

---

**SUBSTITUTE HOUSE BILL 2541**

---

**State of Washington**

**66th Legislature**

**2020 Regular Session**

**By** House Rural Development, Agriculture, & Natural Resources (originally sponsored by Representatives Maycumber, Chapman, Blake, Harris, Kloba, Chambers, Stonier, Dent, Griffey, Barkis, Van Werven, Graham, Walsh, Goehner, Rude, Kretz, Tharinger, and Lekanoff)

READ FIRST TIME 02/07/20.

1 AN ACT Relating to creating the Washington rural development act;  
2 adding a new section to chapter 82.04 RCW; adding a new chapter to  
3 Title 43 RCW; creating a new section; and providing expiration dates.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** This chapter may be known and cited as the  
6 Washington rural development act.

7 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.04  
8 RCW to read as follows:

9 (1) Subject to the limitations in this section, a credit is  
10 allowed against the tax imposed under this chapter for contributions  
11 made by a person to the rural development fund program created in  
12 chapter 43.--- RCW (the new chapter created in section 7 of this  
13 act).

14 (2) The person must make the contribution before claiming a  
15 credit authorized under this section. Credits earned under this  
16 section may be claimed against taxes due in the calendar year in  
17 which the contribution is made. The amount of the credit claimed for  
18 a reporting period may not exceed the tax otherwise due under this  
19 chapter for that reporting period. No person may claim more than one  
20 million dollars of credit in any calendar year, including credit

1 carried over from a previous calendar year. No refunds may be granted  
2 for any unused credits.

3 (3) The maximum credit that may be earned for each calendar year  
4 under this section is limited to the lesser of one million dollars or  
5 an amount equal to one hundred percent of the contributions made by  
6 the person to the rural development fund program during the calendar  
7 year.

8 (4) The credit may be used against any tax due under this chapter  
9 and may be carried over until used.

10 (5) Credits are available on a first-in-time basis. The  
11 department must disallow any credits, or portions thereof, that would  
12 cause the total amount of credits claimed under this section for any  
13 calendar year to exceed eight million dollars. If this limitation is  
14 reached, the department must notify the department of commerce that  
15 the annual statewide limit has been met. In addition, the department  
16 must provide written notice to any person who has claimed tax credits  
17 in excess of the limitation in this subsection. The notice must  
18 indicate the amount of tax due and provide the tax be paid within  
19 thirty days from the date of the notice. The department may not  
20 assess penalties and interest as provided in chapter 82.32 RCW on the  
21 amount due in the initial notice if the amount due is paid by the due  
22 date specified in the notice, or any extension thereof.

23 (6) To claim a credit under this section, a person must  
24 electronically file with the department all returns, forms, and any  
25 other information required by the department, in an electronic format  
26 as provided or approved by the department. Any return, form, or  
27 information required to be filed in an electronic format under this  
28 section is not filed until received by the department in electronic  
29 format. As used in this subsection, "returns" has the same meaning as  
30 "return" in RCW 82.32.050.

31 (7) No application is necessary for the tax credit. The person  
32 must keep records necessary for the department to verify eligibility  
33 under this section.

34 (8) The rural development fund program must provide to the  
35 department, upon request, such information as needed to verify  
36 eligibility for credit under this section, including information  
37 regarding contributions received by the program.

38 (9) The department may not allow any credit under this section  
39 before January 1, 2021.

1 (10) No credit may be earned for contributions made on or after  
2 June 30, 2030. Credits may be claimed as provided in subsections (4)  
3 through (6) of this section.

4 (11) For the purposes of this section, "rural development fund  
5 program" means a program established within the department of  
6 commerce pursuant to section 3 of this act.

7 (12) The provisions of chapter 82.32 RCW apply to the  
8 administration of this section.

9 (13) This section expires July 1, 2030.

10 NEW SECTION. **Sec. 3.** (1) The department of commerce shall  
11 create and operate the rural development fund program. The purpose of  
12 the rural development fund program is to award rural development  
13 grants to qualified lending institutions, using funds generated by  
14 business and occupation tax credits created in section 2 of this act,  
15 for the purpose of encouraging rural development. The operation of  
16 the rural development fund program must be governed by the provisions  
17 of this chapter and by guidelines and rules adopted by the department  
18 of commerce pursuant to this chapter.

19 (2) The following requirements apply to the operation of the  
20 rural development fund program:

21 (a) No more than twenty-five percent of all grants awarded in any  
22 calendar year may be awarded to the same grant recipient; and

23 (b) Any project receiving a loan or investment that includes  
24 funds awarded from the rural development fund program or match must  
25 occur in a rural county as defined in RCW 82.14.370.

26 (3) In order to receive a grant award under the rural development  
27 fund program, a qualified lending institution must:

28 (a) Match any grant awarded by the rural development fund program  
29 on at least a one-to-one basis;

30 (b) Be a certified community development financial institution as  
31 recognized by the United States department of the treasury;

32 (c) Be registered as a nonprofit organization exempt from  
33 taxation under Title 26 U.S.C. Sec. 501(c)(3) of the federal internal  
34 revenue code of 1986, as amended, as of the effective date of this  
35 section; and

36 (d) Demonstrate a successful history of lending in Washington.

37 (4) Grants from the rural development fund program to a qualified  
38 lending institution will be awarded by a review committee. The  
39 department of commerce is responsible for convening and staffing the

1 review committee. The department of commerce shall seek, to the  
2 greatest extent possible, to achieve a fair geographic balance in the  
3 composition of the review committee. The department of commerce is  
4 encouraged to seek representation on the committee from the  
5 following: Representatives of the banking industry who are familiar  
6 with community development financial institutions; economic  
7 development professionals who have experience in rural development;  
8 representatives of local government; and representatives of federally  
9 recognized Indian tribes.

