HOUSE BILL REPORT

HB 1986

As Reported By House Committee On:
Trade, Economic Development & Housing

Title: An act relating to neighborhood reinvestment.

Brief Description: Facilitating neighborhood reinvestment.

Sponsors: Representatives Wineberry, Conway, Sheldon, Shin, Morris, Springer, Valle, Campbell, Patterson, Veloria, Lemmon, Pruitt and J. Kohl.

Brief History:
Reported by House Committee on:
Trade, Economic Development & Housing, March 1, 1993, DPS.

HOUSE COMMITTEE ON TRADE, ECONOMIC DEVELOPMENT & HOUSING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Wineberry, Chair; Shin, Vice Chair; Campbell; Conway; Quall; Sheldon; Springer; and Valle.

Minority Report: Do not pass. Signed by 5 members: Representatives Forner, Ranking Minority Member; Chandler, Assistant Ranking Minority Member; Morris; Schoesler; and Wood.

Staff: Kenny Pittman (786-7392).

Background: The problems of low income and moderate income neighborhoods are not limited to cities in California or on the East Coast. Many of Washington's low income and moderate income neighborhoods are now experiencing a broad range of complex problems. The origins of these problems often relate not only to inadequate incomes, but to a lack of economic opportunities or the services necessary to take advantage of those opportunities.

Proponents feel that what is needed is a strategy that uses governmental resources to spur private investment in the neighborhood. This strategy would include tax incentives to attract new businesses, retain and expand existing businesses, target of state resources to the neighborhood, and increase employment opportunities for neighborhood residents.

Summary of Substitute Bill: The Neighborhood Reinvestment Act (NRA) is an effort to coordinate the efforts and resources of government, business, and the community to create an environment in which reinvestment in the neighborhood can occur. The major components of NRA include locally developed comprehensive neighborhood reinvestment strategies, targeted business and housing tax incentives, expanded community reinvestment and private investment incentives, targeted use of state resources to increase development in the neighborhood, and increased outreach efforts to employ neighborhood residents.

The goal of the NRA is to create an environment that fosters economic reinvestment and empowerment of neighborhood residents through public and private sectors, and neighborhood efforts. To meet that goal, the following objectives are adopted: (1) develop comprehensive neighborhood reinvestment strategies; (2) expand home ownership and rental housing opportunities; (3) increase employment opportunities for neighborhood residents; (4) link housing and supportive services; (5) revitalize the physical infrastructure; (6) develop new private investment; and (7) stimulate neighborhood business development and retention.

Local governments are required to submit an application requesting designation of an area as a neighborhood reinvestment area. A local government can only submit two areas for possible designation as a neighborhood reinvestment area. The application must include a five-year strategy on meeting the housing, public infrastructure, other public facilities, community economic development, and social service needs of the neighborhood. The strategy must include input from neighborhood residents and community organizations.

After January 1, 1994, the Department of Community Development (DCD), may designate up to six neighborhoods to receive targeted financial and technical assistance designed to stimulate reinvestment in the neighborhood.

Business and Housing Tax Incentives

The Department of Revenue must establish a business and occupation (B&O) tax credit program. The tax credit may be claimed by business firms that make contributions to nonprofit organizations that provide community service, crime prevention, education, housing assistance, or job training activities in designated neighborhood reinvestment areas. The tax credit amount is based on 50 percent of the allowable contribution made by the business firm. The tax credit can be taken over a five-year period. No business firm can receive more than $200,000 in tax credits in a single year. The total amount of tax credit that can be awarded is $5 million per biennium. The tax credit program is scheduled to expire on January 1, 2002.

The program to provide tax credits for eligible business projects, in eligible areas, is extended until January 1, 2002. The tax credit is also expanded to include neighborhood reinvestment areas. A tax credit is granted for manufacturing, or research and development activities that are conducted in an eligible area. The tax credit is based on $1,000 for each job created by the eligible business project. The Department of Revenue must approve the projects prior to the issuance of the tax credits.

The Department of Revenue must establish a sales and use tax exemption program on materials used for improvements to, or construction of, affordable housing located in neighborhood reinvestment areas. The sales and use tax exemption must be approved by the Department of Community Development and is claimed at the time the materials are purchased or installed. The maximum amount of sales and use tax exemption allowed is $2 million per biennium. The sales and use tax credit program is scheduled to expire on January 1, 2002.

The Department of Revenue must establish a sales and use tax exemption on materials used for remodeling or expansion of a commercial or industrial structure located in neighborhood reinvestment areas. The sales and use tax exemption must be approved by the Department of Community Development and is claimed at the time the materials are purchased or installed. The maximum amount of sales and use tax exemption allowed is $1 million per biennium. The sales and use tax credit program is scheduled to expire on January 1, 2002.

The Department of Revenue must establish a program to provide a three-year property tax deferral on improvements made to multifamily housing that is owned by nonprofit organizations and that meet specific lower-income occupancy requirements. The improvements must be approved by the Department of Community Development prior to construction. The property tax deferral is on the value of the improvements made to the structure. On the fourth year after the improvements have been made, the county assessor will assess the property. The three-year property tax deferral is scheduled to expire on January 1, 2002.

