

# SENATE BILL REPORT

## SB 5319

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As Reported By Senate Committee On:  
Economic Development, February 19, 2003  
Ways & Means, April 7, 2003

**Title:** An act relating to sales and use tax exemptions for call centers in distressed areas.

**Brief Description:** Authorizing sales and use tax exemptions for call centers.

**Sponsors:** Senators T. Sheldon, Hale and Esser.

**Brief History:**

**Committee Activity:** Economic Development: 2/5/03, 2/19/03 [DPS-WM].  
Ways & Means: 2/25/03, 4/7/03 [DPS (EC)].

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### SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

**Majority Report:** That Substitute Senate Bill No. 5319 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators T. Sheldon, Chair; Zarelli, Vice Chair; Hale, Rossi, Schmidt, B. Sheldon and Shin.

**Staff:** Alison Mendiola-Hamilton (786-7576)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5319 as recommended by Committee on Economic Development be substituted therefor, and the substitute bill do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Doumit, Hale, Honeyford, Johnson, Parlette, Roach, Sheahan, B. Sheldon and Winsley.

**Staff:** Catherine Suter (786-7442)

**Background:** In 1985, the Legislature created a sales and use tax deferral program for businesses that located to a distressed county. Under this program, a manufacturer or research and development company could qualify for a three-year deferral of taxes on machinery and equipment purchases, as well as construction costs. The tax deferral program was changed to a tax exemption program in 1994.

In 1993, the Legislature created the community empowerment zone (CEZ) program to encourage public and private reinvestment in designated areas of economically distressed communities. There are currently six CEZs, located in Bremerton, Spokane, Tacoma, Yakima, Duwamish (King County), and White Center (King County).

In 1999, the Legislature changed the criterion it uses in many instances from "distressed county" to "rural county," which is defined as a county with less than 100 persons per square mile. There are currently 31 rural counties.

Also in 1999, the Legislature established a 100 percent B&O tax credit for businesses engaged in help desk services in rural counties.

**Summary of Substitute Bill:** Sales and use tax exemptions are provided to new and existing call centers that are located in rural counties, community empowerment zones, or counties smaller than 225 square miles, for:

1. machinery and equipment purchases,
2. repair services to machinery and equipment,
3. construction labor and material costs, and
4. network telephone toll services.

Call centers are defined as businesses with at least 25 employees who provide customer service and support by responding to inbound telephone calls and electronic contacts, using computer-automated equipment and using an electronic medium or the telephone.

**Substitute Bill Compared to Original Bill:** The original bill was not considered.

**Appropriation:** None.

**Fiscal Note:** Requested on January 30, 2003.

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

**Testimony For (Economic Development):** This sales and use tax exemption for call centers is needed to attract out-of-state business and to encourage Washington businesses to locate and expand in a rural county (or CEZ). Such incentives translate into jobs. There is a myth that it is less expensive to run a business in a rural county vs. urban. This is not true; thus, we need incentives. Also, these incentives will be a great recruitment tool to attract new businesses to Washington State. Also, the jobs created tend to be well paid.

**Testimony Against (Economic Development):** None.

**Testified (Economic Development):** PRO: Rick Jensen, Safe Harbor Technical Corp.; Tami Garrow, Satsop Development Park; Ron Newbry, WEDA.

**Testimony For (Ways & Means):** Call centers comprise a very competitive industry and can be very well-paying for rural areas. Fifteen percent of companies expressing interest in moving to Washington are call centers, but we have no incentives to offer them over other states. Call centers tend to locate in clusters, with a trained workforce.

The fiscal note on this bill assumes that someone comes; therefore, it says that this incentive will work and that the benefits will outweigh the one-time sales/use tax losses. This summer, Dell chose to locate in Roseburg, Oregon, because of incentives. A few years ago, Yakima

won" Client Logic with 350 jobs, helping to diversify the city's economy and now the city is withstanding the economic slump.

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

**Testified (Ways & Means):** PRO: Senator Tim Sheldon, prime sponsor; Ron Newbry, Washington Economic Development Association.