

# HOUSE BILL REPORT

## HB 2914

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**As Reported by House Committee On:**  
Community & Economic Development & Trade

**Title:** An act relating to providing a source of funding to assist small manufacturers in obtaining innovation and modernization services.

**Brief Description:** Providing a funding source to assist small manufacturers in obtaining innovation and modernization extension services.

**Sponsors:** Representatives Linville, Bailey, Sullivan, Skinner, Pettigrew, Haler, Chase, Kristiansen, Upthegrove, Morrell, Santos, Nelson and Kenney.

**Brief History:**

**Committee Activity:**

Community & Economic Development & Trade: 2/4/08, 2/5/08 [DPS].

**Brief Summary of Substitute Bill**

- Creates the Washington Manufacturing Innovation and Modernization Extension Services Program (Program) to be administered by the Department of Community, Trade and Economic Development.
- Allows a small manufacturer or industry association to receive a voucher to cover up to \$200,000 in services by a qualified manufacturing extension partnership affiliate.
- Requires a Program participant to contribute 105 percent of the costs of extension services into an appropriated account in the State Treasury within 18 months of service completion.
- Authorizes a Program participant to take a business and occupation tax credit valued at 50 percent of the contribution into the account.
- Requires accountability measures including reports and a sunset review.

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**HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE**

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*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.*

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Kenney, Chair; Pettigrew, Vice Chair; Bailey, Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Chase, Darneille, Haler, Rolfes and Sullivan.

**Staff:** Meg Van Schoorl (786-7105).

**Background:**

In Substitute House Bill 2726 (2006), the Legislature found that to perform successfully in the global marketplace and pay good wages, Washington manufacturers must master new technologies, production processes, and methods of work organization. The Legislature enacted Substitute House Bill 2726 to increase state support for and facilitate the delivery of modernization services to small and mid-size manufacturers and leverage federal and private resources. The Legislature also intended to encourage small and mid-size firms to aggregate their demands for training and other services, and for large firms to support training consortia among their suppliers.

Codified under RCW 24.50, the Washington Manufacturing Services (WMS) is a private, nonprofit corporation whose mission is to operate a modernization extension system, coordinate a network of private and public modernization resources, and stimulate the competitiveness of small and mid-size manufacturers in Washington. The WMS is governed by a board of directors constituted as required with representatives from small and mid-sized manufacturing firms and associations, labor, and, as ex officio members, the Department of Community, Trade and Economic Development (DCTED), the State Board for Community and Technical Colleges, and the Workforce Training and Education Coordinating Board.

The WMS must develop policies, plans, and programs and coordinate the delivery of modernization services. The WMS must also: provide information about the advantages of modernization and modernization services; collaborate with the Washington Quality Initiative to develop manufacturing quality standards; serve as an information clearinghouse, providing access to the federal Manufacturing Extension Partnership National Research and Information System; and provide other assistance to industry associations, networks, or consortia either directly or through contracts. The WMS may charge fees for services, receive funds from public and private sources, and execute contracts.

According to its website, services that the WMS offers to manufacturers include lean manufacturing, business and workforce development, environmental health and safety, quality improvement, and sales and marketing development. The WMS has project managers with regional assignments and industry specialties. After a free outreach visit to the prospective client business, the WMS project manager develops a plan of action with the manufacturer. The WMS charges fees for its services. The WMS has been affiliated with the U.S. Department of Commerce's National Institute of Standards and Technology (NIST) Manufacturing Extension Program since 1997.

## **Summary of Substitute Bill:**

### Findings

The Legislature finds that a viable manufacturing industry is critical to providing family wage jobs and improving the quality of life for workers and communities in Washington. State manufacturers can compete successfully in the future global market and pay good living wages only through innovation and modernization techniques. Because these techniques are not accessible financially to most small and mid-size firms and because of the statewide public benefit to be gained, the Legislature intends to create a new mechanism that reduces the up-front costs of services to these firms. The Legislature also intends to increase its support for the Manufacturing Extension Partnership Program, expand services, and leverage federal and private resources. As a result there will be growth in manufacturing firms and increased business and occupation (B&O) taxes.

### Program Created

The Washington Manufacturing Innovation and Modernization Extension Service Program (Program) is created, and will be administered by the DCTED. The Program's purpose is to provide assistance to small manufacturers, defined as private companies having 100 or fewer employees whose primary business is to add value to a product through a manufacturing process.

### Application Criteria and Process

A small manufacturer desiring Program assistance must apply to the DCTED. The DCTED will provide successful applicants with an Innovation and Modernization Extension voucher to cover the costs of extension services performed by a qualified manufacturing extension partnership affiliate (Affiliate). The applicant must:

- have an agreement with an Affiliate to engage in innovation and modernization extension services;
- be a small manufacturer or industry association or cluster at the time of entering the agreement;
- agree to contribute 25 percent of the voucher amount upon completion of services, and 80 percent of the voucher amount on a monthly or quarterly basis over the next 18 months; and
- if a small manufacturer, ensure that the number of its employees in state during the calendar year following program completion is equal to or greater than the number in state during the calendar year preceding the program start.