The tax deferral for manufacturing, research, and development projects is extended. The tax deferral is for the construction or upgrading of facilities and the acquisition of machinery used in manufacturing, research and development projects. The tax deferral applies to state and local sales and use taxes. The activities must be approved by the Department of Revenue prior to construction or upgrading of the facilities. The repayment of the sales and use taxes begins on the third year after the project is completed. The tax deferral program is scheduled to expire on January 1, 2002.

The tax deferrals for investment projects in distressed areas is extended. The tax deferral is extended to include neighborhood reinvestment areas. The request for tax deferral must be made to the Department of Revenue before the starting the construction of the investment project. The deferral is for state and local sales and use taxes on the investment project. The repayment of the sales and use taxes begins on the third year after the project is completed. The tax deferral is scheduled to expire on January 1, 2002.

Community Reinvestment and Private Investment

The Washington Public Deposit Protection Commission must compile federal community reinvestment evaluations on the state’s financial institutions. The commission must also make the list of assessments available for public inspection and review on an annual basis.

The Washington Public Deposit Protection Commission is directed to only deposit state surplus funds that are not immediately needed in qualified public depositories that have a satisfactory or better rating of meeting the community’s credit needs. Any qualified public depository with two consecutive ratings of less than satisfactory are not eligible to receive deposits of surplus state funds until the rating has been improved to at least satisfactory.

The state treasurer must establish a linked deposit program for investment in certificate of deposits in Washington financial institutions. In order to participate in the program, the financial institution must lend an equal amount of money in designated neighborhood reinvestment areas to small businesses, or residential loans for housing that is occupied by households with incomes at or below 80 percent of median income. The state treasurer may use up to $50 million per year for the program.

Targeting of State Resources

The public works trust fund, administered by the Department of Community Development, is amended to include a set-aside for infrastructure projects in neighborhood reinvestment areas. The funds will be used to make low-interest or interest-free loans to finance the repair, replacement or improvement of essential public works systems -- bridges, roads, water systems, and sanitary and storm sewers projects. Growth-related public works projects, port districts and school districts are not eligible to receive funding through the public works trust fund.

The Community Economic Revitalization Board (CERB) Program, within the Department of Trade and Economic Development is amended to give special consideration to public facilities loans and grants to projects in neighborhood reinvestment areas.

The Community Revitalization Team's definition of distressed areas is expanded to include neighborhood reinvestment areas. The nonprofit organizations located in the area and local governments with neighborhood reinvestment areas are now eligible to receive technical assistance to address neighborhood problems.

The Washington State development loan fund's definition of distressed area is expanded to include neighborhood reinvestment areas. Local governments with neighborhood reinvestment areas may now receive federal funds to be used for the financing of economic development projects.

The departments of Community Development, Employment Security, and Trade and Economic Development must coordinate their financial and technical assistance programs in neighborhood reinvestment areas.

Employment Opportunities for Neighborhood Residents

The Department of Community Development must require that local governments include provisions in their construction contracts for projects in neighborhood reinvestment areas for increased outreach and recruitment efforts to employ neighborhood residents.

A business firm, in neighborhood reinvestment areas that receive financial assistance through the state must seek to employ, when possible, residents from the neighborhood reinvestment areas.

Substitute Bill Compared to Original Bill:

(1) The substitute bill allows the use of public works trust funds for redevelopment, as well as new construction of infrastructure in neighborhood reinvestment areas.

(2) The substitute bill makes a $2 million appropriation from the capital budget to the Washington development loan fund, to be used as a fund switch with federal community development block grant funds that are awarded to local governments and used in neighborhood reinvestment areas.

(3) The substitute bill requires that at least 50 percent of the dwelling units that receive assistance through the sales and use tax exemption and property tax deferral programs, be occupied by households with incomes at or below 80 percent of the median income for the county.

(4) The substitute bill directs the Washington Public Deposit Protection Commission to limit deposits of state surplus funds to those financial institutions with satisfactory evaluations in meeting the community credit needs. The supervisors of banking and savings and loans are removed from this task.

(5) The substitute bill expands the link deposit program to include loans for housing that is affordable to households with incomes at or below 80 percent of median income as a qualifying loan.

Fiscal Note: Requested February 18, 1993.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Appropriation: $2,000,000 from the capital budget to the Department of Community Development for the Washington development loan fund.

Testimony For: Revitalization of our neighborhoods is needed to create an environment to foster economic development. A partnership approach that involves the public, private, and community sector is needed. This bill will allow communities to tie into federal funds to develop a comprehensive approach to the problems of the neighborhoods. The flexibility of the program is a plus along with the long-term look at the problems.

Testimony Against: None.

Witnesses: Norm Rice, Mayor of Seattle (Pro); Karen Vialle, Mayor of Tacoma (Pro); Patricia Berndt, Mayor of Yakima (Pro); Jack Peters, U.S. Department of Housing and Urban Development (Pro); Scott Gaspard, Savings League (Pro); Mike Doubleday, city of Seattle (Pro); Meg VanSchoorl, Department of Community Development; Don Hines, city of Tacoma (Pro); and Kim Herman, Washington State Housing Finance Commission (Pro).