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**Community & Economic  
Development & Trade Committee**

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**HB 2914**

**Brief Description:** Providing a funding source to assist small manufacturers in obtaining innovation and modernization extension services.

**Sponsors:** Representatives Linville, Bailey, Sullivan, Skinner, Pettigrew, Haler, Chase, Kristiansen, Upthegrove, Morrell, Santos, Nelson and Kenney.

**Brief Summary of Bill**

- Creates the Washington Manufacturing Innovation and Modernization Extension Services Program to be administered by the Community Economic Revitalization Board.
- Allows a small manufacturer or industry association to receive a voucher to cover up to \$200,000 in services by a qualified manufacturing extension partnership affiliate.
- Requires a Program participant to contribute over a 24 month period 105 percent of the costs of extension services into a non-appropriated account in the custody of the State Treasurer.
- Authorizes a Program participant to take a business and occupation tax credit valued at 50 percent of the contribution into the account.
- Requires the Department of Community, Trade and Economic Development director to award an affiliate up to \$100,000 per year from the account to conduct outreach services.

**Hearing Date:** 2/4/08

**Staff:** Meg Van Schoorl (786-7105).

**Background:**

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

In Substitute House Bill (SHB) 2726 (2006), the Legislature found that to perform successfully in the global marketplace and pay good wages, Washington manufacturers must master new technologies, production processes and methods of work organization. The Legislature enacted SHB 2726 to increase state support for and facilitate the delivery of modernization services to small and mid-size manufacturers and leverage federal and private resources. The Legislature also intended to encourage small and mid-size firms to aggregate their demands for training and other services, and for large firms to support training consortia among their suppliers.

Codified under RCW 24.50, the Washington Manufacturing Services (WMS) is a private, nonprofit corporation whose mission is to operate a modernization extension system, coordinate a network of private and public modernization resources, and stimulate the competitiveness of small and mid-size manufacturers in Washington. The WMS is governed by a board of directors constituted as required with representatives from small and mid-sized manufacturing firms and associations, labor, and, as ex officio members, the Department of Community, Trade, and Economic Development (DCTED), State Board for Community and Technical Colleges, and the Workforce Training and Education Coordinating Board.

The WMS must develop policies, plans and programs and coordinate the delivery of modernization services. The WMS must also: provide information about the advantages of modernization and modernization services; collaborate with the Washington Quality Initiative to develop manufacturing quality standards; serve as an information clearinghouse, providing access to the federal Manufacturing Extension Partnership National Research and Information System; and provide other assistance to industry associations, networks or consortia either directly or through contracts. WMS may charge fees for services, receive funds from public and private sources, and execute contracts.

According to its website, services that the WMS offers to manufacturers include lean manufacturing, business and workforce development, environmental health and safety, quality improvement, and sales and marketing development. The WMS has project managers with regional assignments and industry specialties. After a free outreach visit to the prospective client business, the WMS project manager develops a plan of action with the manufacturer. The WMS charges fees for its services. The WMS has been affiliated with the U.S. Department of Commerce's National Institute of Standards and Technology (NIST) Manufacturing Extension Program (MEP) since 1997.

## **Summary of Bill:**

### Findings

The Legislature finds that a viable manufacturing industry is critical to providing family wage jobs and improving the quality of life for workers and communities in Washington. State manufacturers can compete successfully in the future global market and pay good living wages only through innovation and modernization techniques. Because these techniques are not accessible financially to most small and mid-size firms and because of the statewide public benefit to be gained, the Legislature intends to create a new mechanism that reduces the up-front costs of services to these firms. The Legislature also intends to increase its support for the Manufacturing Extension Partnership Program, expand services, and leverage federal and private resources. As a result, there will be growth in manufacturing firms and increased business and occupation (B&O) taxes.

