

HOUSE BILL REPORT

ESSB 5677

As Passed House - Amended:

April 11, 2025

Title: An act relating to associate development organizations.

Brief Description: Concerning associate development organizations.

Sponsors: Senate Committee on Business, Financial Services & Trade (originally sponsored by Senators Cortes, Frame, Riccelli and Schoesler).

Brief History:

Committee Activity:

Technology, Economic Development, & Veterans: 3/18/25, 3/21/25 [DPA];

Appropriations: 4/3/25, 4/5/25 [DPA(APP w/o TEDV)].

Floor Activity:

Passed House: 4/11/25, 95-0.

Brief Summary of Engrossed Substitute Bill (As Amended by House)

- Removes additional reporting requirements for associate development organization (ADO) contracts in the county with a population over 1.5 million.
- Allows the Department of Commerce to provide a per-county base allocation of \$40,000 to a rural ADO.
- Allows urban and rural ADOs to provide their locally matched allocation by any combination of funds that does not include General Fund State.

HOUSE COMMITTEE ON TECHNOLOGY, ECONOMIC DEVELOPMENT, & VETERANS

Majority Report: Do pass as amended. Signed by 10 members: Representatives Ryu,

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

Chair; Kloba, Vice Chair; Barnard, Ranking Minority Member; Cortes, Donaghy, Keaton, Paul, Penner, Shavers and Volz.

Staff: Martha Wehling (786-7067).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended by Committee on Appropriations and without amendment by Committee on Technology, Economic Development, & Veterans. Signed by 29 members: Representatives Ormsby, Chair; Gregerson, Vice Chair; Macri, Vice Chair; Couture, Ranking Minority Member; Connors, Assistant Ranking Minority Member; Penner, Assistant Ranking Minority Member; Schmick, Assistant Ranking Minority Member; Berg, Bergquist, Burnett, Caldier, Callan, Cortes, Doglio, Dye, Fitzgibbon, Keaton, Leavitt, Lekanoff, Manjarrez, Marshall, Peterson, Pollet, Ryu, Springer, Stonier, Street, Thai and Tharinger.

Minority Report: Without recommendation. Signed by 1 member: Representative Corry.

Staff: Jessica Van Horne (786-7288).

Background:

Washington has 39 counties, each of which can designate an associate development organization (ADO) that furthers the county's or region's economic development goals. The Department of Commerce (Commerce) contracts with the designated ADOs to coordinate and increase support for community and economic development services in communities or regional areas. Commerce's March 2025 report for fiscal year 2024 identifies contracts with 35 ADOs totaling \$4,157,645.

The ADO contracts are required to identify areas of work for direct assistance and support for regional economic research and planning efforts. Direct assistance is provided for companies in each ADO's county needing support to stay in business, expand, or relocate. The support for regional research and planning efforts implement target industry sector, cluster-based, and other economic development strategies.

The amount of funds Commerce annually provides to a designated ADO depends on whether the ADO's county is urban or rural. A rural county is a county with a population density less than 100 people per square mile or smaller than 225 square miles. Under the Office of Financial Management's 2024 population density calculation, there are 30 rural counties. The remaining nine nonrural counties are urban counties. The ADO allocations are as follows:

- Associate development associations in urban counties that provide a locally matched allocation of up to 90 cents per capita receive a one-to-one matched allocation, with a maximum of \$300,000 per organization.

- Associate development associations in rural counties that provide a locally matched allocation of up to 90 cents per capita receive an allocation based on the amount appropriated by the Legislature, up to \$40,000.

Contracting ADOs are required to provide Commerce with an annual report including measures of their performance and a summary of best practices shared and implemented. The county with a population more than 1.5 million has additional reporting requirements related to small businesses. All ADO reports are required to include certain employment data and financial information. Commerce is required to submit a report to the Legislature in each even-numbered year on the performance results of the contracts with the ADOs.

Summary of Amended Bill:

The amount of funds provided annually to a county-designated associate development organization (ADO) with a contract with the Department of Commerce (Commerce) is adjusted.

ADOs in rural counties receive a per county base allocation of \$40,000, instead of up to \$40,000.

ADOs in urban and rural counties may provide their locally matched allocation through nonstate funds, cash, in-kind contributions, or a combination. General Fund State funds can not be used for the locally matched allocations.

