

HOUSE BILL REPORT

E2SHB 3115

As Passed House:
February 14, 2008

Title: An act relating to small business incubators.

Brief Description: Concerning small business incubators.

Sponsors: By House Committee on Apps Subcom GG (originally sponsored by Representatives Kenney, Skinner, Green, Wallace, Haler, Chase, Rodne, Conway, Morrell, Linville, VanDeWege, Loomis, Kelley, Rolfes, Liias, Ormsby and Darneille).

Brief History:

Committee Activity:

Community & Economic Development & Trade: 1/28/08, 1/30/08 [DPS];
Appropriations Subcommittee on General Government & Audit Review: 2/5/08, 2/7/08
[DP2S(w/o sub CEDT)].

Floor Activity:

Passed House: 2/14/08, 94-0.

Brief Summary of Engrossed Second Substitute Bill

- Modifies the definition of "small business incubator" to be a facility or program providing services to businesses less than five years old having ten or fewer employees at the time of admission.
- Requires the Department of Community, Trade and Economic Development (DCTED) to develop a Small Business Incubator Certification Program.
- Requires certified small business incubators to report prescribed information annually to the DCTED.
- Requires the DCTED to submit biennial reports to the Legislature and the Economic Development Commission beginning in 2010.

HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE

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.

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Kenney, Chair; Pettigrew, Vice Chair; McDonald, Assistant Ranking Minority Member; Chase, Darneille, Rolfes and Sullivan.

Minority Report: Do not pass. Signed by 2 members: Representatives Bailey, Ranking Minority Member; Haler.

Staff: Meg Van Schoorl (786-7105).

HOUSE COMMITTEE ON APPROPRIATIONS SUBCOMMITTEE ON GENERAL GOVERNMENT & AUDIT REVIEW

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Community & Economic Development & Trade. Signed by 11 members: Representatives Linville, Chair; Ericks, Vice Chair; Armstrong, Ranking Minority Member; Skinner, Assistant Ranking Minority Member; Blake, Lantz, Lias, Miloscia, Morris, Nelson and Van De Wege.

Minority Report: Do not pass. Signed by 3 members: Representatives Alexander, Chandler and Kretz.

Staff: Owen Rowe (786-7391).

Background:

Business Incubation

The National Business Incubation Association defines business incubators as "a comprehensive business assistance program targeted to help start-up and early-stage firms, with the goal of improving their chances to grow into healthy, sustainable companies." Small business incubators typically provide management assistance, access to financing, and 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.

Washington Small Business Incubator Program

The Washington Small Business Incubator and Entrepreneurship Assistance Act of 2004 created the Small Business Incubator (SBI) program administered by the Department of Community, Trade and Economic Development (DCTED). A business incubator is defined as "a facility that offers space for start-up and expanding firms; the shared use of equipment and work areas; daily management support services essential to high-quality commercial operations; and technical assistance." To be considered a "qualified small business incubator" and qualify for money under the SBI program, an incubator 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.

The DCTED may award grants of up to \$3 million per recipient to qualified small business incubators for construction and equipment costs. In addition to the facilities' funds, the DCTED may provide grants, up to a maximum of \$125,000 per year per facility to a qualified small business incubator for technical assistance to small businesses. In order to receive a grant, the qualified small business incubator 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.

Under current law, the DCTED has no duty to provide services related to the 2004 Act unless and until the program is funded by the Legislature.

Joint Legislative Audit and Review Committee (JLARC) Small Business Incubator Review

In the 2006 Supplemental Operating Budget, the Legislature directed the JLARC to review state policy, funding, and performance of small business incubators. To explore the policy question of whether incubators assist in the creation and expansion of firms and keep businesses from failing, the JLARC studied three overarching topics: How many incubators are there in Washington? What is the state's role in supporting incubators and what are their costs to the state? How are incubators performing? The JLARC Report 7-10, issued August 23, 2007, concluded that it was not possible to determine the true impact of incubators in Washington and that "Like many other economic development efforts, incubators might best be characterized as ongoing experiments. Improved information will help policymakers understand whether these experiments are producing the desired results."

