

HOUSE BILL REPORT

ESHB 2784

As Amended by the Senate

Title: An act relating to the small business incubator program.

Brief Description: Creating the small business incubator program.

Sponsors: By House Committee on Trade & Economic Development (originally sponsored by Representatives Pettigrew, Skinner, O'Brien, Conway, Hunt, Cooper, Cairnes, Eickmeyer, Jarrett, Sullivan, Kirby, G. Simpson, Ruderman, Hatfield, Moeller, Chase, Kenney, Morrell, Hudgins and Murray).

Brief History:

Committee Activity:

Trade & Economic Development: 1/29/04, 2/5/04 [DPS];

Appropriations: 2/9/04 [DPS(TED)].

Floor Activity:

Passed House: 2/13/04, 81-15.

Senate Amended.

Passed Senate: 3/11/04, 46-0.

Brief Summary of Engrossed Substitute Bill

- Creates the Small Business Incubator Program to assist start-up and existing firms with viable products that are located in economically distressed or disadvantaged areas.

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Veloria, Chair; Skinner, Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Blake, Chase, McCoy, Ormsby, Pettigrew, Priest and Rodne.

Minority Report: Do not pass. Signed by 2 members: Representatives Condotta and Kristiansen.

Staff: Tracey Taylor (786-7196).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill by Committee on Trade & Economic Development be substituted therefor and the substitute bill do pass. Signed by 27 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Alexander, Anderson, Boldt, Buck, Chandler, Clements, Cody, Conway, Cox, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, Linville, McDonald, McIntire, Miloscia, Ruderman, Schual-Berke, Sump and Talcott.

Staff: Holly Lynde (786-7153).

Background:

Business incubation is a dynamic process of business enterprise development. Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. Most 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.

Some incubators accept a mix of industries while others concentrate on industry niches. Forty-seven percent of incubation programs identify themselves as mixed use. Thirty-seven percent of the incubators focus solely on technology companies. Seven percent of incubation programs are dedicated to manufacturing.

Summary of Engrossed Substitute Bill:

The Washington Small Business Incubator and Assistance Act of 2004 creates the Small Business Incubator (SBI) program which will be administered by the Department of Community, Trade and Economic Development (DCTED).

The DCTED will award grants to qualified SBI organizations for the construction and equipment needs of the SBI facility. In order to receive the grant, the qualified SBI 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. In addition to the facilities funds, the DCTED can provide operating assistance, up to a maximum of \$125,000 per year, to a qualified SBI for support services and the operation of the SBI facilities.

A SBI is defined as a physical location that offers:

- (1) space for start-up and expanding firms with viable products;
- (2) the shared use of equipment and work areas;

- (3) daily management support services essential to high-quality commercial operations; and
- (4) technical resources that enable entrepreneurs to transform private activities into successful business.

To qualify for money under the SBI Program, an SBI organization must be a nonprofit 501(c)(3) organization focused on developing small businesses in an economically distressed or disadvantaged area. They must also have a sound business plan and meet other standards set by DCTED.

The DCTED is required to contract for a feasibility study and economic analysis of an advanced manufacturing center. The contract should go to a qualified SBI that is focused on developing or supporting small, medium or large manufacturing businesses. The state funds shall not be the sole source of monetary support for the feasibility study and economic analysis.

All state agencies are to include SBI in their strategies for economic growth.

An SBI account is created in the custody of the State Treasurer.

EFFECT OF SENATE AMENDMENT(S):

The Senate amendment authorizes grants for construction and equipment costs, up to \$3M per recipient. The amendment, like the as passed house version of the bill, requires DCTED to work with the WA Association of Business Incubators to develop the grant criteria; however, the Senate bill also lists some of the criteria to be used including an organization's capacity, the community's need, and the availability of other economic development resources. The amendment also authorizes DCTED to accept & receive grants, gifts and pledges for the SBI program. Finally, the Senate amendment directs only DCTED, as opposed to all departments, to include the SBI program in its economic strategic plan.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: (Trade & Economic Development) The SBIs are proven and useful economic development tools. There is a demonstrated need for at least 20 SBIs in Washington. The success rate for incubated companies is 80 to 87 percent. The start up costs for businesses using a SBI are reduced by 40 to 50 percent. It is documented that for every \$1 of public investment, the SBI clients generate \$45 in tax revenue. Besides

the state funding, the SBI can blend the funds from numerous sources, including federal government, local governments, community colleges and private sources.

Testimony For: (Appropriations) There are more than 950 small business incubators across the country, and at least six of them are in Washington. National research shows that for every \$1 in public investment in small business incubators, \$45 in local tax revenue is generated. There are great success stories from incubators in the Tri-Cities and in Tacoma. There are at least four communities that would like to start incubators in the near future should funding be made available by the Legislature.

Testimony Against: (Trade & Economic Development) None.

Testimony Against: (Appropriations) None.

Persons Testifying: (Trade & Economic Development) (In support) Representative Pettigrew, prime sponsor; Linc Ferris, Washington Small Business Incubator; Wendy Ceccherelli, Washington Community Alliance for Self-Help; Tom Keegan, Peninsula College/Clallam County Economic Development Council; Tom Sterge, Washington Association of Small Business Incubators; John Bankston, HUB Contractors Association; Jacques M. Dulin, Clallam County Business Incubator; James Haguewood, Clallam County Economic Development Council; and Timothy J. Smith, City of Port Angeles.

(With concerns) Tom McBride, Community, Trade and Economic Development.

Persons Testifying: (Appropriations) Lincoln Ferris, Washington Association of Small Business Incubators.

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

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