

# HOUSE BILL REPORT

## SHB 2460

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### As Amended by the Senate

**Title:** An act relating to community empowerment zones.

**Brief Description:** Addressing economic revitalization.

**Sponsors:** By House Committee on Appropriations (originally sponsored by Representatives Gombosky, D. Sommers, Voloria, Lovick, Kessler, Kenney, Conway, Ogden, Murray, Schual-Berke, Stensen, Edmonds, Santos, Lantz, Linville, Wood and Benson).

### Brief History:

#### Committee Activity:

Economic Development, Housing & Trade: 1/25/00, 1/28/00 [DP];  
Appropriations: 2/3/00, 2/5/00 [DPS].

#### Floor Activity:

Passed House: 2/10/00, 96-1.  
Senate Amended.  
Passed Senate: 3/8/00, 45-2.

### Brief Summary of Substitute Bill

- Authorizes the designation of an additional Community Empowerment Zone by the Department of Community, Trade, and Economic Development to complete the six zones authorized in the original 1993 legislation.
- Allows the Department of Community, Trade, and Economic Development to approve or disapprove proposed amendments to alter the boundaries of or to terminate the designation of an area as a Community Empowerment Zone.

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HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, HOUSING & TRADE

**Majority Report:** Do pass. Signed by 12 members: Representatives Van Luven, Republican Co-Chair; Veloria, Democratic Co-Chair; Dunn, Republican Vice Chair; Eickmeyer, Democratic Vice Chair; Ballasiotes; Gombosky; Miloscia; Morris; Radcliff; Skinner; D. Sommers and Wolfe.

**Staff:** Kenny Pittman (786-7392).

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 29 members: Representatives Huff, Republican Co-Chair; H. Sommers, Democratic Co-Chair; Berlin, Republican Vice Chair; Doumit, Democratic Vice Chair; D. Schmidt, Republican Vice Chair; Alexander; Benson; Clements; Crouse; Gombosky; Grant; Kagi; Keiser; Kenney; Kessler; Lambert; Linville; Lisk; McIntire; McMorris; Mulliken; Parlette; Regala; Rockefeller; Ruderman; Sullivan; Sump; Tokuda and Wensman.

**Staff:** Mark Matteson (786-7145).

### **Background:**

The Community Empowerment Zone (CEZ) program was created in 1993 to encourage public and private reinvestment in geographic areas of a local government (city, town or county) that are considered economically distressed. The Department of Community, Trade, and Economic Development (DCTED) is responsible for the administration of the CEZ program.

The designation of a geographic area as a CEZ required that the area: (1) be designated by the local legislative authority to receive federal, state, and local financial and technical assistance designed to increase economic activity in the area; (2) have at least 51 percent of the households with incomes below 80 percent of the county median household income, adjusted for household size; (3) have an average unemployment rate that is 20 percent higher than the average unemployment rate of the county; and (5) have an approved five year community empowerment plan that describes a strategy to meet the housing, infrastructure, economic development, social service, and other public facilities needs of the area.

The DCTED, in consultation with the Department of Revenue, the Employment Security Department, and the Office of Financial Management, was authorized to designate up to six geographic areas by April 1, 1994, for participation in the CEZ program. Only five local governments submitted applications to participate in the CEZ program. The applications from the cities of Seattle, Tacoma, Bremerton, Yakima, and White Center in King County were approved.

### *Community Empowerment Zone Tax Incentives*

Currently, there are four tax incentives targeted to firms that locate in a CEZ:

- a sales and use tax deferral/exemption for new or remodeled buildings used in manufacturing or research and development activities;
- a Business and Occupation (B&O) tax credit of \$2,000 or \$4,000 per new job created by manufacturing, research and development, and computer service firms;
- a Business and Occupation (B&O) tax credit of 20 percent of the amount spent on job training, up to \$5,000 per firm on an annual basis, provided by the employer and designed to enhance job performance; and
- a Business and Occupation (B&O) tax credit of \$3,000 per new job, for a five year period, created by firms that provide services on an international basis.

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### **Summary of Bill:**

The DCTED is authorized to accept applications from local governments to designate an additional geographic area as a CEZ. The total number of areas that can be state-designated CEZ's cannot exceed six.

### *Community Empowerment Zone Program Administration*

The DCTED is authorized to review and either approve or disapprove requests by a local government to alter the boundaries of a CEZ. The request to alter the boundaries of a CEZ must be approved or disapproved within 60 days. A request may not be approved if it does not conform with the requirements of the CEZ programs.

