

# HOUSE BILL REPORT

## 2SSB 5370

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**As Reported by House Committee On:**  
Economic Development, Agriculture & Trade  
Capital Budget

**Title:** An act relating to the economic development strategic reserve account.

**Brief Description:** Creating the economic development strategic reserve account.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Brown, Benson, Shin, Sheldon, Eide, Kohl-Welles and McAuliffe).

**Brief History:**

**Committee Activity:**

Economic Development, Agriculture & Trade: 3/29/05, 4/1/05 [DPA];  
Capital Budget: 4/4/05 [DPA(CBw/oEDAT)s].

**Brief Summary of Second Substitute Bill  
(As Amended by House Committee)**

- The consent or inaction by the PWB is required in order for the Governor to authorize the expenditure of funds from the Economic Development Strategic Reserve Account. The intent of this Legislature is to limit the appropriations from the Public Works Assistance Account to both the Economic Development Strategic Reserve Account and the Job Development Fund (ESHB 1903) to not more than \$50 million per biennium.

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### HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

**Majority Report:** Do pass as amended. Signed by 12 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Blake, Chase, Clibborn, Grant, Kenney, Kilmer, McCoy, Morrell, Quall and Wallace.

**Minority Report:** Do not pass. Signed by 8 members: Representatives Kristiansen, Ranking Minority Member; Buri, Dunn, Haler, Holmquist, Kretz, Newhouse and Strow.

**Staff:** Tracey Taylor (786-7196).

**Background:**

Economic Development Commission

Created in 2002 by the Governor and codified in 2003 by the Legislature, the Economic Development Commission (ED Commission) is charged with providing policy, strategic, and

programmatic direction to the Department of Community, Trade and Economic Development (DCTED).

The seven to nine Governor-appointed members are tasked with reviewing and periodically updating the state's economic development strategy, identifying policies and programs to assist Washington's small businesses, and making a biennial report to the Legislature. In addition, the ED Commission provides policy, strategic and programmatic advice to the DCTED regarding strategies to: promote business retention, expansion, and creation within the state; promote the business climate of the state and stimulate national and international investment in the state; promote the products and services of the state; enhance relationships and cooperation between local governments, economic development councils, and the Legislature; integrate economic development programs; and make funds available for economic development purposes more flexible to meet emergent needs and maximize opportunities.

The ED Commission holds regular quarterly meetings around the state. In addition, the ED Commission utilizes committees and special purpose task forces on an as needed basis.

#### Public Works Trust Fund

The Public Works Trust Fund (PWTF) Program was created in 1985 to provide loans to counties, cities, and certain special purpose districts, which do not include school and port districts, to improve existing public infrastructure. The PWTF loans are available for the planning, acquisition, construction, repair, reconstruction, replacement, rehabilitation, or improvement of streets and roads, bridges, water systems, or storm and sanitary sewage systems, and solid waste facilities, including recycling facilities. In order to qualify for financial assistance under the PWTF, the county, city, and special purpose district must: (1) impose an excise tax on the sale of real estate of at least .25 of 1 percent; (2) have developed a long-term plan for financing public works needs; and (3) be using all local revenue sources that are reasonably available for funding public works.

The Public Works Board (PWB) is composed of 13 members, appointed by the Governor for terms of four years. The PWB must include: three members, two of whom must be elected officials and one must be a public works manager, appointed from a list of at least six persons nominated by the Association of Washington Cities; three members, two of whom must be elected officials and one must be a public works manager, appointed from a list of at least six persons nominated by the Washington State Association of Counties; three members appointed from a list of at least six persons nominated jointly by the Washington Public Utilities Districts Association and a state association of water-sewer districts; and four members appointed from the general public. When making the general public appointments, the Governor must try to balance the geographical composition of the PWB and include members with special expertise in relevant areas. The PWB is chaired by a representative of the general public who is appointed by the Governor.

