

# HOUSE BILL REPORT

## HB 2296

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**As Reported by House Committee On:**  
Trade & Economic Development  
Finance

**Title:** An act relating to distressed area designation.

**Brief Description:** Modifying the definition of "eligible area" for distressed area designation.

**Sponsors:** Representatives Eickmeyer, Lantz, Miloscia, Kessler, Rockefeller and Haigh.

**Brief History:**

**Committee Activity:**

Trade & Economic Development: 1/22/02, 1/29/02 [DP];

Finance: 2/11/02 [DPS].

**Brief Summary of Substitute Bill**

- Amends the definition of "eligible area" to include a county that has experienced a loss of more than 500 federal civilian jobs during the previous four-year period due to military base restructuring and where federal civilian employment exceeds 15 percent of the total county employment.
- Allows businesses located in an "eligible" area to access specific economic development incentives to create or retain jobs, or expand the skills of an employer's existing workforce.

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### HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

**Majority Report:** Do pass. Signed by 8 members: Representatives Veloria, Chair; Eickmeyer, Vice Chair; Van Luven, Ranking Minority Member; Ahern, Chase, Dunn, Fromhold and Gombosky.

**Minority Report:** Do not pass. Signed by 1 member: Representative Mulliken.

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

**Background:**

Washington has developed various incentives designed to assist geographic areas that are experiencing economic distress, due to high unemployment levels or low median household incomes. The goal of these incentives is to create or retain jobs and to diversify the local economy by providing financial or technical assistance to local governments or individual firms.

An economically distressed area may be either an entire county or subarea within a county. An entire county is eligible where: (1) it is a rural county with a population of less than 100 people per square mile; (2) it has an unemployment rate that is 20 percent higher than the state unemployment rate for the previous three-year period; (3) it has a median household income that is less than 75 percent of the state median household income; (4) it is a metropolitan area with an average unemployment rate that exceeds the average state unemployment rate by 20 percent; or (5) it is designated as a rural natural resources impact area.

A subarea of a county may be eligible for the various incentives where: (1) it has experienced a sudden and severe or long-term loss of employment; (2) it has a minimum population of 5,000 and at least 70 percent of its households have incomes below 80 percent of the county median income; or (3) it is a state-designated community empowerment zone.

#### *Tax Deferrals for Investment Projects in Distressed Areas (Chapter 82.60 RCW)*

The Deferrals for Investment Projects in Distressed Areas Program was created in 1985 and provides a three-year deferral and eventual exemption from the state and local sales and use tax liability on materials and construction labor used for new or remodeled buildings that are used in manufacturing or research and development activities in economically distressed areas. The Tax Deferrals for Investment Projects in Distressed Areas program is administered by the Department of Revenue.

#### *Business and Occupation Tax Credit for Job Training Services (RCW 82.04.4333)*

The Business and Occupation Tax Credit for Job Training was created in 1996 and provides businesses a credit against their business and occupation (B&O) tax liability that is equal to 20 percent of the amount spent on state-approved employee job training. The maximum amount of the B&O tax credit for an individual business cannot exceed \$5,000 per calendar year. The training must be sponsored or provided by the employer and designed to enhance employee job performance. The job training tax credit is limited to those manufacturing or research and development businesses that are located in economically distressed areas and eligible to defer their sales/use tax liability under the Tax Deferrals for Investment Projects in Distressed Areas. The B&O Tax Credit for Job Services is administered by the Department of Revenue.

#### *Tax Credits for Eligible Business Projects (Chapter 82.62 RCW)*

The Tax Credits for Eligible Business Projects Program was created in 1986 and provides manufacturing, research and development, and computer service businesses a credit against their business and occupation (B&O) tax liability for the creation of new jobs in economically distressed areas. The B&O tax credit is equal to \$4,000 per job with annual wages and benefits greater than \$40,000 and \$2,000 per job with annual wages and benefits less than \$40,000. No more than \$15 million may be taken in any biennium by all businesses. The Tax Credit for Eligible Business Projects Program is administered by the Department of Revenue.

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**Summary of Bill:**

The definition of an "eligible area" is expanded to include a county that has experienced a loss of more than 500 federal civilian jobs during the previous four-year period due to military base restructuring and where federal civilian employment exceeds 15 percent of the total employment in the county. The Department of Employment Security must determine the county's eligibility on a biannual basis.

Specific businesses that are located in an "eligible area" would be able to access the following economic development incentives: (1) the Tax Deferrals for Investment Projects in Distressed Areas Program; (2) the Business and Occupation Tax Credit for Job Training Services; and (3) the Tax Credits for Eligible Business Projects Program.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** The current system of determining economic distress does not address the unique nature of military employment. The Kitsap County economy is subject to changes in employment level whenever military ships are deployed in different locations or whenever civilian military employment is reduced due to base restructuring. This bill will provide incentives that will help the county diversify its economy so that the impacts of these employment changes will be minimal.

**Testimony Against:** None.

**Testified:** (in support) Representative Eickmeyer, prime sponsor.

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**HOUSE COMMITTEE ON FINANCE**

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do

pass. Signed by 10 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Nixon, Orcutt, Roach, Santos, Van Luven and Veloria.

**Minority Report:** Do not pass. Signed by 1 member: Representative Morris.

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

**Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Trade & Economic Development:**

Technical amendment that identifies the data sources used for the total employment and federal civilian employment. Removes the requirement that the job loss must be due to military base restructuring.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** This has been three years in the works. Kitsap County is in a unique situation because of the military presence. We do not receive assistance associated with loss of employment, because when the military left with 5,000 people they were not considered state residents. This will help provide some stability to the county.

**Testimony Against:** None.

**Testified:** EnterText