The DCTED may terminate an area's designation as a CEZ, if the department issues findings stating the reason for the termination, including but not limited to a lack of commitment of resources to the CEZ by the public, private, and community-based sectors. The local government may appeal the department's findings within 60 days of the notice to terminate the area's designation as a CEZ. The DCTED may request additional applications from local governments for designation of an area as a CEZ due to the termination of an area as a CEZ.

The DCTED is required to: (1) develop indicators to measure the performance and effectiveness of the CEZ program at the local government level; (2) monitor the implementation and evaluate the effectiveness of the CEZ program; (3) provide information and appropriate assistance to persons desiring to locate and operate a

business in a CEZ; and (4) work with appropriate state agencies to coordinate the delivery of programs in a CEZ.

A local government is required to designate an officer or employee as the CEZ administrator to act as the liaison between the local government, the department, the business community, and labor and community-based organizations within the CEZ.

#### *Community Empowerment Zone Tax Incentives*

The tax incentives available to firms in the existing five CEZs would be available to firms that locate in the additional CEZ.

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**EFFECT OF SENATE AMENDMENT(S):** The Legislative Committee on Economic Development is directed to take the lead role in the development of a state-wide strategic plan for economic development. The state-wide strategic plan must be developed in conjunction with the Department of Community, Trade, and Economic Development, and an advisory group consisting of business, labor, and other interests. The advisory group must not consist of more than 12 members appointed by the Lieutenant Governor. The state-wide strategic plan shall include elements designed to improve the overall competitiveness of businesses and industries through improved work force skills.

The Department of Community, Trade, and Economic Development is directed to develop a professional research capacity to assist the state's trade assistance operation regularly appraised of opportunities and updated on performance.

The Department of Community, Trade, and Economic Development must work to promote partnerships between public and private sectors and state and local officials to encourage appropriate economic growth and opportunities, in particular strategies to encourage economic growth and opportunities in state-designated community empowerment zones.

The Department of Community, Trade, and Economic Development is required to establish a field office and full-time staff presence in Eastern Washington. If possible, the office must be collocated with one or more existing state agencies in the Tri-Cities area.

The Department of Community, Trade, and Economic Development is required to work with industry associations and organizations to identify industry clusters on a regional and state-wide basis. The Department of Community, Trade, and Economic Development must work with the identified industry clusters and various public and private sector organizations to assist in the development of strategies/services designed to strengthen the competitiveness of the state's industry clusters. An industry cluster

is defined as a geographic concentration of interdependent competitive firms that do business with each other. Clusters also include firms that sell inside and outside of the geographic region as well as support firms that supply raw materials, components, and business services.

The "eligible area" definition for the sales and use tax exemption on labor and materials used in the construction or expansion of manufacturing or research and development facilities is amended to exclude businesses located within a community empowerment zone approved after January 1, 2000. The exclusion also includes businesses located in a county containing a community empowerment zone approved after January 1, 2000.

Authorizes a county containing a community empowerment zone to impose a local 0.1 percent retail sales and use tax, subject to approval by the voters. The revenue from the local retail sales and use tax must be used solely to provide financing for emergency communication systems and facilities. Counties that contain a community empowerment zone may develop joint ventures to collocate emergency communication systems and facilities.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Ninety days after adjournment of session in which bill is passed. However, the bill is null and void unless funded in the budget.

**Testimony For:** (Economic Development, Housing & Trade) Economic growth is not a political issue, but one that is vital for all areas of the state. The approach to economic development that the community empowerment zone uses will focus public, private, and community efforts and resources to a targeted geographic area. The revisions to the program will help in the evaluation of its effectiveness and provide needed feedback to both the community and the Legislature.

(Appropriations) This proposal is the result of a look at how the CEZ program has operated since 1993. Since that time, there has been no report on the effectiveness of the program. The proposed changes would add accountability to see whether the program incentives are having the intended effect for those areas designated as CEZs. This is not a partisan issue and the proposal would allow one additional area to benefit.

**Testimony Against:** (Economic Development, Housing & Trade) None.

(Appropriations) None.

**Testified:** (Economic Development, Housing & Trade) Representative Gombosky, prime sponsor; Representative D. Sommers; and Todd Mielke, Spokane Area Chamber of Commerce.

(Appropriations) Representative Jeff Gombosky, prime sponsor; and Representative Duane Sommers.