

SENATE BILL REPORT

SSB 5374

As Passed Senate, March 7, 1995

Title: An act relating to registered limited liability partnerships.

Brief Description: Creating registered limited liability partnerships.

Sponsors: Senate Committee on Law & Justice (originally sponsored by Senators Smith and Roach).

Brief History:

Committee Activity: Law & Justice: 1/30/95, 2/15/95 [DPS].
Passed Senate, 3/7/95, 49-0.

SENATE COMMITTEE ON LAW & JUSTICE

Majority Report: That Substitute Senate Bill No. 5374 be substituted therefor, and the substitute bill do pass.

Signed by Senators Smith, Chair; C. Anderson, Vice Chair; Hargrove, Haugen, Johnson, Long, McCaslin, Quigley, Rinehart, Roach and Schow.

Staff: Martin Lovinger (786-7443)

Background: Under current law there are a number of forms of business association, such as corporations and limited liability companies, in which individuals can pool resources for the benefit of themselves and their customers, but limit their individual liability for negligence or misconduct of their associates or of employees under the direct control of their associates.

For some businesses, the existing forms of association that limit individual liability are impractical or too burdensome. Partnerships are considered an attractive form for conducting business, but there is no limit on individual liability for each partner for the negligence or misconduct of other partners. Partnerships also require a good deal less paperwork to establish and operate than corporations, thus reducing the bureaucratic burden on the partners. In addition, there are some businesses that cannot become limited liability corporations because they have associates in more than one state.

Summary of Bill: A new form of business association known as a registered limited liability partnership is created. Two or more persons may become a registered limited liability partnership by applying with the Secretary of State, paying the \$175 application fee, and maintaining a \$1,000,000 liability insurance policy or such higher amount as established by rule by the Insurance Commissioner.

A partner in a registered limited liability partnership is not individually liable for debts or obligations of the partnership, except for his or her negligent or wrongful acts or those of a person under his or her control.

Appropriation: None.

Fiscal Note: Requested on January 24, 1995.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Limited liability partnerships exist in over 20 states. Limited liability corporations do not protect multi-state professional services companies. Partnerships provide an easier procedure for admitting new partners. Partners in limited liability partnerships will obtain protection for their personal assets.

Testimony Against: None.

Testified: Greg Jordshaugen, President, Washington Society of Accountants (pro); Jim Boldt, Washington Society of Accountants (pro); Linda MacKintosh, Secretary of State's office (neutral).

House Amendment(s): The provisions creating registered limited liability partnerships are made a subchapter of the chapter governing general partnerships. The provisions of the general partnership chapter apply to registered limited liability partnerships unless they are in conflict with the provisions creating registered limited liability partnerships.

Foreign limited liability partnerships must register with the Secretary of State.

The amendment requires liability insurance or evidence of financial responsibility only for registered limited liability partnerships in which the partners are required to be licensed to provide professional services. The amendment lists a number of methods to provide evidence of financial responsibility in order to meet the \$1,000,000 liability insurance requirement. The Insurance Commissioner cannot establish the amount of liability insurance that a partnership of members of any profession or specialty of any profession must maintain in an amount higher than \$3,000,000.

The licensing requirements of members and managers of professional limited liability companies are clarified by providing that a professional limited liability company may operate in this state if: 1) each member personally practicing in Washington is licensed to practice in this state; and 2) at least one manager is licensed to practice in this state, or each member in charge of an office in this state is licensed to practice in this state.

Failure to hold meetings of members or managers and failure to observe formalities pertaining to the calling or conduct of meetings is not considered a factor in piercing the veil of the limited liability company when the certificate of formation and the limited liability company agreement do not expressly require the holding of meetings.

A person may sign any limited liability company document through a valid personal representative.

Provisions relating to events of dissociation and assignment of company interests are amended to provide that a person ceases to be a member of the company when the member dies and upon

the entry of a court order adjudicating the member incapacitated, as defined in statute, as to his or her estate.

Conditions for withdrawal of a member are changed, providing that a member may not withdraw from a limited liability company prior to the time for dissolution of the company without the written consent of all other members, unless otherwise specified in the company agreement.

The distribution that a dissociating member or the member's assignee is entitled to receive is amended to be any distribution to which an assignee is entitled.

Two additional criteria are added to the reasons for which a limited liability company may be administratively dissolved by the Secretary of State: 1) if the limited liability company does not pay license fees or penalties when due; and 2) if the limited liability company does not deliver the initial or annual reports when due.

A clarification is made that a foreign limited liability company rendering professional services in the State of Washington is subject to the existing law that requires professional limited liability companies to maintain mandatory liability insurance.