

HOUSE BILL REPORT

2SSB 5370

As Passed House - Amended:

April 22, 2005

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

Brief Description: Creating the economic development strategic reserve account.

Sponsors: By 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].

Floor Activity:

Passed House - Amended: 4/13/05, 60-36.

Senate Refuses to Concur.

Conference Committee Report Adopted.

Passed House: 4/22/05, 58-40.

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

- Creates the Economic Development Strategic Reserve Account to fund the Economic Development Commission and expenditures to prevent the closure of a business or facility, the relocation of a business or facility to outside of Washington, or to recruit a business or facility to Washington.
- Authorizes one-third of all unclaimed prize money from the state lottery drawings and instant prize games be transferred into the Economic Development Strategic Reserve Account, up to a maximum of \$15 million.

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).

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).

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.

The Washington Lottery

In 1982, Washington's Lottery was created. The lottery games range from "scratch" tickets, in which players discover if they are an instant winner, to "draw" games in which players wait for the random drawing of numbers to determine if they have won. Currently, Washington offers six "draw" lottery games: Mega Millions, Lotto, Quinto, The Daily Game, Daily Keno and Lucky for Life. The jackpots for these "draw" lottery games range from \$300,000 for Quinto to a jackpot high of \$360 million for Mega Millions. Washington has also offered a

range of "scratch" lottery games with as many as 30 different types of games a year for a player to choose from. Prizes for "scratch" lottery games range from \$1 to \$1 million. Until 1996, proceeds from the sale of all State Lottery products, after payment of prizes and expenses, were deposited in the State General Fund.

Beginning in calendar year 1996, a portion of Lottery proceeds has been dedicated to assist with

paying the principal and interest on bonds used to construct Safeco Field. The initial year distribution was \$3 million, and the amount increases at a rate of 4 percent per year until the bonds are retired, or 2016, whichever occurs earlier. A similar distribution requirement, starting at \$6 million annually, was established in 1998 to contribute to the retirement of bonds for the stadium and exhibition center now known as Qwest Field, and will terminate no later than 2021.

The voters approved Initiative 728 in 2000 which redirected the Lottery proceeds from the State General Fund to the Student Achievement Fund and the Education Construction Fund beginning July 1, 2001. In 2002, legislation was enacted to allow Washington to join the multi-state lottery Mega Millions. The legislation also directed that profits from all lottery games must benefit education, up to \$102 million annually. Once the \$102 million contribution level is met, any additional revenues from Mega Millions will benefit the State General Fund, while other lottery games continue to fund education. The previous commitment to the stadiums has continued.

In 2004, the net revenues from lottery games allocated for education were directed to the Education Construction Fund to help build, renovate, and remodel schools throughout Washington.

The Lottery Fund distributions for Fiscal Year 2004 for education accounted for 21.3 percent of the total proceeds or \$102 million. Mariners stadium received \$4 million or 0.08 percent of the total proceeds, while Qwest Field received \$7.3 million or 1.5 percent of the total lottery proceeds. The majority of the Lottery Fund or 61.7 percent went to the prizes.

Current law requires all prizes to be claimed with 180 days of the drawing or after the official of the game for instant prizes. Rights to unclaimed funds after 180 days are extinguished and the funds are returned to the state lottery fund for further use as prizes.

Summary of Amended Bill:

The Economic Development Strategic Reserve Account (Account) is created in the state treasury. Expenditures may be authorized by the Governor, subject to the recommendation of the Economic Development Commission and the Director of DCTED to fund a minimum of one 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, subject to the recommendation of the Economic Development Commission and the Director of DCTED 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.

No more than \$3 million per year may be expended from the Account for the purpose of assisting an individual business or facility.

After 180 days pass since the drawing date or the official end of the game for instant prizes, the winner's rights to the prize funds shall be extinguished and one-third of the unclaimed prize money will be deposited in the Account. If the Account's balance exceeds \$15 million at any time, the amount in excess of \$15 million shall be transferred to the education construction account.

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: (Economic Development, Agriculture & Trade) 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 For: (Capital Budget) (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: (Economic Development, Agriculture & Trade) None.

Testimony Against: (Capital Budget) None.

Persons Testifying: (Economic Development, Agriculture & Trade) 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 Testifying: (Capital Budget) Mark Brown, City of Vancouver; and Collins Sprague, AVISTA Corporation.

Persons Signed In To Testify But Not Testifying: (Economic Development, Agriculture & Trade) None.

Persons Signed In To Testify But Not Testifying: (Capital Budget) None.