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Policy Brief

Economic Development/Senate Budget

BRIEFLY

Although Washington has quite a few economic development programs assisting distressed and rural counties, development professionals claim they're not getting the job done.

The contention is that rural counties typically have depended on flagging resource-based industries, and now need the sewers, roads, water systems and other infrastructure necessary to attract more businesses, and the jobs they would create.

In response, the legislature has been tussling with a half dozen bills aimed at helping rural counties beef up their infrastructure. A feature common to some of these bills is defining rural counties as those with 100 or fewer people per square mile. New development programs would target all rural counties, not just those with high unemployment rates.

Washington already has more than a dozen economic development programs for distressed and rural counties, but the legislature may well will add a few more this year.

The one with the biggest budget impact would allow rural counties to keep more sales-tax revenue, to fund sewers, water, roads and other local infrastructure.

This week, the Senate published its proposed 1999-2001 general fund budget, which would allow rural counties to keep $15.7 million in sales tax they otherwise would turn over to the state. The counties could use the retained taxes for infrastructure aimed at drawing new businesses and enabling existing companies to expand. A similar measure has been endorsed by the House Republicans and Democrats in their budget proposals.

The Senate, controlled by Democrats, also proposed tax credits totaling about $7.7 million to finance four other rural development measures.

As well, the Senate would spend $1 million on grants to communities "to design and carry out rural economic development projects," and another $1 million for rural tourism promotion.

Democrats and Republicans in both houses this session have advanced a mix of much-amended economic development legislation that stresses rural infrastructure and shifts the development focus from distressed counties, with high unemployment rates, to all rural counties, as measured by population density.

The Senate has passed legislation defining "rural" counties as those with fewer than 100 people per square mile. For infrastructure development, these counties would qualify to withhold 0.08 percent of the sales tax they normally collect and pass on to the state.

Current law allows distressed counties to retain 0.04 percent. As rural counties, they would double their withhold, while other newly defined rural counties would jump from zero withhold to 0.08 percent.

Washington already has 17 economic development programs aiding distressed and rural counties. They include such programs as the Public Works Trust Fund (providing money for water, sewer, stormwater and solid-waste projects) and the Community Economic Revitalization Board (providing loans and grants for buildings and infrastructure to retain and create jobs).

But most are small and rarely used, according to Bill Lotto, president of the Washington Association of Economic Development Councils.

Last year, the legislature created a Joint Task Force on Rural Land Use and Economic Development, which held public hearings in Chehalis, Colville, Ellensburg and Shelton. The task force was created mainly to assess land-use issues, but much of the testimony centered on economic development and the need for infrastructure to promote it. Several bills introduced during this year's legislative session grew out that testimony.

"Without infrastructure – water and sewer – we're toast," said Pacific County Commissioner Pat Hamilton. "We're in the boonies," and if Pacific cannot entice new businesses with a package of updated infrastructure, it can only hope existing businesses will expand.

Many counties still have high unemployment rates, so it's easy to see why they want more development. But others apparently just want to grow more, seeing that the central Puget Sound counties claimed 80 percent of all new Washington jobs during 1995-1997.

"In the current decade, Washington's economy has been among the strongest in the United States," according to a Senate Commerce & Labor Committee staff report last year. "From 1995 to 1997, average unemployment was less than 6 percent. Yet disparity between urban and rural economies continues to widen."

Economic Development Incentive Programs Targeted to Distressed Areas, April 1998

Agency/Program
Department of Community, Trade, and Economic Development
Public Works Trust Fund - Rural Natural Resources Loan Program
Development Loan Fund - Traditional DLF
Coastal Loan Fund
Community Development Finance
Local Trade Assistance Network
Reemployment Support Centers
Washington State Rural Development Council
Community Economic Revitalization board - Timber/Salmon
Entrepreneurial Training
Department of Revenue
Distressed Area Sales Tax Deferral/Exemption
Distressed Area B&O Tax Credit - Job Creation
Distressed Area B&O Tax Credit - Job Training
Distressed County Sales Tax Credits/State -Share
International Services B&O Tax Credit - Job Creation
Employment Security Department
Timber Retraining Benefits
Upper-Division Education Program
State board Community/Technical Colleges
Tuition Waivers

Source: House of Representatives Office of Program Research

Contributing to the urban-rural gap have been the many eligibility criteria for existing distressed and rural county development programs. A county has only to meet one to qualify for help.

One criterion is unemployment rates exceeding 20 percent of the state average, which makes sense. But there are six more, including one that says a county is distressed if it's contiguous to a county with an unemployment rate more than 20 percent of the state average, and another listing a county as distressed if it contains a community empowerment zone. By one criterion or another, virtually every county in the state qualifies for state help. Last year, only Asotin County, in the southeast corner of the state, failed to qualify under at least one of the distressed-area criteria.

As a result, development programs have run "one mile wide and one inch deep," said Sen. Tim Sheldon, D-Potlatch.

Some lawmakers want to replace the multiple eligibility criteria with the single standard of whether a county is rural. Bills before the Senate this week define "rural" as counties with fewer than 100 people per square mile. That would classify fully 32 of the state's 39 counties as rural. Only King, Pierce, Snohomish, Clark, Thurston, Kitsap and Spokane counties would be urban.

Defining rural, and therefore needy, counties by population density in effect would create a new performance measure. If a county has fewer than 100 people per square mile, by definition its economy is performing relatively poorly and is in need of state financial help. If its population increases to more than 100, then it's doing okay – even if it still has high unemployment.