SENATE BILL REPORT

SB 6460

As Reported By Senate Committee On:
Commerce & Labor, February 5, 1998

Title: An act relating to tax incentives for the development of job opportunities in distressed counties.

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

Sponsors: Senators Anderson, Hale, Swecker, T. Sheldon, Snyder, Loveland, Hargrove, Franklin, Haugen, Fraser, Spanel, Jacobsen, Goings, B. Sheldon, Thibaudeau, Patterson, Schow, Rasmussen and Kohl; by request of Governor Locke.

Brief History:
Committee Activity: Commerce & Labor: 1/28/98, 2/5/98 [DPS].

SENATE COMMITTEE ON COMMERCE & LABOR

Majority Report: That Substitute Senate Bill No. 6460 be substituted therefor, and the substitute bill do pass.
Signed by Senators Schow, Chair; Horn, Vice Chair; Anderson, Franklin, Heavey and Newhouse.

Staff: Patrick Woods (786-7430)

Background: During the last decade, Washington's statewide economy has experienced significant growth. However, certain rural counties and communities, primarily those with significant natural resource industries, have encountered severe economic problems. This has resulted in above average unemployment, low business growth and in certain rural communities economic decline.

In 1991, the Legislature put in place an array of distressed area assistance programs. A primary component of this initiative was the provision of unemployment benefits (timber retraining benefits) to workers undergoing approved training. In addition, communities and individuals were provided a comprehensive set of resources including employment and training opportunities, mortgage and rental assistance, infrastructure development, and food bank assistance. The Legislature reauthorized this program with modifications during the 1997 session.

In 1997, the Legislature also passed a Rural Assistance Marketing Program (RAMP) which increased the B&O tax credit for qualified employers in distressed counties that create jobs, and established a distressed county infrastructure fund by authorizing counties to retain .04 percent of their state sales tax revenue. During the fall of 1997, Governor Locke sponsored a rural summit in Port Angeles, which recommended a series of public and private initiatives to assist rural communities.

Summary of Substitute Bill: A series of tax incentives are provided to attract and retain businesses in order to promote the establishment of manufacturing facilities and create jobs in distressed counties. A distressed county– is defined as one with a three-year average unemployment rate 20 percent or higher than the statewide average unemployment rate. The array of tax incentive programs include the following:

1. Major Manufacturing Complex Program. It is the intent of this program to promote the location of a major manufacturing facility in a distressed rural community. The eligibility criteria for participation in this program is limited to firms whose investment in the distressed county– represents the following: (a) at least 4 percent of the counties appraised value; (b) provides at least 20 full-time employment positions; (c) a minimum of one new position for each $2 million invested, within two years of the projects completion; (d) pays an average wage which is equal to 150 percent of the county's average wage; (e) the firm must remain in operation for a minimum of 15 years; and (f) the local governing body must approve the project. The employees under the eligibility requirements may not include individuals that have been transferred by the firm from other sites in Washington.

The Department of Community, Trade, and Economic Development (CTED), which currently has some responsibility in reviewing the eligibility of prospective businesses under the program, is given the additional task of determining if the prospective business will have a major adverse impact in an existing instate business. If this is determined to be the case and a competitive alternative location is not available in the Northwest then the project is found to be ineligible. The Northwest component is intended to ensure that Washington sites in distressed counties remain competitive with those in bordering states.

<u>(a) State Retail Sales and Use Tax Deferral/Exemption</u>: Eligible businesses are provided a retail sales and use tax deferral/exemption on all site preparation, construction and equipment costs for a period of 15 years which includes the construction period. If the business maintains its eligibility status for the entire 15-year period, the taxes need not be repaid. The deferral/ exemption only applies to the state portion of retail and use taxes on the project.

Applications under this program are not permitted after June 30, 2003. The Department of Revenue is authorized to administer the tax reporting provisions and CTED is given oversight responsibilities.

<u>(b) B&O Tax Job Credit</u>: Eligible businesses are provided a B&O tax job credit of $4,000 per year per job for up to eight years. The current tax credit caps under this program do not apply to approved projects.

<u>(c) Property Tax Exemption</u>: Businesses are provided a property tax exemption, excluding the land on which the project is located, for a period of 15 years. A project is required to maintain its eligibility status for the full 15-year period. If it fails to do so, all property tax exemptions with interest must be repaid along with a 20 percent penalty.

2. Public Infrastructure B&O/Utility Tax Credit. A new public infrastructure tax credit program is established, which is administered by the Department of Revenue. The program provides B&O and public utility tax credits for investments by private businesses in publicly owned facilities. Eligible public investments are limited to projects that are approved by the

Community Economic Revitalization Board. An eligible project may receive tax credits on 50 percent of its public infrastructure related costs. The program is limited to $5 million per year for all eligible projects. The program's approval process expires after June 30, 2005.

3. Distressed County Infrastructure Fund/Sales Tax Deduction. The current sales tax deduction that distressed counties may use for public facilities is increased from .04 percent to .12 percent. The program eligibility is modified to include certain types of public facilities that are listed in the county's comprehensive plan, a capital facilities plan or an officially adopted county overall economic development plan.

An office of Business Assistance and Recruitment for Rural Communities is established within CTED. The office has a director appointed by the director of CTED. The responsibilities of the office include:

- business recruitment and assistance;
- business zoning and permitting assistance;
- regulatory ombudsman services;
- assisting communities in establishing entreprise and free trade zones; and
- promoting the redevelopment of hazardous industrial sites (Brown Fields program).

The Joint Legislative Audit and Review Committee must report to the Legislature on the program's impact in January 2002.

Substitute Bill Compared to Original Bill: The Department of Community, Trade, and Economic Development, which currently has some responsibility in reviewing the eligibility of prospective businesses under the program, is given the additional task of determining if the prospective business will have a major adverse impact in an existing instate business. If this is determined to be the case and a competitive alternative location is not available in the Northwest then the project is found to be ineligible. The Northwest component is intended to ensure that Washington sites in distressed counties remain competitive with those in bordering states.

The provisions concerning property tax exemptions are modified to exclude land and make the tax exemptions only apply to structures, machinery and equipment.

The definition of qualifying public facility is expanded to include public facilities that are listed in the officially adopted county overall economic development plan.

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- regulatory ombudsman services;
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- promoting the redevelopment of hazardous industrial sites (Brown Fields program).

Appropriation: None.

Fiscal Note: Requested on January 23, 1998.

Effective Date: July 1, 1998.

Testimony For: This bill will be of significant assistance to distressed communities in Washington and will be a vital component for economic revitalization in the rural parts of the state.

Testimony Against: None.

Testified: PRO: Bob Paylor, Grays Harbor County Commissioner; LeRoy Tipton, Grays Harbor Chamber of Commerce; Cathy Walden, United Way of Grays Harbor; John Mertz, Prezler Larner Mertz & Co. (CPAs); Tami Garrow, Grays Harbor EDC; Don White, Washington Association of Economic Development Councils; Bill Lotto, Lewis County EDC; Terry Brewer, Grant County EDC; Linda Hull, Ray Lepp, Birmingham Steel Corporation; Scott Taylor, Washington Public Ports Association; Dan Kirschner, Spokane Chamber of Commerce; Frank Tombari, Spokane EDC.