The PWB administers six programs: the PWTF Construction Loan Program; the PWTF Pre-Construction Loan Program; the PWTF Emergency Loan Program; the PWTF Planning Loan

Program; the Drinking Water State Revolving Fund Program; and the Water System Acquisition and Rehabilitation Program.

The PWTF is capitalized through dedicated taxes and loan repayments. A portion of the taxes on water and sewer rates as well as the real estate excise tax goes to the PWTF. In addition, the proceeds from a tax on refuse collection of 3.6 percent is allotted to the PWTF

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**Summary of Amended Bill:**

The Economic Development Strategic Reserve Account (Account) is created in the state treasury. Subject to a legislative operating appropriation into the Account, expenditures may be authorized by the Governor, in consultation with the Director of the DCTED and the Public Works Board, to fund a minimum of one full-time equivalent staff position for the ED Commission and to cover any other operational expenses of the ED Commission.

In addition, expenditures from the Account may be authorized by the Governor, in consultation with the Director of the DCTED and the Public Works Board, to prevent the closure of a business or facility, to prevent the relocation of a business or facility to a location outside of the state, or to recruit a business or facility to the state. The expenditures may be used for work force development or public infrastructure needed to support or sustain the operations of the business or facility. The funds may also be used for other lawfully provided assistance, including technical assistance, environmental analysis, relocation assistance and planning assistance; however, the funding may only be provided for such instances when it is in the public good and may be provided under a contractual agreement ensuring the state will receive appropriate consideration.

In order for funds from the Account to be used, the Director of the DCTED or the business or facility must not be able to secure funding from other timely sources. In addition, the business or facility must produce or will produce significant long-term economic benefits to the state, a region of the state, or a particular community in the state. Also in order to qualify for the funds, the business or facility cannot require a continuing state support. Any expenditure from the Account must result in new jobs, job retention, or higher incomes for the citizens of the state. Finally, any expenditure from the Account will not supplant private investment and must be accompanied by private investment.

Beginning in the 2007-09 biennium, \$10 million per biennium is directed into the Account for the Public Works Assistance Account to fund grants for public infrastructure projects. This fund transfer will end June 30, 2011.

**Amended Bill Compared to Second Substitute Bill:**

The amended bill requires that the Governor consult with the Public Works Board, not the Economic Development Commission, in addition to the Director of the DCTED when authorizing expenditures from the Account. The amended bill directs that \$10 million per biennium from July 1, 2007, until June 30, 2011, be appropriated from the Public Works

Assistance Account to the Economic Development Strategic Account to fund authorized public infrastructure projects; therefore, the null and void clause is removed. Finally, the amended bill makes the funding the ED Commission operating expenses and staff contingent upon an operating appropriation into the Economic Development Strategic Account.

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**Appropriation:** None.

**Fiscal Note:** Available for the proposed substitute.

**Effective Date of Amended Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** Our neighboring states and biggest competitors have strategic accounts to assist in meeting economic development opportunities that occur when the Legislatures are not in session. This Account would be another tool in the state's "economic development toolbox," especially for those border areas that may face different issues not necessarily present in the Central Puget Sound. Although the public infrastructure piece is very important, the ability to use grants to fund workforce development programs and other technical assistance are also key elements.

**Testimony Against:** None.

**Persons Testifying:** Senator Brown, prime sponsor; Collins Sprague, AVISTA Corporation and Economic Development Commission; Jim Hedrick, Spokane Chamber of Commerce; Ron Newbry, Washington Economic Development Association; Mark Brown, Association of Washington Cities, Columbia River Economic Development Council, Cities of Vancouver and Ridgefield, Port of Vancouver, and Clark County; and Scott Taylor, Washington Public Ports Association.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON CAPITAL BUDGET

**Majority Report:** Do pass as amended by Committee on Capital Budget and without amendment by Committee on Economic Development Agriculture & Trade. Signed by 17 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Hankins, Assistant Ranking Minority Member; Blake, Chase, Eickmeyer, Ericks, Flannigan, Green, Hasegawa, Lantz, Moeller, Morrell, O'Brien, Schual-Berke, Springer and Upthegrove.