A Program participant may not receive more than \$200,000 in vouchers in a calendar year. Services may include strategic planning, continuous improvement, business development, lean processes, and supply chain management, among others.

The DCTED must allocate no more than 60 percent of available funding in the initial year of a biennium.

### Manufacturing Innovation and Modernization Account

The Manufacturing Innovation and Modernization Account (Account) is created as an appropriated account in the State Treasury. Moneys in the Account may be spent only after appropriation. Expenditures from the Account may be used only for Program activities.

All payments made by Program participants must be deposited into the Account until their contribution obligations are met. Up to 3 percent of these payments may be used by the DCTED for administration. All other revenues received for the purpose of funding the Program (such as gifts, grants, fees, and endowments) must also be deposited to the Account.

The Legislature intends that all payments made from the Account to qualified Affiliates will be eligible for the state match in an Affiliate's application for federal matching funds under the Manufacturing Extension Partnership Program of the U.S. Department of Commerce's NIST.

### B&O Tax Credits

A Program participant may receive a B&O tax credit equal to 50 percent of the participant's contribution to the Account. Credits earned by a Program participant in one calendar year may be credited against taxes incurred in subsequent years. If the Program participant does not meet the employment increase requirement, the value of tax credits taken plus interest must be remitted to the Department of Revenue (DOR).

Each Program participant claiming a tax credit must file a complete annual survey including information required by statute and by the DOR by March 31 of the year following the calendar year in which the tax credit is taken. All information collected, except the amount of the tax credit taken, is considered confidential taxpayer information. Failure to submit a timely annual survey will result in the taxes credited, and interest, to be immediately due and payable, subject to terms contained within the statute. However, the DOR may grant extensions for filing a survey if the failure to file on time was due to circumstances beyond the taxpayer's control.

The DOR must use the survey information to prepare summary descriptive statistics and report them to the Legislature annually by September 1. The DOR must study the tax credit authorized in this act and report biennially beginning December 1, 2013, to appropriate legislative committees on the effect of the credit.

No more than \$1,225,000 in total annual credits will be available statewide. The B&O tax credit expires July 1, 2018.

### Accountability and Other Provisions

Annual reports to the DCTED by any Affiliate receiving Program funds and a biennial evaluation and report by the DCTED to legislative committees are required. There will be a sunset review of the Program in 2012 and a repeal of statutes by June 30, 2013.

Because this chapter is necessary for the welfare of the state and its inhabitants, it must be liberally construed, and if any of its provisions are inconsistent with provisions of any general or special law, the provisions of this chapter will control.

**Substitute Bill Compared to Original Bill:**

The substitute bill designates the DCTED in place of the Community Economic Revitalization Board to administer the Program. The Manufacturing Innovation and Modernization Account is created as an appropriated account in the State Treasury, instead of a non-appropriated account in the custody of the State Treasurer. The DCTED Director's authority to make expenditures from the Account and the requirement that the Director make an annual award of \$100,000 or less from the Account to an Affiliate for outreach services are removed. The DCTED is authorized to use up to 3 percent of Program participant payments in the Account for administration. Annual reports to the DCTED by any Affiliate receiving Program funds and a biennial evaluation and report from the DCTED to appropriate legislative committees are required. The Program will be subject to a sunset review, with termination in 2012 and a repeal of statutes effective June 30, 2013.

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**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note on original bill is available.

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

**Staff Summary of Public Testimony:**

(In support) Passage of this bill will have a profound impact on economic development for small manufacturers. The public tends to think of manufacturing in terms of Boeing, Weyerhaeuser, and Paccar, but these major corporations would not exist without a supply chain of small manufacturers. In our state, 93 percent, or 6,600, of manufacturers have fewer than 100 employees. The Manufacturing Extension Program (MEP) was created 25 years ago by Congress based on the model of the agricultural cooperative extension service, but targeted at small manufacturing firms. The MEP is required to source its funding one-third from the state, one-third from the federal government, and one-third from the private sector. With the Internet and other technologies, the smallest company can compete internationally in its market sector if it has access to the most recent knowledge, technologies and systems. To have this access requires company investment. This is not always easy due to cash flow issues. This bill institutes a mechanism allowing a company to receive extension services up-front but pay for it over a 24-month period. This mechanism requires a one-time investment on the part of the state. After that, the Account acts as a revolving fund. The funds are allocated to support initial work with the company, the company pays the money back into the fund, which then will be available to support work with other firms. This is a subsidized consulting service of sorts. This approach will enable every dollar that moves from the Account to the MEP to be counted as hard dollars for federal match.

(Opposed) None.

**Persons Testifying:** John Vicklund and Ron Newbry; Washington Manufacturing Services.

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