

# SENATE BILL REPORT

## E2SSB 5594

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As Passed Senate, March 11, 1999

**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:** Agriculture & Rural Economic Development: 2/8/99, 2/22/99 [DPS-WM].

Ways & Means: 3/1/99, 3/4/99 [DP2S].

Passed Senate, 3/11/99, 48-0.

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### SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

**Majority Report:** That Substitute Senate Bill No. 5594 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Rasmussen, Chair; T. Sheldon, Vice Chair; Gardner, Honeyford, Morton, Prentice, Snyder and Swecker.

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

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 5594 be substituted therefor, and the second substitute bill do pass.

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

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

**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: (1) local development assistance; (2) trade and economic sectors, that include tourism, film and video, business development and forest products; (3) community services that support local efforts to develop self-reliant individuals

and families through prevention, intervention, technical assistance and advocacy programs; (4) housing and housing-related services; (5) growth management; (6) archaeology and historic preservation; and (7) energy.

The Housing Finance Commission lends money for the construction of new, affordable housing.

The retail sales tax is imposed on the sale of most items of tangible personal property and some services purchased at retail. The state's retail sales and use tax is based on 6.5 percent of the selling price. Local governments may also impose additional taxes; therefore, the combined state and local retail sales and use tax rate currently ranges from 7.0 percent to 8.6 percent

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

Revenue Source for Distressed Counties. In 1997, the Legislature passed 2SSB 5740 which allowed distressed counties to levy a 0.04 percent sales tax which was credited against the state. Revenues from this tax may be used for public facilities. In 1998, the voters passed Referendum 49 which distributes a portion of the motor vehicle excise tax (MVET) to distressed counties in proportion to the 0.04 percent sales tax credit. These revenues may be broadly used for criminal justice and other purposes.–

Utility Revolving Fund. 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 Bill:** The types of projects that the Community Economic Revitalization Board (CERB) may invest in are broadened to include telecommunications infrastructure and pre-construction costs in rural counties.

Housing Finance Commission. Their statutory debt limit is increased from \$2 billion to \$3 billion.

Temporary Housing. CTED establishes a "one-stop clearinghouse" to coordinate state assistance to growers and nonprofit organizations to develop housing for agricultural employees.

Rural Development Council. The council executive committee is authorized to establish a successor organization to the council. The successor organization is a private nonprofit corporation qualified as tax exempt under section 501(C) of the federal Internal Revenue Code.

Economic Vitality Committee. A new working group comprised of CTED, DOR, Agriculture and Economic Development Council representatives is established to prepare for "projects of statewide significance."

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 and is no longer allowed. Eligibility under the community empowerment zones (CEZ) definition is redefined.

Revenue Source for Distressed Counties. The current 0.04 percent sales tax credit for distressed counties is increased to 0.06 percent.

Help Desks. B&O tax credits are provided to businesses in rural counties engaged in the business of providing information technology "help desk" services to third parties. The credit is equal to 100 percent of B&O taxes due for the first seven years and 68 percent every year thereafter.

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.

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.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** August 1, 1999, except Section 101 which takes effect January 1, 2001.

**Testimony For (Agriculture & Rural Economic Development):** This bill builds on the Governor's Rural Summit meetings and the Legislature's interim joint task force. It provides the needed flexibility for CERB to target needed rural infrastructure projects. Congestion relief and freight mobility are vitally important to the economic development of the state.

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

**Testified (Agriculture & Rural Economic Development):** PRO: Rick Mattoon, Governor's Office; Tim Douglas, CTED; Scott Taylor, WPPA; Bill Vogler, WSAC.

**Testimony For (Ways & Means):** The new CERB language is extremely important. Infrastructure is a top priority. The current programs are a mile wide and an inch deep. Concerns were expressed about leaving out the community empowerment zones (CEZs).

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

**Testified (Ways & Means):** PRO: Ron Rosenbloom, AWC; Lynn Micheau, Grays Harbor EDC; Ted Sprague, Lewis County EDC; John Bolender, Mason County Commission; Don White, WA Assn. of Economic Development Councils; Fred Haskell, Whatcom County Development Council; Jim Hedrick, Fred Kiza, Dept. of Revenue; Bill Vogler, WA State Assn. of Counties; Senator Georgia Gardner; Mark Johnson, Superintendent, Nooksack School District; Darrell Jones, National Energy Systems Company.

**House Amendment(s):** The House striking amendment made a number of changes to 5594. The CERB section was expanded to include a number of accountability standards as well as a JLARC study of the effectiveness of CERB. It creates the Washington Rural Loan Fund to replace the Development Loan Fund.

It retains the Senate language for the "one stop" farmworker clearinghouse, the increase in the debt limit for the Housing Finance Commission, the Economic Vitality Committee.

The Senate changes to the distressed area program are modified and the community empowerment zone (CEZ) tax incentive is broadened from the Senate proposal.

The bill does not include the change of the Rural Development Council to nonprofit status which passed the Senate as HB 1313 or the provisions which passed the Senate in HB 2260. The tax and revenue provisions in HB 2260 include the 0.08 percent local sales tax credit, the help desk B&O credit, the software B&O credit, and the rural utility revolving fund.