

HOUSE BILL REPORT

HB 2613

As Reported by House Committee On:
Community & Economic Development & Housing

Title: An act relating to innovative industries for economic development.

Brief Description: Concerning innovative industries for economic development.

Sponsors: Representatives Kenney and Ryu.

Brief History:

Committee Activity:

Community & Economic Development & Housing: 1/23/12, 1/30/12 [DPS].

Brief Summary of Substitute Bill

- Creates the Washington Innovative Industries Enabling Act.
- Establishes the Innovation Industry Program, which may award funds to industry development organizations to assist industry clusters.

HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & HOUSING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 5 members: Representatives Kenney, Chair; Finn, Vice Chair; Maxwell, Ryu and Santos.

Minority Report: Do not pass. Signed by 4 members: Representatives Smith, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern and Walsh.

Staff: Jennifer Thornton (786-7147).

Background:

Agricultural Commodity Commissions Model.

In 2010 the Legislature directed the Department of Commerce (Department) to examine agricultural commodity commissions as a model for industry support organizations. The Department was to collaborate with industry associations on legislation that would enable

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industries to develop self-financing systems for addressing industry-identified issues such as workforce training, international marketing, quality improvement, and technology deployment.

The Department found that the commission model had a number of advantages including:

- shared costs;
- access to the state taxing mechanism;
- fair assessments based on a pro-rata share of the market;
- improved technology and research available to all; and
- economies of scale.

The Department found that the model was well suited to agriculture but might need to be modified to fit other industries. The Department reviewed other models from California and Kansas that raise money from a particular industry to benefit that industry and suggested that Washington could direct some of the growth in the state's business and occupation (B&O) tax from defined industries. The Department labeled this a "pay as you succeed" model of economic development finance.

Innovate Washington.

In 2011 the Legislature created Innovate Washington as the successor agency to the Washington Technology Center and the Spokane Intercollegiate Research and Technology Institute to serve as the primary state agency focused on growing Washington's innovation-based economy and respond to the technology transfer needs of existing businesses.

Summary of Substitute Bill:

The legislation creates the Washington Innovative Industries Enabling Act (Act). The Legislature declares that the promotion of industrial innovation is a fundamental purpose of state government and that the commercialization and manufacture of products within the state is in the public interest. The purpose of the Act is to: enable industry-sponsored organizations to work collaboratively and provide assistance to help industrial producers meet various needs; assist industrial producers in improving productivity and decreasing costs; and enhance the quality, reputation, and sales of the state's industrial products.

The Director of the Department (Director) is authorized to implement and administer the Act. In consultation with the Executive Director of the Washington Economic Development Commission, the Director is required to:

- establish industry cluster certification processes and standards;
- certify industry clusters that meet the standards;
- notify the Department of Revenue (Revenue) when an industry cluster is certified; and
- establish the process, criteria, and requirements for distributing innovation industry funds.

The Innovation Industry Program is established in the Department. Once an industry cluster has been certified, an industry development organization may be awarded funds to assist the industry cluster with research and development, testing and quality control, workforce

training, and other services. The amount awarded to an industry development organization is limited to \$5 million per year, for a period of up to five years, not to exceed the amount of private sector contributions to the industry development organization. Industry firm participation in the industry cluster is voluntary.

Upon notice of an industry cluster's certification, Revenue must determine the projected tax receipts for that cluster using a specified methodology. Revenue must also establish the innovation allocation for an industry cluster, which is 50 percent of the amount, if any, of B&O taxes for all business entities in the industry cluster that exceeded the projected tax receipts. Revenue is required to notify the State Treasurer of the allocation amount for transfer into the Innovation Industry Account (Account).

The Account is established in the custody of the State Treasury. The Account is controlled by the Director, and the Director is to establish subaccounts for each certified industry cluster.

Substitute Bill Compared to Original Bill:

Industry sectors are replaced with industry clusters. "Industry cluster" is defined to mean a group of firms, as determined by the Director of the Department, that share a North American Industry Classification System (NAICS) classification code or related NAICS classification codes as assigned by Revenue.

The Director of Innovate Washington is replaced by the Director of the Department, as the person authorized to implement and administer the provisions of the Act. The Director must align provisions of the Act with the strategic plan and priorities of the Washington Economic Development Commission.

The Washington Innovative Industry Grant Program is removed. Instead, innovation industry funds may be distributed through contracts with industry development organizations.

Industry firm participation in the industry cluster for the purposes of the Act is voluntary.

Contracts with industry development organizations must include expected deliverables and performance requirements, and annual reporting requirements. Industry development organizations must also demonstrate in their contracts that innovation industry funds be used for activities in addition to previous efforts.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available. New fiscal note requested on January 30, 2012.

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

Staff Summary of Public Testimony:

(In support) This allows the industry to band together and take half of the B&O tax proceeds above those that were projected and reinvest those funds in the industry to increase growth and jobs in the future. There are so few tools in the state to invest in innovation. This is a creative way to do so. Innovate Washington is the new state entity that the Legislature set up last year, and is the lead agency for growing innovation and business sectors in the state.

(In support with concerns) This is a potential game changer. The Washington Economic Development Commission (WEDC) has endorsed the idea of growing clusters through self-financing of industry-led initiatives. This idea emerged about a year and a half ago from a study the WEDC did. There are a lot of benefits to building stronger clusters. You create jobs. This could help them grow, and a number of them have indicated strong interest in this concept. The NAICS codes have limited applicability, and clusters are broader. The NAICS codes leave out a lot of supporting industries. There ought to be the option for industry to opt out of participation. There may be another basis for determining how to benchmark how much B&O revenue is shared with the industry. We need to make sure these funds do not displace other funds that would have been spent anyway, and that they are used for collaborative efforts, not for the benefit of individual firms. There should be a mechanism for reporting activities and outcomes.

(Opposed) None.

Persons Testifying: (In support) Representative Ryu; and Jim Hedrick, Innovate Washington.

(In support with concerns) Egils Milbergs, Washington Economic Development Commission.

Persons Signed In To Testify But Not Testifying: None.