Summary of Engrossed Second Substitute Bill:

The purpose of small business incubators is to provide comprehensive business assistance to start-up and early-stage firms to improve their chances of becoming healthy, sustainable companies that can create jobs, revitalize neighborhoods, and commercialize new technologies.

A "business incubator" is defined as a facility or program that provides training, services, and technical assistance to businesses less than five years old with ten or fewer employees at the time of admission.

An "economically distressed or disadvantaged area" is defined as a county with an unemployment rate that is 20 percent above the state average for the immediately previous three years, or an area that the DCTED determines to be a low-income community, using as guidance the Community Development Financial Institutions Fund's New Markets Tax Credit Program under the U.S. Department of the Treasury.

To be defined as a "qualified small business incubator," the incubator must be certified by the DCTED in addition to meeting the specifications in the current statute. Nonprofit business

groups organized under section 501(c)(6) of the federal tax code are eligible to pursue certification.

The DCTED must develop a Small Business Incubator Certification Program. The DCTED must develop certification criteria additional to that in statute, and in doing so, will consult with the Washington Association of Small Business Incubators and the National Business Incubator Association, among others. A small business incubator must be certified in order to receive funding from the DCTED, must renew its certification every five years, and must meet annual reporting requirements in order to maintain certification.

A certified small business incubator must collect specified types of information annually for each client business. This data collection must continue for at least five years after the client leaves the incubator facility or stops receiving services. Data on each client business and the incubator itself must be submitted annually to the DCTED by March 31. Such data includes information on incubator sponsors; contribution sources and amounts; firms that have graduated from the incubator; and numbers of employees.

The DCTED must submit biennial reports to the Legislature and the Economic Development Commission beginning in 2010 regarding the performance of certified small business incubators.

The bill is null and void unless funded in the budget.

Appropriation: None.

Fiscal Note: Requested on February 7, 2008.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed. However, the bill is null and void unless funded in the budget.

Staff Summary of Public Testimony: (Community & Economic Development & Trade)

(In support) We know that strong small businesses are critical to the stability and growth of our local, state and national economies. Business incubators are one strategy that we can use to improve the survival rate of start-up and early-stage firms. This bill is intended to help answer the question: do incubators assist in the creation and expansion of firms and keep businesses from failing? We have wanted a certification program for many years. Those incubators that use best practices do show success, including survival rates of 85 percent. The Legislature has been rightly concerned about accountability, primarily with regard to graduation policies, certification, and data collection. There may be an issue with the definition of economic distress contained in the bill. Some communities do not meet the criteria and the most important aspect is not where a given incubator is located but who it serves.

(Opposed) None.

Staff Summary of Public Testimony: (Appropriations Subcommittee on General Government & Audit Review)

(In support) Small businesses are critical to the state's economy. Last year when the Joint Legislative Audit and Review Committee conducted a review of small business incubators in the state, they found it impossible to answer fundamental policy questions, such as whether incubators assist in the creation and expansion of firms and new jobs. This bill will assist state policy makers to make decisions related to supporting small businesses. This bill requires accountability from incubators and annual reports which will help to determine the impact of incubators on job development.

(Opposed) None.

Persons Testifying: (Community & Economic Development & Trade) Representative Kenney, prime sponsor; Representative Skinner; Colleen Hall Barta, Washington Association of Small Business Incubators/William Factory Incubator; and Lincoln Ferris, Washington Association of Small Business Incubators.

Persons Testifying: Tim Strege, WM Factory Small Business Incubator.

Persons Signed In To Testify But Not Testifying: (Community & Economic Development & Trade) None.

Persons Signed In To Testify But Not Testifying: (Appropriations Subcommittee on General Government & Audit Review) Linc Ferris, Washington Association of Small Business Incubators; and Marie Sullivan, Department of Community, Trade and Economic Development.