## Program Created

The Washington Manufacturing Innovation and Modernization Extension Service Program (Program) is created, and will be administered by the Community Economic Revitalization Board (Board) in the DCTED. The Program's purpose is to provide assistance to small manufacturers, defined as private companies having 100 or fewer employees whose primary business is to add value to a product through a manufacturing process.

## Application Criteria and Process

A small manufacturer desiring Program assistance must apply to the Board. The Board will provide successful applicants with an Innovation and Modernization Extension voucher to cover the costs of extension services performed by a qualified manufacturing extension partnership affiliate (Affiliate). The applicant must:

- Have an agreement with an Affiliate to engage in innovation and modernization extension services.
- Be a small manufacturer or industry association or cluster at the time of entering the agreement.
- Agree to contribute 25 percent of the voucher amount upon completion of services, and 80 percent of the voucher amount on a monthly or quarterly basis over the next 18 months.
- If a small manufacturer, ensure that the number of its employees in state during the calendar year following program completion is equal to or greater than the number in state during the calendar year preceding the program start.

A Program participant may not receive more than \$200,000 in vouchers in a calendar year. Services may include strategic planning, continuous improvement, business development, lean processes, supply chain management, among others.

The Board must allocate no more than 60 percent of available funding in the initial year of a biennium.

## Manufacturing Innovation and Modernization Account

The Manufacturing Innovation and Modernization Account (Account) is created as a non-appropriated account in the custody of the State Treasurer. Only the DCTED director (Director) may authorize expenditures from the Account, which may be used only for the Program.

All payments made by Program participants must be deposited into the Account until their contribution obligations are met. All other revenues received for the purpose of funding the program (such as gifts, grants, fees, and endowments) must also be deposited to the Account.

The Director will award an amount not to exceed \$100,000 per year from the Account to enable qualified manufacturing extension partnership affiliates (Affiliate) to conduct outreach services. A qualified Affiliate is a private nonprofit organization established under chapter 24.50 RCW or another organization eligible or certified to receive federal matching funds under the NIST MEP. Outreach services may include activities performed by an Affiliate such as needs assessments, client follow-up, public education, advertising, and trade shows. Beginning in fiscal year 2013, the outreach services funding must be matched 50 percent by private funds. In addition, when an Affiliate submits a Program participant's voucher, the Director will pay the Affiliate an amount equal to the full costs of services.

The Legislature intends that all payments made from the Account to qualified Affiliates will be eligible as the state match in an Affiliate's application for federal matching funds under the Manufacturing Extension Partnership Program of the US Department of Commerce's NIST.

### B&O Tax Credits

A Program participant may receive a B&O tax credit equal to 50 percent of the participant's contribution to the Account. Credits earned by a Program participant in one calendar year may be credited against taxes incurred in subsequent years. If the Program participant does not meet the employment increase requirement, the value of tax credits taken plus interest must be remitted to the Department of Revenue (DOR).

Each Program participant claiming a tax credit must file a complete annual survey including information required by statute and by the DOR by March 31 of the year following the calendar year in which the tax credit is taken. All information collected, except the amount of the tax credit taken, is considered confidential taxpayer information. Failure to submit a timely annual survey will result in the taxes credited, and interest, to be immediately due and payable, subject to terms contained within the statute. However, the DOR may grant extensions for filing a survey if the failure to file on time was due to circumstances beyond the taxpayer's control.

The DOR must use the survey information to prepare summary descriptive statistics and report them to the Legislature annually by September 1. The DOR must study the tax credit authorized in this act and report biennially beginning December 1, 2013 to appropriate legislative committees on the effect of the credit.

No more than \$1,225,000 in total annual credits will be available statewide. The B&O tax credit expires July 1, 2018.

### Other

Because this chapter is necessary for the welfare of the state and its inhabitants, it must be liberally construed, and if any of its provisions are inconsistent with provisions of any general or special law, the provisions of this chapter will control.

**Appropriation:** None.

**Fiscal Note:** Requested on January 21, 2008.

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