The additional reporting requirements related to small businesses for the ADO in the county with a population greater than 1.5 million are eliminated.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony (Technology, Economic Development, & Veterans):

(In support) Associate development organizations (ADOs) drive economic development, especially in rural communities. Despite challenging budget times, the Legislature should not be retracting in engaging aspects that leverage resources and generate economic development throughout the state.

(Opposed) None.

(Other) The legislation makes a few cost neutral changes and lays the groundwork to address the critical resource needs of ADOs, which need adequate resources to do important work. Each year the state's economic development system gets stronger. The ADOs operate at the center of the innovation ecosystem. The ADOs coordinate the approach to recover, reset, and reengage since the pandemic.

The ADOs serve everyone; their clients range from high school students to international companies that want to move their company to the state. The Thurston County ADO's entrepreneurial small business network serves over 10,000 businesses, while its women's business center provides access to long-term counseling. The ADOs assist on the ground from the start-up phase, through market planning and navigating the complex regulatory framework. The ADOs help provide jobs in economy, recovery from COVID-19 and natural disasters. The ADOs partner with municipalities and tribes to keep existing businesses and recruit new businesses.

Rural counties lack the population base and skilled labor force to attract large employers, so they rely on small businesses to serve as the cornerstone of the economy, especially as natural resources and agriculture fields decline. Rising transportation costs and strict reporting requirements make it more difficult than ever to start and sustain a small business.

An urban ADO's membership is 80 percent small businesses. The ADO funding through the Department of Commerce (Commerce) is the cornerstone for how the ADO constructs its operational budget, lays the foundation for small business retention, and uses state dollars to leverage other funding for initiatives, such as providing technical assistance to community and minority owned businesses, collaborating with 31 jurisdictions, interacting with 2,500 businesses, saving 200 jobs, creating 100 jobs, and generating \$300,000 in capital investments and \$700,000 in grants.

Metrics for ADOs currently show a positive return on investment, in Thurston County that is \$22.50 for every \$1 invested. Thurston County's ADO has generated \$1 billion over the last five years. In King County, every state dollar leverages a match of at least \$6 from public and private investments.

Commerce requires rigorous quarterly reporting, and this bill increases expectations but provides no additional resources. The new reporting is too much. Rural communities have limited resources for important work. When an ADO is a one-person office, additional reporting can limit the impact on communities where the ADO's work is much needed. While the elimination of additional reporting requirements is not the highest priority for King County, it will work with Commerce to be accountable; the additional reporting requirements with fewer or existing resources would be excessive.

Staff Summary of Public Testimony (Appropriations):

(In support) There is a strong partnership between associate development organizations (ADOs) and the state that is vital for encouraging economic development and opportunity throughout the state. Investing in ADOs has a strong rate of return on investment, and helps generate tax revenues by supporting businesses. Rural counties rely on small businesses to support their economies, and ADOs provide support to small businesses from inception to transitioning to new ownership. Many rural ADOs have limited resources, so state grant funding helps level the playing field. Providing flexibility for the local match for ADO grants will help maximize the economic impact provided by ADOs. While the current fiscal realities in the state mean that changes to the limits on ADO grants cannot be considered, ADOs will continue to work to address increasing those limits in the future. It is important to maintain current funding for ADO grants and not pursue any cuts that are being contemplated in budget proposals.

(Opposed) None.

Persons Testifying (Technology, Economic Development, & Veterans): (In support) Senator Adrian Cortes, prime sponsor.

(Other) Suzanne Dale Estey, Washington Economic Development Association; Michael Cade, Thurston Economic Development Council (ADO for Thurston County); Roni Holder-Diefenbach, Economic Alliance (ADO for Okanogan County); and Lynnette Buffington, Seattle Metropolitan Chamber of Commerce.

Persons Testifying (Appropriations): Suzanne Dale Estey, Washington Economic Development Association; Michael Catsi, Economic Development Board for Tacoma-Pierce County (Pierce County ADO); and Roni Holder-Diefenbach, Economic Alliance (ADO for Okanogan County).

Persons Signed In To Testify But Not Testifying (Technology, Economic Development, & Veterans): None.

Persons Signed In To Testify But Not Testifying (Appropriations): None.