

SENATE BILL REPORT

SHB 2460

As Reported By Senate Committee On:
Commerce, Trade, Housing & Financial Institutions, February 24, 2000
Ways & Means, March 8, 2000

Title: An act relating to community empowerment zones.

Brief Description: Addressing economic revitalization.

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

Brief History:

Committee Activity: Commerce, Trade, Housing & Financial Institutions: 2/24/2000 [DPA].

Ways & Means: 3/8/2000 [DPA].

SENATE COMMITTEE ON COMMERCE, TRADE, HOUSING & FINANCIAL INSTITUTIONS

Majority Report: Do pass as amended.

Signed by Senators Prentice, Chair; Shin, Vice Chair; Benton, Deccio, Gardner, Hale, Heavey, Rasmussen, T. Sheldon, West and Winsley.

Staff: Dave Cheal (786-7576)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Loveland, Chair; Brown, Vice Chair; Fairley, Fraser, Kline, Kohl-Welles, Rasmussen, B. Sheldon, Spanel, Thibaudeau, Winsley and Wojahn.

Staff: David Schumacher (786-7474)

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 (4) 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.

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 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 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 tax credit of \$3,000 per new job, for a five-year period, created by firms that provide services on an international basis.

The Legislative Committee on Economic Development made several recommendations to the Legislature as a result of 1999 interim hearings: (1) that the Legislature in cooperation with DCTED develop a statewide long range strategy for successful economic development; (2) that the state's scarce economic development assistance resources be directed toward industry clusters and statewide industry groups instead of individual firms; and that DCTED establish an eastern Washington field office.

The state sales tax is imposed on each retail sale of most articles of tangible personal property and certain services and is applied to the selling price of the article or service. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms. The state sales tax rate is 6.5 percent.

Summary of Ways & Means Amended Bill: 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 CEZs cannot exceed six.

Community Empowerment Zone Program Administration. 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.

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. 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.

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 B&O tax incentives available to firms in the existing five CEZs are available to firms that locate in the additional CEZ.

The Legislative Economic Development Committee and DCTED are directed to develop a statewide strategic plan for successful economic development. DCTED is directed to adopt an industry cluster approach to its economic development service delivery efforts. DCTED is directed to establish a field office as soon as practicable, and if possible, to co-locate this office with an existing state office in the Tri-Cities area.

Emergency Communication Systems. Counties which include community empowerment zones are authorized to impose an additional 0.1 percent tax for the financing, design, acquisition, construction, equipping, operating, maintaining, remodeling, repairing, reequipping, and improvement of emergency communication systems and facilities, subject to voter approval. Authority is provided for these counties to develop joint ventures to collocate emergency communication systems and facilities.

Ways & Means Amended Bill Compared to Commerce, Trade, Housing & Financial Institutions Amended Bill: The Ways and Means amendment removes the ability for businesses in the newly created CEZ to receive the sales tax exemption. It does not make changes to the B&O incentives and does not in any way change the taxation of business in existing CEZs. In addition, the voter approved 0.1 percent sales tax for emergency communications facilities is included.

Commerce, Trade, Housing & Financial Institutions Amended Bill Compared to Substitute Bill: The amended bill includes a direction to the Department of Community, Trade, and Economic Development to focus its economic development assistance resources to industry clusters, rather than individual businesses. Also included is the outline for the development of a statewide economic development plan to be developed by the Legislative

Economic Development Committee in cooperation with DCTED. An eastern Washington field office of DCTED is established as soon as practicable and, if possible, co-located with an existing state agency in the Tri-Cities area.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill would be of great help to an area like Spokane where the big problem is underemployment. The economic boom experienced by the Puget Sound region is having little effect on eastern Washington, and targeted economic development tools like this are badly needed.

Testimony Against: None.

Testified: Jill Satran, WA Assn. of Economic Development Councils (pro); Steve Corker, City of Spokane (pro).