February 19, 1999

BILL ANALYSIS

TO: Members, Committee on Economic Development, Housing, and Trade

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: HB 1401 - Providing for rural economic development.

BACKGROUND:

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.

In 1997, the Legislature passed legislation that allowed distressed counties to levy a 0.04 percent local sales and use 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 county local sales and use tax must be used to finance public facilities in the distressed county. The legislation did not define a public facility.

The state administers various programs and incentives designed to encourage job creation, retention, or expansion in distressed and rural areas of the state. The majority of the programs and incentives targeted to distressed areas are administered by the Department of Community, Trade, and Economic Development and the Department of Revenue. In recent years, the Legislature has required that the state agencies conduct a performance review on new programs and incentives. There is not a requirement to conduct performance reviews on the effectiveness of existing, older programs and incentives on job creation, retention, or

Brief Summary of Bill

- Revises the Community Economic Revitalization Board (CERB) to include the projects 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.

- Allows distressed counties to impose an additional 0.04 percent local option sales and use tax credit beginning in October 1, 1999 (total credit will be 0.08 percent).

- Establishes a task force to review and make recommendations on improvements to the state distressed area programs and incentives designed to enhance job creation, retention, or expansion in distressed areas.

- Creates the Rural Washington Loan Fund to provide direct funding to businesses using federal monies and to help fund local revolving loan funds.

- Directs the Joint Legislative Audit and Review Committee (JLARC) to help develop performance-based measures and to conduct or contract for services for performance evaluations on economic development programs and incentives targeted to distressed areas.

creation in distressed areas.

SUMMARY:

. <u>Infrastructure Financing</u>

. Community Economic Revitalization Board

The Community Economic Revitalization Board (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 sales and use taxes, business and occupation taxes, and property 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 CERB funds are provided.

Repayments of CERB loans are deposited into the public facilities construction loan revolving account. The CERB board 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.

A distressed county is defined as a county where the average unemployment rate exceeds the state average unemployment rate for the previous three years by 20 percent.

The Joint Legislative Audit and Review Committee (JLARC) must contract for services to 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.

. Distressed County Sales and Use Tax Credit

A distressed county is authorized to impose an additional 0.04 percent local sales and use tax on all retail sales after October 1, 1999. 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 tax paid. The moneys collected must be used for qualified public facilities that will assist in job creation, retention, or expansion.

The county must set aside an appropriate amount of the money generated by the new 0.04 percent sales and use tax credit to finance public facilities in cities and towns within the county that qualify for sales and use tax equalization.

The public facility must be listed as an item in the county or city officially adopted overall economic development plans, comprehensive plans, or capital facilities plans. A public facility is defined as a bridge, road, domestic and industrial water, sanitary sewer, storm sewer, railroad, electricity, natural gas, building or structure, flood control facility, earth stabilization facility, and port facility in the state of Washington.

The Joint Legislative Audit and Review Committee (JLARC) must develop performance standards for judging the effectiveness of the distressed county local sales and use tax credit. Beginning February 1, 2000, and every February 1st thereafter, all distressed counties that impose the additional local option sales and use tax must report to JLARC on the effectiveness of the program to create, retain, or expand job opportunities in distressed counties.

. <u>Task Force on Distressed Area Economic Development</u>

The Task Force on Distressed Area Economic Development is created. The task force consists 17 members that represent the Legislature, the business community, statewide labor organizations, local economic development organizations, state agencies involved in distressed area economic development, and representatives at-large. The Governor will appoint the task force chair. The nonlegislative members of the task force are appointed by the Director of the Department of Community, Trade, and Economic Development.

The task force will (i) review existing federal and state economic development programs and incentives for distressed areas; (ii) review economic development programs, incentives, and techniques for distressed areas used in other states; (iii) make recommendations regarding a common definition of distress and on options to consolidate, streamline, or strengthen existing program or incentives; and (iv) make recommendations regarding the establishment of performance standards and measures for various state economic development programs and incentives. By November 30, 1999, the task force will prepare and submit its findings and recommendations regarding economic development efforts in distressed areas to the Governor and Legislature.

The Department of Community, Trade, and Economic Development and the Department Revenue will provide necessary staff support to the task force.

3. Rural Washington Loan Fund

The Rural Washington Loan Fund is created in the Department of Community, Trade, and Economic Development (CTED). All existing business lending programs, administered by CTED are consolidated into the new loan fund.

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. Clarification is provided as to when state funds can be switched– with federal funds that are then loaned to businesses by the local revolving loan funds. The Department of Community, Trade, and Economic Development must provide technical assistance to local revolving loan funds to help them adopt lending practices that will establish them as sustainable operations.

The Rural Washington Loan Fund account is established in the state treasury. 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 confirm to applicable federal law.

. Performance Review

The Joint Legislative Audit and Review Committee (JLARC) must work with the Department of Community, Trade, and Economic Development and the Department of Revenue to establish performance-based measures for programs and incentives designed to assist in job creation, retention, or expansion. JLARC must conduct or contract for performance evaluations on the various economic development programs or incentives. The cost of the performance reviews are paid from legislative appropriations or program funds. The findings and recommendations from the performance reviews must be submitted to the appropriate committees of the legislature by December 1, 2000, December 1, 2004, and December 1, 2008.

Appropriation: None.

Fiscal Note: Requested February 10, 1999.

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