10 (5) In making awards from the rural development fund program, the  
11 review committee must consider the following:

12 (a) The number and total value of loans and investments closed  
13 during the previous five-year period by the qualified lending  
14 institution in Washington;

15 (b) Funds leveraged by the proposed grant award, which may be no  
16 less than one-to-one;

17 (c) Projected loan or investment production with the award over  
18 the performance period of the grant, including projected project  
19 leverage;

20 (d) How the award supports the growth of the qualified lending  
21 institution; and

22 (e) Past performance of loans and investments made by the  
23 qualified lending institution including, where applicable, past  
24 performance of loans and investments made using funds from the rural  
25 development fund program.

26 (6) The department of commerce may award grants from the rural  
27 development fund program beginning six months after the first tax  
28 credits are claimed pursuant to section 2 of this act. The department  
29 of commerce must cease to award grants from the rural development  
30 fund program upon the expiration of this chapter.

31 (7) Once a loan or investment made by a qualified lending  
32 institution using funds awarded from the rural development fund  
33 program has been repaid, the qualified lending institution must  
34 reloan the repaid funds consistent with the terms of this chapter for  
35 a period of ten years from the date of the grant award.

36 (8) A qualified lending institution that receives funds from the  
37 rural development fund program must submit a report to the department  
38 of commerce by June 30th of each year that contains the following  
39 information:

1 (a) The number and value of loans and investments made using  
2 funds from the rural development fund program's grant and associated  
3 match;

4 (b) Certification that each loan and investment made using funds  
5 from the program is qualified and located in a rural county;

6 (c) The amount of capital available, as of report date, to lend  
7 or invest from the qualified lending institution's grant and  
8 associated match;

9 (d) Outreach conducted by the lender within rural counties; and

10 (e) Other information as required by the department of commerce.

11 (9) No later than September 15th of each year, beginning in 2021,  
12 the department of commerce must submit a report to the appropriate  
13 committees of the legislature that contains the following  
14 information:

15 (a) The number of grant applicants and the total value of grants  
16 requested;

17 (b) The number of grant awardees and the total value of grants  
18 awarded, as well as relevant information from the successful  
19 applications, including fund leverage and projected lending;

20 (c) Performance of loans and investments made under the program  
21 on an aggregate basis;

22 (d) Average interest rate, term, and loan size, or investment  
23 terms and size, on an aggregate basis;

24 (e) The cities and counties in which grant recipients are  
25 located; and

26 (f) The cities and counties in which projects that receive loans  
27 or investments from the rural development fund program are located.

28 NEW SECTION. **Sec. 4.** The rural development account is created  
29 in the custody of the state treasurer. All receipts from  
30 contributions to the rural development fund program created by this  
31 chapter must be deposited in the account. Expenditures from the  
32 account may be used only for the award of grants to qualified lending  
33 institutions from the rural development fund program. Only the  
34 director of the department of commerce or the director's designee may  
35 authorize expenditures from the account. The account is subject to  
36 allotment procedures under chapter 43.88 RCW, but an appropriation is  
37 not required for expenditures. Any funds remaining in the account  
38 upon the expiration of this chapter must be transferred to the state  
39 general fund.

1        NEW SECTION.    **Sec. 5.**    (1) This section is the tax preference  
2 performance statement for the tax preference contained in section 2,  
3 chapter . . . , Laws of 2020 (section 2 of this act). This performance  
4 statement is only intended to be used for subsequent evaluation of  
5 the tax preference. It is not intended to create a private right of  
6 action by any party or to be used to determine eligibility for  
7 preferential tax treatment.

8        (2) The legislature categorizes this tax preference as one  
9 intended to create or retain jobs pursuant to RCW 82.32.808(2)(c) as  
10 well as encourage economic development growth in rural Washington.

11        (3) It is the legislature's specific public policy objective to  
12 create a program that encourages investment in small and rural  
13 businesses to encourage economic development in rural Washington.

14        (4) The legislature intends to extend the expiration date of this  
15 tax preference if a review finds that the rural development fund  
16 program has had a net positive impact on investment in Washington's  
17 rural counties and on state and local tax revenues. In conducting its  
18 review under this section, the joint legislative audit and review  
19 committee should consider, among other data:

20        (a) The number and aggregate amount of loans and investments  
21 closed under the program, including with revolved dollars;

22        (b) Fund leverage, which should equal or exceed a one-to-one  
23 ratio;

24        (c) Project leverage, which should equal or exceed a one-to-one  
25 ratio;

26        (d) The balance sheet growth of community development financial  
27 institutions that received grants from the program;

28        (e) Whether participants in the program achieved balance sheet  
29 growth during the time of their participation in the program;

30        (f) The percentage of community development financial  
31 institutions in Washington that received funding from the program;  
32 and

33        (g) The level of ongoing demand for funding from the program.

34        (5) In order to obtain the data necessary to perform the review  
35 in subsection (4) of this section, the joint legislative audit and  
36 review committee may refer to any data collected by the state.

37        (6) This section expires July 1, 2030.

38        NEW SECTION.    **Sec. 6.**    This chapter expires July 1, 2030.

1        NEW SECTION.    **Sec. 7.**    Sections 1, 3, 4, and 6 of this act  
2    constitute a new chapter in Title 43 RCW.

--- **END** ---