

December 21, 2018

Senator Dean Takko
Senator John Braun
Representative Brian Blake
Representative Jim Walsh
Representative Richard DeBolt
Representative Ed Orcutt

(Sent by email and postal service to respective Olympia legislative offices)

RE: “Special 2%” Lodging Tax collections in Cowlitz County

Dear Senators and Representatives,

The Cities of Longview, Kelso, Woodland and Kalama respectfully request your consideration of an amendment to the statute governing the collection of the “special 2%” lodging tax provided for within RCW 67.28.181. Unlike most cities in the state, the cities within Cowlitz County currently do not receive this portion of the lodging tax because state statute grants Cowlitz County with the authority for its collection and expenditure. The cities would like to keep more of the revenue that’s generated within our borders to fund tourism promotion activities tailored to benefit our individual communities. The requested change would give us the same collection authority as the majority of cities in the state of Washington.

Background

Most cities have had the authority to levy a “hotel-motel” or lodging tax of 2% since 1973. Over the years some cities were successful in having special interest legislation passed that increased the rate of their permitted levy and/or provided for certain uses of the tax revenue that were unique to them. In 1997, the legislature repealed much of chapter 67.28 RCW and gave most cities the same levy rate and permitted uses.

Most cities impose a “basic” 2% lodging tax under [RCW 67.28.180](#). This tax is taken as a credit against the 6.5% state sales tax. In addition though, most cities may levy an additional tax of up to 2%, for a total rate of 4%, under [RCW 67.28.181 \(1\)](#). This “special” tax is not credited against the state sales tax and results in an increase of 2% on the patron’s lodging bill.

There are several exceptions to whether or how cities in certain regions of the state can levy the “special” tax.

- Due to the football stadium taxes and higher sales tax rates in King County, many King County cities may only levy 1% of the “special” tax rather than 2%.
- Cities that had authority to levy the “special” tax before July 27, 1997, that allowed a total rate higher than 4%, had that rate grandfathered by the 1997 legislation. All cities in Grays Harbor and Pierce counties are included here, plus Chelan, Leavenworth, Long Beach, Bellevue, Yakima, and Winthrop.
- Cities located in counties that had the authority to levy a total 4% tax county-wide before January 1, 1997, are limited to the “basic” 2% rate (RCW 67.28.181 (2)(d)). This revenue is imposed by the city, but collected and spent by the county. **This section of the statute applies to cities in Snohomish and Cowlitz counties.** *Cowlitz County generates the full 4% lodging tax revenue from hotels and lodging facilities located within the unincorporated county and 2% tax revenue generated by facilities located within cities and towns.*

Cities’ Concerns

The majority of lodging tax revenue generated in Cowlitz County is derived from properties within its incorporated cities, with the City of Kelso collecting the most of any jurisdiction. In 2018, Kelso’s 2% basic tax is anticipated to generate approximately \$190,000 in revenue. By contrast, Cowlitz County, through its 4% rate, will generate just \$125-\$150,000 from lodging facilities within the unincorporated area. But the County will also receive an additional 2% of special tax revenue from properties within each of its five cities totaling over \$300,000. This restricted revenue is distributed through the lodging tax advisory committee process in accordance with state law to be spent on tourism promotion or invested in tourist-related facilities. The cities believe the funding can be most effectively allocated at the city level to support enhanced tourism spending in our individual communities.

This past year, city representatives and Cowlitz County commissioners engaged in discussions surrounding the equitable redistribution of special lodging tax funds the County collects from the incorporated cities. Unfortunately, there is no straightforward mechanism to transfer these restricted monies from one government entity to another without triggering audit issues or other complexities attributed to the authority given to the lodging tax advisory committees’ recommendations. For example, an interlocal agreement between the County and its five cities that apportions lodging taxes according to a prescribed formula could easily be declared moot if the County’s lodging tax advisory committee disagreed with a particular entity’s project and recommended against its funding.

Solution

While we appreciate our dialogue with the County, we have not been able to reach agreement on the principle of reallocating lodging tax funds to the cities in which the revenues were generated. The cities believe the right solution is also the simplest one: amend the statute to provide cities in Cowlitz County the same 2% special lodging tax authority that's been given to most other cities within the state of Washington. This wouldn't raise taxes but would double the amount of revenue each city is currently collecting and expand opportunities for targeted tourism investments that directly increase the number of heads in beds in each of the cities.

A substantial portion of Cowlitz County's lodging tax revenues have been historically directed to support its Tourism Office which serves as the area's primary destination marketing organization. With this change in statute, the cities agree that investment in effective regional tourism promotion should be continued. We would welcome proposals that help bridge the County's Tourism Office funding gap with the award of grants vetted by our respective lodging tax advisory committees and city councils. We believe this funding methodology will serve to enhance communication and build a stronger relationship between the cities and the Tourism Office as we work together to achieve our mutual goal of tourism expansion.

Summary

The cities of Longview, Kelso, Woodland, Kalama and Castle Rock appreciate your support of legislative solutions surrounding tourism and the economic development it fosters. We are optimistic that legislation will be introduced to level the playing field for us, and we would appreciate your support of these bills. We look forward to working with you as the 2019 legislative session unfolds and are grateful for any assistance you can provide.

Sincerely,

Don Jensen, Mayor
City of Longview

Nancy Malone, Mayor
City of Kelso

Will Finn, Mayor
City of Woodland

Mike Reuter, Mayor
City of Kalama

Special Lodging Tax Statute

RCW 67.28.181

Special excise taxes authorized—Rates—Credits for city or town tax by county—Limits.

(1) The legislative body of any municipality may impose an excise tax on the sale of or charge made for the furnishing of lodging that is subject to tax under chapter 82.08 RCW. The rate of tax shall not exceed the lesser of two percent or a rate that, when combined with all other taxes imposed upon sales of lodging within the municipality under this chapter and chapters 36.100, *67.40, 82.08, and 82.14 RCW, equals twelve percent. A tax under this chapter shall not be imposed in increments smaller than tenths of a percent.

(2) Notwithstanding subsection (1) of this section:

(a) If a municipality was authorized to impose taxes under this chapter or *RCW 67.40.100 or both with a total rate exceeding four percent before July 27, 1997, such total authorization shall continue through January 31, 1999, and thereafter the municipality may impose a tax under this section at a rate not exceeding the rate actually imposed by the municipality on January 31, 1999.

(b) If a city or town, other than a municipality imposing a tax under (a) of this subsection, is located in a county that imposed taxes under this chapter with a total rate of four percent or more on January 1, 1997, the city or town may not impose a tax under this section.

(c) If a city has a population of four hundred thousand or more and is located in a county with a population of one million or more, the rate of tax imposed under this chapter by the city shall not exceed the lesser of four percent or a rate that, when combined with all other taxes imposed upon sales of lodging in the municipality under this chapter and chapters 36.100, *67.40, 82.08, and 82.14 RCW, equals fifteen and two-tenths percent.

(d) If a municipality was authorized to impose taxes under this chapter or *RCW 67.40.100, or both, at a rate equal to six percent before January 1, 1998, the municipality may impose a tax under this section at a rate not exceeding the rate actually imposed by the municipality on January 1, 1998.

(3) Any county ordinance or resolution adopted under this section shall contain a provision allowing a credit against the county tax for the full amount of any city or town tax imposed under this section upon the same taxable event.

(4) In determining the effective combined rate of tax for purposes of the limit in subsections (1) and (2)(c) of this section, the tax rate under RCW 82.14.530 is not included.