

HOUSE BILL REPORT

ESSB 5677

As Reported by House Committee On:
Technology, Economic Development, & Veterans

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].

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

- Increases the minimum allocation for associate development associations in urban counties to \$300,000 and sets a minimum allocation of \$40,000 for associate development associations in rural counties.
- Permits the matched portion of the annual allocation for associate development association contracts to be provided through cash, in-kind, or a combination.
- Removes additional reporting requirements for associate development organization contracts in counties with populations over 1.5 million.

HOUSE COMMITTEE ON TECHNOLOGY, ECONOMIC DEVELOPMENT, & VETERANS

Majority Report: Do pass as amended. Signed by 10 members: Representatives Ryu, Chair; Kloba, Vice Chair; Barnard, Ranking Minority Member; Cortes, Donaghy, Keaton, Paul, Penner, Shavers and Volz.

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.

Staff: Martha Wehling (786-7067).

Background:

Washington is composed of 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 in order to coordinate and increase support for community and economic development services in communities or regional areas. Commerce's 2023 annual report identifies contracts with 35 ADOs.

The ADO contracts are required to include areas of work for direct assistance and support for regional economic research and planning efforts. Direct assistance is 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 provided to a contracting ADO on an annual basis varies depending on whether the 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 serving urban counties receive a locally matched allocation of up to 90 cents per capita, with a maximum of \$300,000 per organization.
- Associate development associations serving rural counties receive a maximum per county base allocation of \$40,000 and a locally matched allocation of up to 90 cents per capita.

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. Counties with populations more than 1.5 million have 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 an associate development association with a contract with the Department of Commerce (Commerce) is adjusted:

- Associate development associations serving urban counties receive a minimum of \$300,000 per county and a matched allocation.
- Associate development associations serving rural counties receive a minimum per

county base allocation of \$40,000, and a matched allocation.

The matched allocation may be provided through cash, in-kind, or a combination. Any in-kind match is limited to 25 percent of the local match.

The additional reporting requirements related to small businesses for associate development organizations with populations greater than 1.5 million are eliminated.

Amended Bill Compared to Engrossed Substitute Bill:

The amended bill removes the requirement that all associate development organizations include demographic information in their annual reports that meets the federal Office of Management and Budget standards for maintaining, collecting, and presenting federal data. The amended bill changes the allocation for associate development associations in urban and rural counties from a maximum to a minimum: urban counties will receive a minimum of \$300,000 instead of a maximum of \$500,000, and rural counties will receive a minimum of \$40,000 instead of a minimum of \$85,000 and a maximum of \$150,000.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed. However, Section 3 is null and void unless funded in the budget.

Staff Summary of Public Testimony:

(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.

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