

# SENATE BILL REPORT

## ESHB 2260

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As Reported By Senate Committee On:  
Agriculture & Rural Economic Development, March 31, 1999  
Ways & Means, April 5, 1999

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

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

**Sponsors:** House Committee on Finance (originally sponsored by 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:** Agriculture & Rural Economic Development: 3/29/99, 3/31/99 [DPA-WM].

Ways & Means: 4/5/99 [DPA].

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### SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

**Majority Report:** Do pass as amended and be referred to Committee on Ways & Means.  
Signed by Senators Rasmussen, Chair; T. Sheldon, Vice Chair; Gardner, Honeyford, Morton, Stevens and Swecker.

**Staff:** David Schumacher (786-7474)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended.

Signed by Senators Loveland, Chair; Bauer, Vice Chair; Brown, Vice Chair; Fairley, Fraser, Honeyford, Kline, Kohl-Welles, Long, Rasmussen, Rossi, B. Sheldon, Snyder, Spanel, West, Winsley, Wojahn and Zarelli.

**Staff:** David Schumacher (786-7474)

**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.

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 (often overlapping) categories of eligibility for distressed area sales and/or business and occupation tax relief.

The business and occupation tax (B&O) is imposed on the gross proceeds of sale or the gross income of a business without any deduction for the cost of doing business. The tax rate varies depending on the classification of the business activity.

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.

**Summary of Amended 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 100 persons per square mile.

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.

Distressed Area Tax Incentives. The eligibility requirements are significantly changed for distressed area sales and/or business and occupation tax relief. The current seven categories are converted into a single category based on a definition of rural- population density. Businesses in counties with populations per square mile of 100 or less are allowed both the sales tax and B&O exemption. Eligibility based on the contiguous county- definition is no longer allowed. Eligibility under the community empowerment zones (CEZ) definition is narrowed.

Help Desk Companies. A B&O tax credit is provided to businesses located in counties with population density below 100 persons per square mile that provide information technology "help desk" services to third parties. This credit expires June 30, 2003.

Software Companies. A \$1,000 per job 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. This credit expires June 30, 2003.

Utility Revolving Fund. A 50 percent public utility tax credit is offered for light and power businesses that contribute to an "electric utility rural economic development revolving fund." These funds may only be used for qualifying "non electrical infrastructure" projects in rural areas. The tax credits expire in 2005. To qualify for the credit, the business must establish a local board to determine the criteria and conditions for the expenditure of the funds.

**Ways & Means Amended Bill Compared to Agriculture & Rural Economic Development Amended Bill:** The Ways and Means amendment removed the delayed .08 percent credit for counties between 60 and 100 persons per square mile. It removed the sales tax exemption for help desks. It added sunset dates to both the software credit and the help desk credit and it increased the rural revolving fund from \$750,000 to \$1,500,000 per biennia.

**Agriculture & Rural Economic Development Amended Bill Compared to Substitute Bill:** The substitute bill contained changes to the CERB statutes that are now part of HB 1313 as amended. The substitute bill also did not include the change to the distressed area tax incentives, the software incentives, or the retail sales tax exemption for help desks. It also did not allow counties between 60 and 100 person per square mile to raise the sales tax credit beyond 0.04 percent.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For (Agriculture & Rural Economic Development):** Infrastructure in rural counties is the number one priority. The local sales tax credit provides needed funding at the local level. This bill is a result of work done by the Joint Legislative Task Force.

**Testimony Against (Agriculture & Rural Economic Development):** None.

**Testified (Agriculture & Rural Economic Development):** PRO: Rep. Gary Alexander; Rep. Bill Eickmeyer; Bo Wandell, Safe Harbor Technology; Bill Vogler, WA State Assn. of Counties; Pat Hamilton, Pacific County Commissioner; Scott Taylor, WA Public Ports Assn.; David McFadden, Yakima EDC; bart Phillips, Clallam County EDC; Bill Lotto, WA Assn. of Econ. Development Councils; Bert Selis, East Lewis County, Public Dev. Assn.; Ron Rosenbloom, AWC; Nick Thompson, City of S.B.; Tim Douglas, CTED, Mike Ryherd, 1000 Friends; Rick Matton, Gov's Policy Office; Bryan Wahl, WA State Commercial Assn. of Realtors; Dick Ducharme, Yakima Growers and Shippers, Wenatchee Valley Traffic Assn.; Tani Allen-Giunn, WA State Lenders Network; Lynn Michea, Grays Harbor EDC.

**Testimony For (Ways & Means):** The rural infrastructure revolving fund will be especially helpful in the very small counties.

**Testimony Against (Ways & Means):** None.

**Testified (Ways & Means):** PRO: Aaron Jones, Rural Electric Co-ops; Bryan Wahl, Commercial Realtors.