HOUSE BILL REPORT
HB 2260

As Reported By House Committee On:
Finance

Title: An act relating to tax incentives in rural counties.

Brief Description: Promoting the creation and the retention of jobs.

Sponsors: Representatives Eickmeyer, Alexander, Mulliken, Kessler, McMorris, Grant, Parlette, Doumit, Clements, Linville, Mielke, Koster, DeBolt, Cox, Pennington, Dunn, Crouse, Sump, Ericksen, Veloria, Mastin, Hankins, Murray, Van Luven, Skinner, Schoesler, Hatfield, Conway, Kenney, Rockefeller, Thomas, Lantz, Barlean and Haigh.

Brief History:
Committee Activity:
Finance: 3/8/99 [DPS].

Brief Summary of Substitute Bill

- Renames the distressed county local option sales and use tax and the rural county local option sales and use tax.
- Allows counties with population density of less than 60 persons per square mile a tax rate of 0.08 percent.
- Allows counties with population density between 60 and 100 persons per square mile a tax rate of 0.04 percent.
- Defines the public facilities that can be financed with proceeds from the rural county local option sales and use tax.
- Revises the Community Economic Revitalization Board to include the project's rate of return as a funding criteria and allows loans and grants for projects in distressed counties where specific private development is not ready to occur.
- Creates the Rural Washington Loan Fund to provide direct funding to businesses using federal monies and to help fund local revolving loan funds.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Reardon, Democratic Vice Chair; Cairnes; Conway; Cox; Dickerson; Pennington; Santos; Van Luven and Veloria.

Minority Report: Do not pass. Signed by 1 member: Representative Carrell, Republican Vice Chair.

Staff: Rick Peterson (786-7150).

Background:

In 1997, the Legislature passed legislation to allow a distressed county to impose a 0.04 percent local sales and use tax on all retail sales in the county. The tax is credited against the state’s 6.5 percent sales and use tax, therefore the consumer does not see an increase in the amount of tax paid. Revenues from the distressed counties’ local option sales and use tax must be used to finance public facilities. The legislation did not define a public facility. A distressed county is defined as a county with an average unemployment rate that exceeds the state’s average unemployment rate by 20 percent for the previous three-year period. Twenty-three counties are eligible.

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, special purpose utility districts). The financial assistance is used to finance public infrastructure required for business and industry expansion or retention. Typical projects financed through CERB include sewer, water, roads, and industrial buildings.

The Development Loan Fund (DLF) program utilizes federal Community Development Block Grant funds to make grants to local governments for loans to businesses in economically distressed areas of the state. The DLF program was designed to allow the state to provide financial assistance to businesses, without violating the constitutional lending-of-credit prohibition. Financial assistance is provided to businesses in the form of low-interest loans "gap financing" for that portion of a project that a business is unable to obtain from a conventional lender. The DLF program is administered by the Department of Community, Trade, and Economic Development.

Summary of Substitute Bill:

The distressed county local option sales and use tax is directed to rural counties. The tax rate is increased from 0.04 percent to 0.08 percent for rural counties with population densities of less than 60 persons per square mile. A rural county with population density between 60 and 100 persons per square mile may impose a tax rate of 0.04 percent.

The revenues can only be used for public facilities that are listed as an item in the county's capital facilities plan or the capital facilities plan of a city located within a rural county.

A public facility is defined as a project of a local government for the planning, acquisition, construction, repair, reconstruction, replacement, rehabilitation, or improvement of bridges, roads, domestic and industrial water, flood control, earth stabilization, sanitary sewer, storm sewer, railroad, electricity, natural gas, telecommunications, buildings or structures, and port facilities all for the purpose of job creation, retention, or expansion.

The CERB priorities for lending funds are revised by requiring project ranking that is also based on the project's rate of return that includes expected increases in state and local taxes. A project that is located in a distressed county or rural natural resources impact area need not show evidence that specific private development or expansion will occur if the CERB funds are provided. The CERB is authorized to make loans with favorable terms for projects located in distressed counties. These terms include lower interest rates, longer repayment terms, and some forgiveness of loan principal.

The Joint Legislative Audit and Review Committee (JLARC) shall conduct a performance review on the effectiveness of the CERB program. Beginning December 1, 2000, the results of the performance reviews must be submitted to the appropriate committees of the Legislature every four years until December 2008.

The Rural Washington Loan Fund is created and replaces the Development Loan Fund. The account may receive legislative appropriations, funds from other public sources, private contributions, and all other sources. The account is subject to appropriation by the Legislature. All expenditures of federal funds must conform to applicable federal law.

The Fund is administered by the Department of Community, Trade, and Economic Development (CTED). The priority of the Rural Washington Loan Fund is to fund locally based revolving loan funds that make direct loans to businesses using federal funds. The CTED must provide technical assistance to local revolving loan funds to help them adopt lending practices that will establish them as sustainable operations.

Substitute Bill Compared to Original Bill: The substitute bill adds the provisions related to the CERB and the Rural Washington Loan Fund.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: (Original bill) The bill deals with the distribution of opportunity in Washington. We need to turn around the growing gap between urban and rural Washington. This bill is the lynch pin of the Rural Economic Development Task Force recommendations. This bill gives additional funds to local government to make lands available and attractive for investment. This is extemely important for rural counties. Without infrastructure we can’t attract or retain business opportunities. The bill moves away from the concept of distressed to a definition of rural. The bill provides a needed definition of public facilities. Seven out of 10 companies ask for buildings that are already in place. The changes to the CERB funding will allow infrastructure to be prepared prior to having a business definitely ready to locate. The bill clarifies that these moneys can be used within urban growth areas and cities.

Testimony Against: None.

Testified: Representative Eickmeyer, prime sponsor; Representative Alexander, sponsor; Bill Vogler, Washington State Association of Counties; Jim Hedrick, Office of Financial Management; Bill Lotto, Washington Association of Economic Development Councils; John Savich, Department of Community, Trade, and Economic Development; and Ron Rosenbloom, Association of Washington Cities.