level, requires legislation at the state and local level If imposed at the local level, requires cooperation with the local taxing authority Additional cost to the consumer May not be a potential funding option for future CPDAs

Conclusion

In developing long-term funding options for the Authority, the department consulted with representatives from the Authority, King County, the city of Seattle, and the owners and operators of the major public facilities located adjacent to the geographic area established by the Authority. We then evaluated the funding options based on the seven factors described in this report. Based on our evaluation, we recommend the six potential long-term funding options summarized above. Several of these options may also work for the other existing CPDA and future CPDAs. If needed, more than one option may be enacted to achieve the desired level of funding.

Policymakers considering any of the local tax options described in this report should consider seeking legal advice concerning whether the enactment of EHB 1471 in 2021, defining CPDAs as instrumentalities of the state, impacts the legal viability of the local tax options.

⁵ The budget proviso directing this report requires the department to include this funding option in our recommendations.

⁶ Under Washington case law, a government-imposed charge applied to tickets sold to attendees of events at public facilities may be viewed by the courts as a tax rather than a fee. Generally, the primary purpose of a tax is to raise revenue, while the primary purpose of a fee is to pay for a regulatory program, mitigate a burden created by the fee payers, or pay for a benefit provided to the fee payers.