

# SENATE BILL REPORT

## SB 6532

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As Reported By Senate Committee On:  
Labor, Commerce & Financial Institutions, February 5, 2002  
Ways & Means, February 13, 2002

**Title:** An act relating to subsidy disclosure; adding new sections to chapter 42.17 RCW; and creating a new section.

**Brief Description:** Requiring business subsidy disclosure.

**Revised for 2nd Substitute:** Requiring business incentive disclosure.

**Sponsors:** Senators Prentice, Fairley, Franklin, Keiser, Gardner, Kohl-Welles, Fraser, Kline, Poulsen and Thibaudeau.

**Brief History:**

**Committee Activity:** Labor, Commerce & Financial Institutions: 1/22/02, 2/5/02 [DPS, DNP].

Ways & Means: 2/13/02 [DP2S].

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### SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

**Majority Report:** That Substitute Senate Bill No. 6532 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Keiser, Vice Chair; Fairley, Franklin, Gardner, Regala and Winsley.

**Minority Report:** Do not pass.

Signed by Senators Hochstatter, Honeyford and West.

**Staff:** Matthew Adams (786-7784)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 6532 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Brown, Chair; Regala, Vice Chair; Fraser, Kline, Kohl-Welles, Poulsen, Rasmussen, B. Sheldon, Snyder, Spanel, Thibaudeau and Winsley.

**Staff:** Chelsea Buchanan (786-7446)

**Background:** The state of Washington has created various economic development incentive programs that are designed to encourage job creation or retention on either a statewide basis or in economically distressed or rural areas. These programs provide incentives to businesses through the use of loans, grants, and tax credits, exemptions or deferrals.

Currently, there is no systematic method for monitoring whether these state business incentives have resulted in the creation or retention of jobs, or the quality of jobs created.

**Summary of Second Substitute Bill:** Businesses receiving specified tax incentives are required to report on net job creation and wage rates with the Department of Revenue (DOR) by March 1 of each year. Information reported is subject to public disclosure. Covered incentives include:

- Rural county sales tax deferral/exemption
- B&O tax jobs credit
- High technology B&O tax credit
- High technology sales tax program
- B&O tax credit for international services
- B&O tax credit for help-desk services in rural counties
- B&O tax credit for computer software development in rural counties
- Warehouse and grain elevators and distribution centers state sales/use tax exemption

For the Manufacturing/R&D/testing operations sales/use tax exemptions, businesses must report only if they are selected by statistical sample by DOR.

DOR must request information on net job creation and wage rates from businesses receiving the incentives (and/or selected by statistical sampling). DOR must compile the information and report to the appropriate committees of the Legislature by September 1 of each year, and post a copy of the report on its website. Beginning in 2005, the report must compare data over time.

**Second Substitute Bill Compared to Substitute Bill:** (1) The provisions that delineate a specific form for DOR to use in requesting information are eliminated. (2) The provisions that would sanction businesses for failing to report (ineligibility for business tax incentives) are eliminated. (3) It is clarified that DOR is to provide recommendations on whether the list of business incentives that are subject to reporting should be changed, rather than evaluating the incentives themselves.

**Substitute Bill Compared to Original Bill:** The substitute bill: (a) adds business disclosure provisions to Title 82 (Excise Taxes/Department of Revenue) rather than Title 42 (Public Officers and Agencies); (b) narrows the definition of "benefit date"; (c) replaces "business subsidy" with "business incentive"; (d) adds and defines the term "employee benefits"; (e) limits the application of the business incentive disclosure to specific state tax credits, deferrals, or exemptions administered by DOR; (f) allows the collection of information through a statistical sampling of those recipients that have taken the machinery and equipment sales and use tax exemption; (g) removes the reporting requirement for business incentives made to for-profit business entities by a local government or other state agencies, except specified tax incentive programs administered by DOR; (h) requires DOR to make the disclosure statement available electronically and in paper form; (i) revises the date that the reports must be submitted to DOR from August 1 to March 1 of each year; (j) establishes a process and procedure for making a recipient ineligible for additional business incentives until the reporting requirements have been met; and (h) requires DOR to post a copy of the report on its website.

**Appropriation:** None.

**Fiscal Note:** Requested on second substitute on February 14, 2002.

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

**Testimony For (Labor, Commerce & Financial Institutions):** Disclosure helps to avoid hidden taxpayer costs, protects the state against failed deals, monitors wage and benefit levels, increases civic engagement in economic development, and promotes land-use planning.

**Testimony Against (Labor, Commerce & Financial Institutions):** This bill is well intentioned but will not produce any new information to determine cost/benefit analysis. Large and small businesses alike will be exposed to a paperwork nightmare, potential litigation under international trade agreements, and an unfriendly business climate.

**Testified (Labor, Commerce & Financial Institutions):** PRO: Jeff Johnson, WSLC; Greg LeRoy, Good Jobs First; Barb Flye, WA Citizens Action; Sara Merton, WA Assoc. of Churches; CON: Ron Newbry, WEDA; Gary Smith, IBA; Carolyn Logue, NFIB.

**Testimony For (Ways and Means):** At least nine states have enacted similar legislation. Citizens have a right to know how their taxes are spent. This bill gives policymakers a tool to evaluate the efficacy of economic development programs. Creation of family wage jobs is critical.

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

**Testified (Ways and Means):** PRO: Jeff Johnson, WSLC; Bill Monto, WA Citizen Action; Michael Ramos, WA Assoc. of Churches.