

SENATE BILL REPORT

SB 5808

As of January 18, 2012

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

Brief Description: Concerning innovative industries for economic development.

Sponsors: Senators Kastama and McAuliffe.

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 2/16/11.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Staff: Jack Brummel (786-7428)

Background: In 2010 the Legislature directed the Department of Commerce (Commerce) to examine agricultural commodity commissions as a model for industry support organizations. Commerce was to collaborate with industry associations on legislation that would enable industries to develop self-financing systems for addressing industry-identified issues such as workforce training, international marketing, quality improvement, and technology deployment. Commerce found that the commission model had a number of advantages including:

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

Commerce found that the model was well suited to agriculture but might need to be modified to fit other industries. Commerce 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. Commerce labeled this a "pay as you succeed" model of economic development finance.

Summary of Bill: The legislation is to be known as the Washington Innovative Industries Enabling Act. The Legislature declares that the promotion of industrial innovation is a fundamental purpose of state government and that the commercialization and manufacture of

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.

products within the state is in the public interest. The purpose of the act is to enable industry sponsored organization to provide assistance; improve firm productivity; increase the ability of firms to compete; and enhance the quality, reputation, and sales of the state's industrial products.

The Director of Commerce (Director) is to establish a process by which firms or industry development organizations petition for industry sector certification using North American Industry Classification System (NAICS) codes. Once an industry sector has been certified, industry development organizations may apply for grants to assist certified industry sectors. The Director is to set qualifications for industry development organizations. The grants may be used for:

- research on production, processing, transportation, handling and marketing of products;
- testing and quality control;
- workforce training;
- incubation services;
- exporting and cooperative marketing assistance;
- energy efficiency services; and
- other services approved by the Director.

Grantees may not lobby or provide financial support to firms. Grant contracts may last no more than two years and must specify the deliverables and performance expectations. Priority is given to those applicants who can show the ability to serve all firms in an industry sector, collaboration with Innovation Partnership Zone administrators, and collaboration with Centers of Excellence. An industry development organization may receive up to \$1 million per year.

The Industry Development Organization Grant Account (account) is established in the custody of the State Treasurer. The account is controlled by the Director and the Director is to establish subaccounts for each certified industry sector. No more than \$10 million may be deposited into the account in any fiscal year.

The Department of Revenue (Revenue), upon notice of an industry sector's certification, must establish the base year taxation for that sector, which is the B&O taxes paid by all businesses in the sector during the calendar year preceding certification. Revenue must also establish the growth, if any, in the B&O taxes received from a certified industry sector over the base year taxation or subsequent year's taxation. Fifty percent of this growth is the innovation allocation which goes to the account and which may not exceed \$1 million per year.

Appropriation: None.

Fiscal Note: Requested on February 15, 2011.

Committee/Commission/Task Force Created: No.

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