

# HOUSE BILL REPORT

## HB 1476

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

**Title:** An act relating to community empowerment.

**Brief Description:** Encouraging reinvestment in certain communities.

**Sponsors:** Representatives Gombosky, Benson, Wood, Veloria, D. Sommers, Schindler, Crouse, Dunshee, Morris, Miloscia, Eickmeyer and Linville.

**Brief History:**

**Committee Activity:**

Economic Development, Housing & Trade: 2/23/99, 2/26/99 [DPS].

### Brief Summary of Substitute Bill

- Authorizes the designation up to an additional three Community Empowerment Zones (CEZ) by the Department of Community, Trade, and Economic Development bringing the total number of CEZ's to eight.
- Increases the amount of investment required to be eligible for the sales and use tax exemption on buildings/structures in a CEZ or in a county with a CEZ from \$750,000 per job to \$250,000 per job.

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### HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, HOUSING & TRADE

**Majority Report:** Do pass. Signed by 11 members: Representatives Van Luven, Republican Co-Chair; Veloria, Democratic Co-Chair; Dunn, Republican Vice Chair; Ballasiotes; Gombosky; Miloscia; Morris; Radcliff; Skinner; D. Sommers and Wolfe.

**Staff:** Kenny Pittman (786-7392).

**Background:**

The Community Empowerment Zone (CEZ) program was created in 1993 to encourage public and private reinvestment in designated areas of economically distressed communities. The Department of Community, Trade, and Economic

Development was authorized to designate up to six areas for participation in the program by March 1, 1994. Only five cities submitted applications to have geographic areas of their jurisdictions designated as a CEZ: Seattle, Tacoma, Bremerton, Yakima, and White Center in King County.

Eligibility as a designated Community Empowerment Zone is limited to areas that: (i) are designated by the local legislative authority to receive federal, state, and local assistance designed to increase economic activity in the area; (ii) have at least 51 percent of the households with incomes below 80 percent of the county median household income, adjusted for household size; (iii) have an average unemployment rate that is 20 percent higher than the average unemployment rate of the county; and (iv) have an approved five-year plan that describes a strategy to meet the housing, infrastructure, economic development, social service, and other public facilities needs of the geographic area.

Currently, incentives available to businesses that locate in a CEZ are: (i) a sales and use tax exemption on the construction of buildings and structures; (ii) a B&O tax credit for job creation by manufacturing and research and development businesses; and (iii) a B&O tax credit for job creation by businesses that provide international services.

The sales and use tax exemption allows a business to be exempt from the sales and use taxes on services, materials, and labor used in the planning, installation, construction, expansion, or renovation of buildings or structures used for manufacturing or research and development activities. A business that is located in a community empowerment zone or in a county with a community empowerment zone is required to create one job per \$750,000 of investment in buildings or machinery and equipment. Those projects that are not located within the community empowerment zone, but are located in a county with a community empowerment zone are required to hire a specific number of employees from the community empowerment zone (one hire per \$750,000 of investment) to claim the sales and use tax exemption.

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### **Summary of Substitute Bill:**

The designation process for Community Empowerment Zones (CEZ), through the department of Community, Trade, and Economic Development, is extended to December 1, 2001. The number of geographic areas that can be designated as a CEZ is increased from six to eight. An area that receives federal designation as an empowerment zone or enterprise community may apply to the state for dual designation under the state's CEZ program.

The Department of Community, Trade, and Economic Development is authorized to approve or disapprove proposed amendments by local governments to alter the boundaries or to terminate the designation of an area as a CEZ. The department is required to monitor and submit reports on the effectiveness of the CEZ program. The first reports are due to the Governor and Legislature by December 1, 1999 and every December first thereafter.

The threshold to receive the sales and use tax exemption on buildings and structures for projects in a community empowerment zone or in a county next to a county with an unemployment rate that exceeds the state unemployment rate by 20 percent is increased from one job per \$750,000 of investment to one job per \$250,000 of investment in buildings or structures. The threshold for projects that are not located within a community empowerment zone, but in a county that contains a community empowerment zone; or in a county that is located next to a county with an unemployment rate that exceeds the state unemployment rate by 20 percent is increased from requiring the hiring of one person per \$750,000 of investment in buildings or structures to the hiring of one person per \$250,000 of investment in buildings or structures. The person hired must be either from the community empowerment zone or from the contiguous county with an unemployment rate that exceeds the state unemployment rate by 20 percent.

**Substitute Bill Compared to Original Bill:**

The substitute reduced the number of additional areas that can be designated as community empowerment zones by the Department of Community, Trade, and Economic Development from eight to three. The sales and use tax exemption on buildings and structures located in a community empowerment zone, in a county with a community empowerment zone, or a county that is next to a county that has an unemployment rate that exceeds the state unemployment rate by 20 percent is revised to require either: (i) the creation of one job per \$250,000 of investment; or (ii) the hiring of one person per \$250,000 of investment.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** The community empowerment zone is another tool to help communities. Any strategy that targets resources to address specific problems is a step in the right direction.

**Testimony Against:** None.

**Testified:** Representative Gombosky, prime sponsor.