

HOUSE BILL REPORT

E2SSB 5594

As Passed House - Amended:

April 13, 1999

Title: An act relating to enhancing economic vitality.

Brief Description: Enhancing economic vitality.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Rasmussen, T. Sheldon, Prentice, Fairley and Winsley; by request of Governor Locke).

Brief History:

Committee Activity:

Economic Development, Housing & Trade: 3/30/99, 4/2/99 [DPA];

Finance: 4/5/99 [DPA(FIN w/o EDHT)s].

Floor Activity:

Passed House - Amended: 4/13/99, 95-0.

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

- Makes revisions to the Community Economic Revitalization Board (CERB) program that (i) allows funding of telecommunication infrastructure improvements, and research and development projects; (ii) includes project "rate-of-return" in the rating criteria; (iii) uses the definition of rural county; and (iv) accepts TEA-21 funding for road improvements.
- Creates an Economic Vitality Committee to analyze potential economic development projects of state-wide significance and make recommendations on appropriate administrative or legislative actions.
- Makes revisions to the existing Distressed Area Sales and Use Tax Deferral and Distressed Area B&O Tax Credit for Job Creation Programs to target the tax incentives only to businesses located in (i) rural counties; (ii) community empowerment zones or counties that contain community empowerment zones; and (iii) subcounty areas that meet specific income and unemployment criteria.
- Creates the Rural Washington Loan Fund to provide direct financing to businesses in eligible areas using federal funds. Makes funding of local revolving loan funds a priority. Repeals the existing Washington State Development Loan Fund within the Department of Community, Trade, and Economic Development.
- Creates a "one-stop clearinghouse" in the Department of Community, Trade, and Economic Development to assist in the development of temporary housing for agricultural employees by growers, housing authorities, and nonprofit organizations.
- Increases the Washington State Housing Finance Commission's outstanding statutory debt limit from \$2 billion to \$3 billion.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, HOUSING & TRADE

Majority Report: Do pass as amended. 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).

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended by Committee on Finance and without amendment by Committee on Economic Development, Housing & Trade. Signed by 11 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Carrell, Republican Vice Chair; Cairnes; Conway; Cox; Dickerson; Pennington; Santos; Van Luven and Veloria.

Staff: Rick Peterson (786-7150).

Background:

The Department of Community, Trade, and Economic Development (CTED) is responsible for assisting in community and economic development in the state; providing technical and financial assistance to local governments, businesses, and community-based organizations; soliciting private and federal grants for economic and community development programs; and conducting the necessary research and analysis to support economic and community development efforts.

The key service areas of the department are: (i) local development assistance; (ii) economic development services, that include tourism, film and video, business development, rural development, and forest products; (iii) community services that support local efforts to develop self-reliant individuals and families through prevention, intervention, technical assistance and advocacy programs; (iv) housing and housing-related services; (v) growth management; (vi) archaeology and historic preservation; and (vii) energy policy.

The Community Economic Revitalization Board (CERB) was created by the Legislature in 1982 to provide low-interest loans and grants to political subdivisions of the state (cities, towns, counties, port districts, special purpose districts). The financial assistance is used to finance public infrastructure required for business and industry expansion or retention. Typical projects financed through CERB include sewer, water, roads, and industrial buildings.

The Development Loan Fund (DLF) program uses federal Community Development Block Grant funds to make grants to local governments for loans to businesses in economically distressed areas of the state. The DLF program was designed to allow the

state to provide financial assistance to businesses, without violating the constitutional lending-of-credit prohibition. Financial assistance is provided to businesses in the form of low-interest loans "gap financing" for that portion of a project that a business is unable to obtain from a conventional lender. The DLF program is administered by the Department of Community, Trade, and Economic Development.

The Washington State Housing Finance Commission (WSHFC) was created to provide a source of low cost financing for the development of affordable single- and multi-family residential housing. This is accomplished through the issuance of tax-exempt or taxable nonrecourse revenue bonds. The Washington State Housing Finance Commission's outstanding statutory debt limit is \$2 billion. Debt of the WSHFC is not considered an obligation of the state.

