

HOUSE BILL REPORT

HB 1909

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

Title: An act relating to enterprise zones.

Brief Description: Concerning the creation of enterprise zones.

Sponsors: Representatives Wineberry, Brough, Mielke, Long, Edmondson, Valle, Tate, Rayburn, Ballard, Miller, Cooke and Forner.

Brief History:

Reported by House Committee on:
Trade, Economic Development & Housing, March 2, 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 13 members: Representatives Wineberry, Chair; Shin, Vice Chair; Forner, Ranking Minority Member; Chandler, Assistant Ranking Minority Member; Campbell; Casada; Conway; Quall; Schoesler; Sheldon; Springer; Valle; and Wood.

Staff: Kenny Pittman (786-7392).

Background: In the past 10 years, some areas of the state of Washington have enjoyed considerable growth in employment and physical development. However, this growth and prosperity has not been evenly distributed. Many areas of the state have suffered from high unemployment as a result of the loss of manufacturing, retail, and wholesale jobs. While some of the cities have enjoyed substantial office employment growth and have prosperous downtowns, they also have areas that continue to lose jobs.

One strategy for combating employment decline in selected areas is the use of enterprise zones. An enterprise zone is a specific, identifiable geographic area designated by federal, state, or local government for special treatment to attract business. The objective of enterprise zones is to attract businesses into the zones by targeting tax and other incentives to stimulate the growth of employment, largely for the benefit of local residents.

Summary of Substitute Bill: An enterprise zone program is established in the Department of Community Development (DCD). The goal of the enterprise zone program is to stimulate the economy of selected areas that are experiencing high unemployment and poverty.

An enterprise zone is defined as: a contiguous area, comprised of an area of at least one-half square mile, but not to exceed 10 square miles; a distressed area; an area located within the local government or in an unincorporated area of the county; and other criteria established by DCD.

Before an area can be designated as an enterprise zone, the local government must hold at least one public hearing within the proposed area, adopt an ordinance designating the area as an enterprise zone, and develop plans for the area that include the type of tax incentives and other programs needed for the area.

The local government must submit a written application to the Department of Community Development to have the proposed enterprise zone certified as an enterprise zone. The application must have a statement of economic development and planning objectives for the enterprise zone, functions to be performed by organizations in the enterprise zone, and an estimate of economic impacts of the enterprise zone.

The Department of Community Development may approve up to 10 enterprise zones in a three year period. The Department of Community Development can not approve more than two enterprise zones within any county. The enterprise zone is established for a period of 20 years. The local government may amend the terms of an enterprise zone designating ordinance to alter the boundaries of the enterprise zone, to limit or repeal tax incentives or benefits provided in the ordinance, and to alter the termination dates of the enterprise zone.

The Department of Community Development must monitor the implementation of the enterprise zone program, adopt rules for the enterprise zone program, assist local governments in obtaining status as federal enterprise zones, coordinate and streamline existing state business assistance programs and permit and license application procedures for businesses in enterprise zones, publicize existing tax incentives and economic development programs in the enterprise zone, and work to stimulate employment opportunities for enterprise zone residents using Department of Social and Health Services and Employment Security programs.

The use of industrial development bonds is given priority to businesses in enterprise zones. The state treasurer may and

is encouraged to deposit state funds in financial institutions that do business in an enterprise zone.

The Department of Trade and Economic Development must review its rules and identify those that: affect the conduct of business, industry, and commerce; impose excessive cost on business; or inhibit business in the enterprise zone. The department must publish a list of state agency rules that affect business. The state agency must file a written report on the need for the rule and the reason for the rule. The department may file a request exempting the business, within the enterprise zone, from the state agency rules. The exemption applies to businesses in the enterprise zone during the term of the enterprise zone. The exemption does not apply to environmental, preservation of historic places, or anti-discrimination laws.

The state or local government may sell or lease unused land or buildings in the enterprise zone to organizations to be used for urban homestead or urban shopstead programs.

The Department of Revenue must establish a business and occupation deduction against a taxpayer's income for contributions to a designated enterprise zone organization. The deduction is for contributions to projects that have been approved by the local government and the department. The project must create permanent jobs, physically improve the housing stock, stimulate neighborhood business activity, or prevent crime.

The Public Works Trust Fund's priority process for public works projects is amended to include infrastructure projects located in an enterprise zone. 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 enterprise zones.

The Washington State Development Loan Fund program, within the Department of Community Development, is amended to include enterprise zones in the areas where at least 80 percent of the funds must be used for projects. If the amount of funds available to the fund is less than \$7

million than only projects located in distressed or enterprise zones can be funded.

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

The program to provide tax credits for eligible business projects in eligible areas is extended until July 1, 2000. The tax credit is also expanded to include enterprise zones. 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 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 July 1, 2000.

The tax deferrals for investment projects in distressed areas is extended. The tax deferral is extended to include enterprise zones. 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 the third year after the project is completed. The tax deferral is scheduled to expire on July 1, 2000.

Substitute Bill Compared to Original Bill: The substitute bill reduces: The total number of enterprise zones that can be certified from 48 to 10; the number of enterprise zones that can be certified in a county from three to two; and the period to certify enterprise zones from six years to three years.

Fiscal Note: Requested February 18, 1993.

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

Testimony For: The concept of enterprise zones should be explored. There should be provisions to prevent the firm from moving into an enterprise zone just to take advantage of tax incentives without providing additional jobs.

Testimony Against: None.

Witnesses: Kurt Creager, Association of Washington Housing Authorities; and Mike Doubleday, city of Seattle (both pro).