

# HOUSE BILL REPORT

## E2SSB 5594

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

**Title:** An act relating to enhancing economic vitality.

**Brief Description:** Enhancing economic vitality.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Rasmussen, T. Sheldon, Prentice, Fairley and Winsley; by request of Governor Locke).

**Brief History:**

**Committee Activity:**

Economic Development, Housing & Trade: 3/30/99, 4/2/99 [DPA];  
Finance: 4/5/99 [DPA(FIN w/o EDHT)s].

**Brief Summary of Engrossed Second Substitute Bill  
(As Amended by House Committee)**

- Creates an Economic Vitality Committee to analyze potential economic development projects of statewide significance and make recommendations on appropriate administrative or legislative actions.
- Provides business and occupation (B&O) tax credits to businesses that engage in software manufacturing or programming jobs in rural counties.
- Makes revisions to the existing Distressed Area Sales and Use Tax Deferral and Distressed Area B&O Tax Credit for Job Creation Programs to target the tax incentives only to businesses in rural counties and community empowerment zones.
- Provide a public utility tax credit to a qualified light and power business that contributes to an "electric utility rural economic development revolving fund" that provides assistance to economic projects in rural areas.
- Creates a "one-stop clearinghouse" in the Department of Community, Trade, and Economic Development to assist in the development of temporary housing for agricultural employees by growers, housing authorities, and nonprofit organizations.

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

**Majority Report:** Do pass as amended. Signed by 12 members: Representatives Van Luven, Republican Co-Chair; Veloria, Democratic Co-Chair; Dunn, Republican Vice Chair; Eickmeyer, Democratic Vice Chair; Ballasiotes; Gombosky; Miloscia; Morris; Radcliff; Skinner; D. Sommers and Wolfe.

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

**Background:**

The Department of Community, Trade, and Economic Development (CTED) is responsible for assisting in community and economic development in the state; providing technical and financial assistance to local governments, businesses, and community-based organizations; soliciting private and federal grants for economic and community development programs; and conducting the necessary research and analysis to support economic and community development efforts.

The key service areas of the department are: (i) local development assistance; (ii) trade and economic sectors, that include tourism, film and video, business development and forest products; (iii) community services that support local efforts to develop self-reliant individuals and families through prevention, intervention, technical assistance and advocacy programs; (iv) housing and housing-related services; (v) growth management; (vi) archaeology and historic preservation; and (vii) energy.

Business and Occupation Taxes. Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is levied on the gross proceeds of sales or the gross income of a business, without any deductions for the cost of doing business. The tax rate varies depending on the type of activities the business is engaged in and therefore may be subject to more than one rate.

Public Utility Taxes. Public- and privately-owned utilities are subject to the public utility tax instead of the business and occupation (B&O) tax. Like the B&O tax, the public utility tax is applied to the gross receipts of the business.

Distressed Area Tax Incentives. Washington has developed various incentives that are designed to assist in job creation or retention in economically distressed areas. To be eligible, a business must be in either the manufacturing, research and development, or computer-related service industry. There are currently seven categories of eligibility for distressed area sales and/or business and occupation tax relief.

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**Summary of Amended Bill:** The various financial and technical assistance programs designed to assist in community and economic development activities in rural counties are revised.

Temporary Worker Housing. The Department of Community, Trade, and Economic Development (CTED) must establish and administer a "one-stop clearinghouse" to coordinate state assistance to growers, housing authorities, and nonprofit organizations that develop housing for agricultural employees.

Rural Development Council. The executive committee of the Rural Development Council (council) is authorized to establish a successor organization to replace the council. The goal of the successor organization is to improve the delivery and accessibility of public and private resources for meeting the needs of the state's rural communities. The successor organization is a private nonprofit corporation must qualify as tax exempt under 501(c) of the federal Internal Revenue Code. The successor organization expires June 30, 2002.

Economic Vitality Committee. An Economic Vitality Committee is created to assist in the analysis of potential economic development projects of state-wide significance and to make recommendations on appropriate administrative and legislative actions. The new

ad hoc working group consists of the Department of Community, Trade, and Economic Development, the Department of Revenue, and the two representatives from rural Economic Development Councils appointed by the Legislature.

