

# HOUSE BILL REPORT

## 2SHB 1815

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**As Reported by House Committee On:**  
Economic Development, Agriculture & Trade  
Appropriations

**Title:** An act relating to a small business incubator competitive grant program.

**Brief Description:** Creating a competitive grant program for organizations that assist small businesses.

**Sponsors:** House Committee on Appropriations (originally sponsored by Representatives Wallace, Skinner, Pettigrew, Rodne, Kilmer, Ahern, Blake, McCoy, Anderson, Walsh, Lovick, Hudgins, Appleton, Strow, Murray, B. Sullivan, Simpson, Kessler, Williams, O'Brien, Conway, Morris, Linville, Lantz and Moeller).

**Brief History:**

**Committee Activity:**

Economic Development, Agriculture & Trade: 1/17/06, 1/25/06 [DP3S];  
Appropriations: 1/31/06, 2/2/06 [DP3S].

**Brief Summary of Third Substitute Bill**

- Creates a competitive grant program for small business incubators and entrepreneurial support programs.

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### HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

**Majority Report:** The third substitute bill be substituted therefor and the third substitute bill do pass. Signed by 18 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Skinner, Assistant Ranking Minority Member; Appleton, Bailey, Blake, Chase, Clibborn, Dunn, Grant, Haler, Kilmer, McCoy, Morrell, Quall, Strow, P. Sullivan and Wallace.

**Minority Report:** Do not pass. Signed by 5 members: Representatives Kristiansen, Ranking Minority Member; Buri, Holmquist, Kretz and Newhouse.

**Staff:** Tracey Taylor (786-7196).

**Background:**

Business incubation is a dynamic process of business enterprise development. Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. Many business incubators also offer

entrepreneurial firms shared office services, access to equipment, flexible leases, and expandable space.

An incubation program's main goal is to produce businesses that are financially viable and freestanding when they leave the incubator, usually after two or three years. Approximately 30 percent of incubator clients graduate each year.

In 2004, the Legislature passed the Washington Small Business Incubator and Assistance Act which created the Small Business Incubator (SBI) program which is administered by the Department of Community, Trade and Economic Development (DCTED).

The DCTED may award grants of up to \$3 million to qualified SBI organizations for the construction and equipment needs of the SBI facility. In order to receive the grant, the qualified SBI must show that it has the resources to complete the project in a timely manner and that the state grant is not the sole source of funds. In addition to the facilities funds, the DCTED may provide technical assistance, up to a maximum of \$125,000 per year, per facility, to a qualified SBI for support services and the operation of the SBI facilities.

A SBI is defined as a physical location that offers:

- space for start-up and expanding firms with viable products;
- the shared use of equipment and work areas;
- daily management support services essential to high-quality commercial operations; and
- technical assistance.

To qualify for money under the SBI program, a SBI organization must be a nonprofit 501(c)(3) organization focused on developing small businesses in an economically distressed or disadvantaged area. It must also have a sound business plan and meet other standards developed by the DCTED, in conjunction with the Washington Association of Small Business Incubators.

A SBI account is created in the custody of the State Treasurer. The DCTED may accept and receive grants, gifts, and pledges for the support of the SBI program.

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### **Summary of Third Substitute Bill:**

A competitive grant program is established for small business incubators and entrepreneurial support programs providing business-related training and services as well as technical assistance to start-up or emerging businesses. Entrepreneurial support programs offer start-up or emerging businesses business-related training and services as well as technical assistance on an on-going basis. An emerging business means a business that is engaged in activities related to the development of initial product or service offerings, which is less than three years old, and during the previous fiscal year had gross revenues of no more than \$2 million. A start-up business means a business that is involved in activities related to the initial product or service offerings which is less than three years old and during the previous fiscal year had gross revenues of no more than \$2 million and has fewer than 20 employees. The requirement

that a qualified SBI be focused on developing businesses in an economically distressed area is removed.

The grants are awarded to 501(c)(3) or 501(c)(6) nonprofit organizations or governmental organizations, including port districts. To the extent possible and subject to the amount of funding, grants shall be distributed equitably across the state.

Ninety percent of the grant funds must be used to provide direct services and training to businesses. Administration and overhead expenses are limited to 10 percent of the grant award. The grants are awarded for a two-year period and previous grantees are not prohibited from reapplying for new grants.

The DCTED will administer the grant program and shall establish an application process. At a minimum, the grant applications must include a work plan that describes the types of businesses to be targeted for assistance; the types of training, services and technical assistance to be offered; and the performance measures to be applied. One year after receiving a grant, the grant recipient must submit a progress report to the DCTED.

On a biennial basis, beginning December 1, 2007, the DCTED must submit a report to the appropriate committees of the Legislature. The report should include, but is not limited to, the number of businesses served by industry, the types of services provided, the number of jobs retained as the result of the grant program, the number of jobs created as the result of the grant program, and the names of the grant recipients and the amounts of the grants.

**Third Substitute Bill Compared to Second Substitute Bill:**

The third substitute clarifies that an entrepreneurial support program must offer training and services on an on-going basis to a start-up or emerging business. Businesses that are in a growth mode of expanding operations or markets are no longer qualified. The designation of and distribution of grants across zones is eliminated; instead to the extent funding is provided for the grant program, the DCTED must endeavor to equitably distribute the grants across the state. The third substitute clarifies that 90 percent of the grant funds must be used to provide direct services and training to businesses. The null and void clause is deleted.

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**Appropriation:** None.

**Fiscal Note:** Available on second substitute bill.

**Effective Date of Third Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** Small business is the bread and butter of our economy; however, these businesses struggle because they need services and technical assistance. Small business incubators provide this support; however sometimes it is not effective to link the services to a building. This is why it is important to include entrepreneurial support programs along with SBI in this grant program. Historically, Washington has underfunded economic

development. This bill could be part of a renewed commitment to increase state support of economic development.

(In support with concerns) There are some technical changes that are needed.

**Testimony Against:** None.

**Persons Testifying:** (In support) Representative Wallace, prime sponsor; and Representative Skinner.

(In support with concerns) Lincoln Ferris, Washington Association of Small Business Incubators.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The third substitute bill be substituted therefor and the third substitute bill do pass. Signed by 19 members: Representatives Sommers, Chair; Fromhold, Vice Chair; McDonald, Assistant Ranking Minority Member; Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, Miloscia, Schual-Berke, P. Sullivan and Walsh.

**Minority Report:** Do not pass. Signed by 11 members: Representatives Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; Armstrong, Bailey, Buri, Chandler, Clements, Hinkle, Pearson, Priest and Talcott.

**Staff:** Owen Rowe (786-7391).

### **Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Economic Development, Agriculture & Trade:**

No new changes were recommended.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Third Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** We are excited about the relationship we have with the DCTED and our small business incubator program started a year ago. We have some concerns about the modifications of HB 1815. HB 1815 is designed to provide operational support for our statewide incubator network. In this last year, the \$235,000 that was awarded is being put towards an exciting use, a comprehensive plan for most of the state. We have purchased a computer server that will set up a statewide network for incubator programs. It will increase productivity and the shared resources will enable other companies to share success and increase resources. Partnering is an important part of the incubator network. Our fear is that

by spreading these dollars to other service providers besides incubators that the awards will become too small to be effective. Please consider a separate appropriation for other entrepreneurial support programs or increase the amount of the current award so that we can still have enough money to make a difference to our client companies.

**Testimony Against:** None.

**Persons Testifying:** Colleen Hall Barta, Washington Association of Small Business Incubators.

**Persons Signed In To Testify But Not Testifying:** None.