**Minority Report:** Do not pass. Signed by 10 members: Representatives Jarrett, Ranking Minority Member; Cox, DeBolt, Ericksen, Kristiansen, McCune, Newhouse, Roach, Serben and Strow.

**Staff:** Tracey Taylor (786-7196).

## **Summary of Recommendation of Committee On Capital Budget Compared to Recommendation of Committee On Economic Development, Agriculture & Trade:**

The Economic Development Strategic Reserve Account (Account) is created in the State Treasury. Subject to a legislative operating appropriation into the Account, expenditures may be authorized by the Governor, in consultation with the Director of the Department of Community Trade & Economic Development (DCTED) and the Public Works Board (PWB), to fund a minimum of one full-time equivalent staff position for the Economic Development (ED) Commission and to cover any other operational expenses of the ED Commission.

In addition, expenditures from the Account may be authorized by the Governor, in consultation with the PWB, to prevent the closure of a business or facility, to prevent the relocation of a business or facility to a location outside of the state, or to recruit a business or facility to the state. "Consultation with the PWB" means the PWB must either approve the project expenditure or take no action after holding a meeting on the proposed project. If the PWB disapproves an expenditure, the Governor may not use Account funds for the disapproved project.

The expenditures may be used for work force development or public infrastructure needed to support or sustain the operations of the business or facility. The funds may also be used for other lawfully provided assistance, including technical assistance, environmental analysis, relocation assistance and planning assistance; however, the funding may only be provided for such instances when it is in the public good and may be provided under a contractual agreement ensuring the state will receive appropriate consideration.

In order for funds from the Account to be used, the Director of the DCTED or the business or facility must not be able to secure funding from other timely sources. In addition, the business or facility must produce or will produce significant long-term economic benefits to the state, a region of the state, or a particular community in the state. Also in order to qualify for the funds, the business or facility cannot require a continuing state support. Any expenditure from the Account must result in new jobs, job retention, or higher incomes for the citizens of the state. Finally, any expenditure from the Account will not supplant private investment and must be accompanied by private investment.

Beginning in the 2007-09 biennium, \$10 million per biennium is directed into the Account from the Public Works Assistance Account to fund grants for public infrastructure projects. This fund transfer will end June 30, 2011. If this Act and Engrossed Substitute House Bill 1903 both pass this Legislature, no more than \$50 million per biennium from the Public Works Assistance Account may be used for both the Economic Development Strategic Reserve Account and the Job Development Fund.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date of Amended Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** (In support) Communities in Washington are desperate for new economic development tools, especially those who compete directly with Oregon. In retaining or relocating businesses, Washington communities are at a huge competitive disadvantage when it comes to "sealing the deal." In recent weeks, as many as six companies chose Oregon over Washington. These decisions were influenced in part by the direct financial assistance available to local governments in Oregon to "seal the deal" with forgivable loans, grants from a strategic fund, tax increment financing, and other economic incentives. These were relatively small amounts of money that cumulatively made the difference and were accomplished in a short amount of time.

(In support with concerns) The bill's first objective is to provide the Governor the same authorizations as Oregon's Governor to recruit and retain business. The bill's second objective is to provide a permanent source of funding for the Economic Development Commission. Previous versions of this bill were funded by unclaimed lottery funds. This version is funded from the Public Works Assistance Account, but those funds are only available for public infrastructure projects. There is no funding for the ED Commission, workforce development, or other forms of technical assistance to business. In addition, the ED Commission is removed from consultation with the Governor in making expenditures from the Account. The ED Commission has a broader scope and knowledge of economic development, including workforce development, than the Public Works Board and would be a better oversight board for this Account.

**Testimony Against:** None.

**Persons Testifying:** Mark Brown, City of Vancouver; and Collins Sprague, AVISTA Corporation.

**Persons Signed In To Testify But Not Testifying:** None.