

SENATE BILL REPORT

SB 5621

As of February 9, 2007

Title: An act relating to the creation of certified capital companies to promote economic development through investment in start-up and emerging Washington businesses.

Brief Description: Creating certified capital companies to promote economic development through investment in start-up and emerging businesses.

Sponsors: Senators Kastama, Rasmussen, Clements, Hatfield and Shin.

Brief History:

Committee Activity: Economic Development, Trade & Management: 2/09/07.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

Staff: Jack Brummel (786-7428)

Background: Insurers are regulated in the conduct of their insurance activities by the Office of the Insurance Commissioner. The Insurance Commissioner also regulates investment activity by insurers.

The Department of Community, Trade, and Economic Development was created in 1993 and was given the primary responsibility to provide financial and technical assistance to the communities of the state and to provide for productive and coordinated development beneficial to the well-being of communities and their residents. The department is specifically tasked with working to increase the availability of capital to small businesses by developing new and flexible investment tools.

Small businesses often have trouble finding venture capital. It has been suggested that the state could play a role in facilitating the availability of venture capital.

Summary of Bill: A certified capital company is defined as a company in Washington certified by the Department of Community, Trade, and Economic Development that primarily invests in independently owned and operated Washington businesses with fewer than 100 employees which are unable to obtain conventional financing and primarily operate in a field that does not involve financial or professional services, real estate development, oil and gas exploration, or gambling.

Certified capital companies receive funding from insurers. Insurers investing in certified capital companies receive, over a six year period, a tax credit against their state premium tax

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.

worth 75 percent of the amount invested. The credit can be carried forward indefinitely but can not be taken in an amount that exceeds the tax liability in the year taken.

Requirements and procedures relating to: (1) the certification of certified capital companies; (2) allocation of the tax credits to insurers; (3) retaining certification; and (4) decertification are established.

Certified capital companies are to provide the department with information about investments received as well as annual reports and audits.

A certified capital company may make payments for operating costs or repayment of loans at any time, but before making distributions to investors it must demonstrate that: (1) the amount it has invested in other businesses equals or exceeds the amount invested in it; (2) it has invested at least 25 percent of its funds in rural counties or small towns; and (3) it has invested at least five percent of its funds in a microenterprise development organization. A certified capital company has to pay to the department, for deposit in the general fund, an amount equal to five percent of all distributions to investors. The revenues placed in the general fund are to be distributed to business assistance programs.

The department is to annually review certified capital companies. Once a company has invested 100 percent of the money it has received for investment and met all the other requirements of the act it is no longer subject to regulation by the department.

A certified capital company revolving fund is created in the treasury with regulatory fees paid by certified capital companies. Department expenses relating to regulation of certified capital companies are to be paid from the fund.

The department is to provide a report to the Governor and Legislature regarding outcomes of the bill.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect immediately.