Distressed Area Tax Incentives. The eligibility requirements for the Distressed Area Sales and Use Tax Deferral and Distressed Area Business and Occupation Tax Credit for Job Creation Programs are revised. The current seven categories to determine eligibility are converted into two categories based on a definition of "rural" population density and a community empowerment zone. Businesses in counties with a population density of less than 100 people per square mile are allowed both the sales tax and B&O tax credit for job creation. Eligibility under the community empowerment zones definition is redefined to projects just within the community empowerment zone

Business and Occupation Tax Credits - Software. A \$1,000 per job business and occupation (B&O) tax credit is provided for new software manufacturing or software programming jobs created in rural counties. The credit may last up to six years if the position is maintained. A rural county is defined as a county with a population density of less than 100 persons per square mile.

Utility Revolving Fund. A 50 percent public utility tax credit is provided to light and power businesses that contribute to an "electric utility rural economic development revolving fund." The funds may only be used for qualifying "non-electrical infrastructure" projects in rural areas where the light and power has fewer than 26 active meters per mile of distribution line. The electric utility rural economic development revolving fund must be governed by a local board that determines the criteria and conditions for the expenditure of funds. No more than \$1.5 million in tax credit may be allocated in a biennium. The tax credits expire December 31, 2005.

**Amended Bill Compared to Engrossed Second Substitute Bill:** The amended bill removed all provisions regarding: (1) the expanded use of Community Economic Revitalization Board (CERB) funds for infrastructure improvements and project specific improvements; (2) the increase in the distressed area sales and use tax credit for infrastructure financing from 0.04 percent to 0.06 percent in rural counties; (3) the increase in the Washington State Housing Finance Commission's outstanding statutory debt limit from \$2 billion to \$3 billion; and (4) the business and occupation (B&O) tax credit for "help desk" activities in rural counties.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Amended Bill:** The bill takes effect August 1, 1999.

**Testimony For:** The needs of rural Washington are well documented. The gap between the urban and rural of the state are growing larger. The bill will provide the financial and technical incentives that rural communities need to attract and retain jobs. The infrastructure financing is a vital component to rural economic development. The tree fruit and vegetable growers in rural Washington are faced with a crisis caused by a glut of foreign produce. We need tax incentives to encourage the development of cold storage facilities that would allow us to delay the release of our produce until after peak season.

**Testimony Against:** None.

**Testified:** Senator Marilyn Rasmussen, prime sponsor; Senator Tim Sheldon, sponsor; Representative Lynn Kessler; Representative Joyce Mulliken; Pat Hamilton, Pacific County Commissioner; Bill Lotto, Washington Association of Economic Development Councils; Peggy Bryan, Skamania County Economic Development; Scott Taylor, Washington Public Ports Association; Rick Mattoon, Governor's Policy Office; and Brian Shay, city of McCleary.

(In support with amendment) Dick Ducharme, Yakima Growers; and Enid Layes, Horticulture Association.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass as amended by Committee on Finance and without amendment by Committee on Economic Development, Housing & Trade. Signed by 11 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Carrell, Republican Vice Chair; Cairnes; Conway; Cox; Dickerson; Pennington; Santos; Van Luven and Veloria.

**Staff:** Rick Peterson (786-7150).

**Summary of Recommendation of Committee on Finance Compared to Recommendation of Committee on Economic Development, Housing & Trade:** The amended bill removes the provisions relating to (1) software tax incentives, (2) utility tax credits for rural economic development revolving fund contributions, (3) one-stop clearinghouse for farm worker housing, (4) the rural development council successor organization, and (5) the economic vitality committee. The amended bill restores the requirement that B&O job creation tax credits will not be given for jobs that were displaced from another community.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Amended Bill:** The bill takes effect on August 1, 1999.

**Testimony For:** This bill is a significant product of the joint legislative task force and the two governor rural economic summits. The bill provides tax relief relevant to rural areas. The bill requires accountability. The bill should be amended to include industrial areas near empowerment zones and help desk tax incentives. The rural economic development revolving fund tax incentive is a bottoms-up approach. It provides help to areas that need the most help.

**Testimony Against:** None.

**Testified:** Senator Rasmussen, prime sponsor; Representative Lynn Kessler; Rick Mattoon, Governor's Policy Office; Aaron Jones, Washington Rural Electric Co-op Association; and Bryan Wahl, Washington State Commercial Association of Realtors.