The state of Washington has developed various incentives that are designed to assist in job creation or retention in economically distressed areas. To be eligible, a business must be in either the manufacturing, research and development, or computer-related service industry. There are currently seven categories of eligibility for distressed area sales and/or business and occupation tax relief.

Summary of Amended Bill:

The various financial and technical assistance programs designed to assist in community and economic development activities in rural counties are revised.

Community Economic Revitalization Board. The types of projects that the Community Economic Revitalization Board (CERB) may invest in are broaden to include transportation and telecommunications infrastructure and pre-construction costs in rural counties.

CERB priorities for lending funds are revised by requiring project ranking that is also based on the project's rate of return that includes expected increases in state and local taxes. CERB is authorized to make loans with favorable terms for projects located in rural counties or rural natural resources impact areas. These terms include lower interest rates, longer repayment terms, and some forgiveness of loan principal.

The Joint Legislative Audit and Review Committee (JLARC) must conduct a performance review on the effectiveness of the CERB program. Beginning December 1, 2000, the results of the performance reviews must be submitted to the appropriate committees of the Legislature every four years until December 2008.

Economic Vitality Committee. An Economic Vitality Committee is created to assist in the analysis of potential economic development projects of state-wide significance and to make recommendations on appropriate administrative and legislative actions. The new

ad hoc working group consists of the Department of Community, Trade, and Economic Development, the Department of Revenue, the two representatives from rural Economic Development Councils appointed by the Legislature.

Washington Housing Finance Commission. The Washington Housing Finance Commission's outstanding statutory debt limit is increased from \$2 billion to \$3 billion.

Temporary Worker Housing. The Department of Community, Trade, and Economic Development (CTED) must establish and administer a "one-stop clearinghouse" to coordinate state assistance to growers, housing authorities, and nonprofit organizations that develop housing for agricultural employees.

Distressed Area Tax Incentives. The eligibility requirements for the Distressed Area Sales and Use Tax Deferral and Distressed Area Business and Occupation Tax Credit for Job Creation Programs are revised. The current seven categories to determine eligibility are converted into three categories (i) rural counties; (ii) community empowerment zones and a county that contains a community empowerment zone; and (iii) subcounty areas that are composed of contiguous census tracts that meet specific population, income, and unemployment criteria. The investment to job ratio for projects located within a community empowerment zone and a county that contains a community empowerment zone is increased from one job per \$750,000 of investment to one job per \$250,000 of investment.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect on August 1, 1999.

Testimony For: (Economic Development, Housing & Trade) The needs of rural Washington are well documented. The gap between the urban and rural of the state are growing larger. The bill will provide the financial and technical incentives that rural communities need to attract and retain jobs. The infrastructure financing is a vital component to rural economic development. The tree fruit and vegetable growers in rural Washington are faced with a crisis caused by a glut of foreign produce. We need tax incentives to encourage the development of cold storage facilities that would allow us to delay the release of our produce until after peak season.

(Finance) This bill is a significant product of the joint legislative task force and the two governor rural economic summits. The bill provides tax relief relevant to rural areas. The bill requires accountability. The bill should be amended to include industrial areas near empowerment zones and help desk tax incentives. The rural economic development

revolving fund tax incentive is a bottoms-up approach. It provides help to areas that need the most help.

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

(Finance) None.

Testified: (Economic Development, Housing & Trade) Senator Marilyn Rasmussen, prime sponsor; Senator Tim Sheldon, sponsor; Representative Lynn Kessler; Representative Joyce Mulliken; Pat Hamilton, Pacific County Commissioner; Bill Lotto, Washington Association of Economic Development Councils; Peggy Bryan, Skamania County Economic Development; Scott Taylor, Washington Public Ports Association; Rick Mattoon, Governor's Policy Office; and Brian Shay, city of McCleary.

(In support with amendment) Dick Ducharme, Yakima Growers; and Enid Layes, Horticulture Association.

(Finance) Senator Rasmussen, prime sponsor; Representative Lynn Kessler; Rick Mattoon, Governor's Policy Office; Aaron Jones, Washington Rural Electric Co-op Association; and Bryan Wahl, Washington State Commercial Association of Realtors.