HB 2619
Bill Analysis

January 29, 1998

Brief Description: Providing tax incentives for the development of job opportunities in distressed counties.

Bill Sponsors: Representatives Buck, Kessler, Doumit, Hatfield, O'Brien, Clements, Chopp, Conway, Wood, Butler, Ogden, Costa, Morris and Thompson; by request of Governor Locke.

Staff: Rick Peterson, 786-7150.

Background: The state of Washington has created various tax incentives to encourage the development or retention of businesses in economically distressed areas.

The Distressed Area Tax Deferral program was created in 1985 to encourage economic development in eligible areas. Manufacturing, research and development, and computer-related service businesses are given a deferral/exemption on their sales and use taxes on buildings, machinery and equipment, and construction or installation labor.

A distressed area– may be either an entire county or specific areas within a county. An entire county may be designated as distressed if:

(1) It has an average unemployment rate 20 percent higher than the state average unemployment rate for a three-year period;
(2) It has a median household income that is less than 75 percent of the state median household income for the previous three years;
(3) It contains a designated, state-approved community empowerment zone; or
(4) It has been designated by the Governor as a specially eligible area due to a sudden and severe increase in unemployment resulting from a natural disaster, military base closure, or mass layoff by a major employer.

An area within a county may be designated as distressed if:

(1) It is a town with a population less than 1,200 persons and qualifies as a timber impact area; or
(2) It is a metropolitan area with an average unemployment rate that exceeds the average state unemployment rate by 20 percent.

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Investments eligible for the program may also be located in a county contiguous to a distressed county, if 75 percent of the jobs created by the investment go to residents of the distressed county.

In 1994 the program was effectively changed to an exemption by no longer requiring repayment of the deferred tax. However, deferred taxes on an investment in a county containing an empowerment zone are forgiven only if at least one new full-time job is created for every $750,000 dollars invested and seventy-five percent of the new jobs created are filled by residents of the empowerment zone. Deferred taxes on an investment in a county contiguous to a distressed county are forgiven only if at least one new full-time job is created for every $750,000 dollars invested and seventy-five percent of the new jobs created are filled by residents of the neighboring distressed county.

The Distressed Area Business and Occupation Tax Credit program was created in 1986 as an incentive for manufacturing, research and development, and computer-related service to create employment opportunities in eligible areas. Businesses in eligible areas that create a new work force or increase an existing work force by 15 percent are allowed a business and occupation (B&O) tax credit equal to $2,000 for each new full time employment position paying less than $40,000 per year and $4,000 for each new job paying more than $40,000. No more than $5.5 million in total tax credits for all businesses are allowed in fiscal year 1998 and $7.5 million each fiscal year thereafter.

Starting July 1, 1998, counties with an average unemployment rate 20 percent higher than the state average unemployment rate for the prior three-year period may impose a sales and use tax of 0.04 percent. This tax is credited against the state sales and use tax. The revenue must be used for financing public facilities in rural counties.

The Community Economic Revitalization Board (CERB) was created by the Legislature in 1982, to provide low-interest loans and grants to political subdivisions of the state (cities, towns, counties, port districts and special purpose utility districts) to help finance public infrastructure required for business and industry expansion or retention. Typical projects financed through the CERB include sewer, water, roads and industrial buildings. The CERB is funded through legislative appropriations from the capital budget as well as a portion of the revenue stream from the repayment of principal and interest on the CERB loans.

Summary of Bill: A new distressed areas tax exemption program is created. Certain tax benefits are available for manufacturing projects that meet the following conditions:

A. Locates in a distressed county that has an average unemployment rate 20 percent higher than the state average unemployment rate for a three-year period;
B. Invests in land, structures, and equipment equal to four percent of county assessed

value;
C. Creates at least 20 new jobs;
D. Creates one new job for each $2 million of investment;
E. Pays average wage of 150 percent of average wage in county;
F. Remains operational for 15 years; and
G. Obtains approval of city or county in which project is located.

The tax benefits are:

A. Fifteen year state sales and use tax exemption on project construction and equipping and operating after construction (local sales taxes are not exempt);
B. Annual B&O tax credit of $4,000 per job created for seven years; and
C. Fifteen year property tax exemption for the real and personal property used at the project.

Business and occupation and public utility taxpayers may take a credit against these taxes of 50 percent of the private funds spent on public facilities. Eligible public facilities are those that have been approved for a loan or grant by the Community Economic Revitalization Board and are located in distressed counties. Public facilities include bridges, roads, domestic and industrial water, sanitary sewer, storm sewer, railroad, electricity, natural gas, buildings or structures, and port facilities. Total credits are limited to $5 million per year. This tax credit program ends June 30, 2005.

The distressed county sales and use tax for public facilities is increased from 0.04 percent to 0.12 percent. The use of the money is restricted to public facilities listed in the economic development section of the county's comprehensive plan. For counties not planning under the growth management act the public facilities must be listed in the county's capital facilities plan. The Joint Legislative Audit and Review Committee is required to review and study this program and report to the Legislature in January 2002.

Appropriation: None.

Fiscal Note: Available.

Effective Date: July 1, 1998.