
**Community & Economic
Development & Trade Committee**

HB 3115

Brief Description: Concerning small business incubators.

Sponsors: Representatives Kenney, Skinner, Green, Wallace, Haler, Chase, Rodne, Conway, Morrell, Linville, VanDeWege, Loomis, Kelley, Rolfes, Lias, Ormsby and Darneille.

Brief Summary of Bill

- Modifies the definition of "small business incubator" to be a facility or program providing services to businesses less than five years old having fewer than five employees at the time of admission.
- Requires the Department of Community, Trade and Economic Development (DCTED) to develop a Small Business Incubator Certification Program.
- Requires qualified small business incubators to report prescribed information annually to DCTED.
- Requires DCTED to submit biennial reports to the Legislature and the Economic Development Commission beginning in 2010.

Hearing Date: 1/28/08

Staff: Meg Van Schoorl (786-7105).

Background:

Business Incubation

The National Business Incubation Association defines business incubators as "a comprehensive business assistance program targeted to help start-up and early-stage firms, with the goal of improving their chances to grow into healthy, sustainable companies." Small business incubators typically provide management assistance, access to financing, and exposure to critical business or technical support services. Many business incubators 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

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they leave the incubator, usually after two or three years. Approximately 30 percent of incubator clients "graduate" each year.

Washington Small Business Incubator Program

The Washington Small Business Incubator and Entrepreneurship Assistance Act of 2004 created the Small Business Incubator (SBI) program administered by the Department of Community, Trade and Economic Development (DCTED). a business incubator is defined as "a facility that offers space for start-up and expanding firms; the shared use of equipment and work areas; daily management support services essential to high-quality commercial operations; and technical assistance." To be considered a "qualified small business incubator" and qualify for money under the SBI program, an incubator must be a nonprofit 501(c)(3) organization focused on developing small businesses in an economically distressed or disadvantaged area. It must also have a sound business plan and meet other standards developed by the DCTED, in conjunction with the Washington Association of Small Business Incubators.

The DCTED may award grants of up to \$3 million per recipient to qualified small business incubators for construction and equipment costs. In addition to the facilities funds, the DCTED may provide grants, up to a maximum of \$125,000 per year per facility to a qualified small business incubator for technical assistance to small businesses. In order to receive a grant, the qualified small business incubator 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.

Under current law, the DCTED has no duty to provide services related to the 2004 act unless and until the program is funded by the Legislature.

Joint Legislative Audit and Review Committee (JLARC) Small Business Incubator Review

In the 2006 Supplemental Operating Budget, the Legislature directed the JLARC to review state policy, funding and performance of small business incubators. To explore the policy question of whether incubators assist in the creation and expansion of firms and keep businesses from failing, JLARC studied 3 overarching topics: How many incubators are there in Washington? What is the state's role in supporting incubators and what are their costs to the state? How are incubators performing? The JLARC Report 7-10, issued August 23, 2007, concluded that it was not possible to determine the true impact of incubators in Washington and that "Like many other economic development efforts, incubators might best be characterized as ongoing experiments. Improved information will help policymakers understand whether these experiments are producing the desired results."

Summary of Bill:

The purpose of small business incubators is to provide comprehensive business assistance to start-up and early stage firms to improve their chances of becoming healthy, sustainable companies that can create jobs, revitalize neighborhoods and commercialize new technologies.

A "business incubator" is defined as a facility or program that provides training, services, and technical assistance to businesses less than five years old with fewer than five employees at the time of admission.

An "economically distressed or disadvantaged area" is defined as a county with an unemployment rate that is 20 percent above the state average for the immediately previous three years, or an area that the DCTED determines to be a low-income community, using as guidance the Community Development Financial Institutions Fund's New Markets Tax Credit Program under the U.S. Department of the Treasury.

To be defined as a "qualified small business incubator", the incubator must be certified by the DCTED in addition to meeting the specifications in the current statute.

DCTED must develop a Small Business Incubator Certification Program that includes certification criteria developed in consultation with the Washington Association of Small Business Incubators and the National Business Incubator Association. A small business incubator must be certified in order to receive funding from DCTED, must renew its certification every five years, and must meet annual reporting requirements in order to maintain certification.

A qualified small business incubator must collect specified types of information annually for each client business. This data collection must continue for at least five years after the client leaves the incubator facility or stops receiving services. Data on each client business and the incubator itself must be submitted annually to DCTED by March 31. Such data includes information on incubator sponsors, contribution sources and amounts; firms that have graduated from the incubator; numbers of employees

DCTED must submit biennial reports to the Legislature and the Economic Development Commission beginning in 2010 regarding the performance of qualified small business incubators.

Appropriation: None.

Fiscal Note: Requested on January 22, 2008.

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