

SENATE BILL REPORT

SB 5808

As Reported by Senate Committee On:
Economic Development, Trade & Innovation, January 30, 2012
Ways & Means, February 27, 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, 2/17/11;
1/19/12, 1/30/12 [DPS-WM].
Ways & Means: 2/21/12, 2/27/12 [DP2S].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Majority Report: That Substitute Senate Bill No. 5808 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Kastama, Chair; Baumgartner, Ranking Minority Member; Ericksen, Hatfield, Holmquist Newbry, Kilmer, Shin and Zarelli.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5808 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Baumgartner, Brown, Conway, Harper, Hatfield, Hewitt, Holmquist Newbry, Honeyford, Kastama, Keiser, Kohl-Welles, Padden, Regala, Schoesler and Tom.

Staff: Dean Carlson (786-7305)

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

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.

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 bill as referred to committee not considered.

Summary of Bill (Recommended Second Substitute): 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 products within the state is in the public interest. The purpose of the Washington Innovative Industries Enabling Act is to enable industry sponsored organizations 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 the Department of Commerce (Director) must establish a process by which firms or industry development organizations petition for industry cluster certification using the North American Industry Classification System codes.

Once an industry cluster has been certified, industry development organizations may apply for a credit allowance to assist certified industry clusters. The Director must set qualifications for industry development organizations. One industry may be certified in the first year, and one additional industry may be certified each year thereafter.

The amount of credit allowance awarded to an industry allows for firms to contribute funds to an industry development organization while receiving a B&O tax credit for the amount contributed, up to the amount of the credit allowance. The total amount of credit allowances authorized for a given year is limited to \$5 million.

Funds may be used for:

- research on production, processing, transportation, handling, and marketing of products;
- testing and quality control;
- workforce training;
- incubation and acceleration services;

- exporting and cooperative marketing assistance;
- energy efficiency services; and
- other services approved by the Director.

Organizations receiving credit allowances may not lobby or provide financial support to firms. Contracts 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 and collaboration with other programs serving industry clusters.

The administration of the program must be in alignment with the Washington Economic Development Commission strategic plan and priorities. Organizations receiving credit allowances must report annually and demonstrate the maintenance of previous efforts and the use of credit allowances for activities beyond previous efforts.

The Department of Revenue (Revenue), upon notice of an industry cluster's certification, must establish the projected tax receipts for that cluster, which is the B&O tax receipts expected from all businesses in the cluster for a calendar year based on a five-year trend line. Revenue must also establish the innovation allocation for an industry cluster, which is 50 percent of the amount, if any, of a cluster's B&O tax receipts exceeding the projected tax receipts.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Second Substitute): Removes the issuance of grants to industrial development organizations. Allows the Director to instead award innovation industry credit allowances. A industrial development organization that receives an innovation industry credit allowance may receive contributions from persons which in turn are eligible for a 100 percent B&O tax credit on the contributions. An industrial development organization must contract with Commerce for the innovation industry credit allowance. Only one innovation industry credit allowance is allowed in the first year with an additional credit allowance added each year thereafter. The maximum amount that may be taken as credit is \$5 million a year.

EFFECT OF CHANGES MADE BY ECONOMIC DEVELOPMENT, TRADE & INNOVATION COMMITTEE (Recommended First Substitute): Commerce is the administrative agency for the innovation industry program. The term industry cluster replaces the term industry sector. Certified industry clusters may include sector suppliers and associated institutions. The Director may determine that suppliers, information technology firms, and other firms may be assigned to more than one industry cluster. The administration of the program must be in alignment with the WA Economic Development Commission strategic plan and priorities. Organizations receiving funds must report annually and demonstrate the maintenance of previous efforts and the use of funds for activities beyond previous efforts.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on January 18, 2012.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony as Heard in Committee (Economic Development, Trade & Innovation): PRO: We need initiatives like this to keep firms in the state that are being recruited to other states. It would allow us to create more jobs and more products. Enabling industry sponsored organizations to provide technical assistance, workforce training, and other support will go far to ensure competitiveness of our industries. A number of businesses in our industries have become antiquated. Giving them research assistance and other direct assistance will help firms survive and keep their workers. Firms have trouble finding qualified workers. This will allow for additional funding for addressing skill needs and product development, and it will improve the competitiveness of industries. We support the bill's focus on B&O tax growth to foster firm growth and create jobs. We support the strong focus on innovation – this will allow for new applications of science and technologies. This would add fuel to the growth in the bio-sciences industry.

Persons Testifying (Economic Development, Trade & Innovation): PRO: Trent House, Aerospace Futures Alliance; Tim Morgan, TTF Aerospace; Dan Coyne, NW Food Processors Assn.; Chris Rivera, WA Biotech and Biomedical Assn.

Staff Summary of Public Testimony on Substitute as Passed by Economic Development, Trade & Innovation (Ways & Means): PRO: We know that economic development will come in clusters. We need money to grow these clusters. This is a self financing industry model to help provide funding to industry clusters. This accelerates growth of industry clusters, increases revenue and increases employment. For the aerospace industry this is not so much about Boeing but about all the smaller suppliers. This is a creative way of getting resources for industry clusters. Of the 7500 manufactures in Washington most have less than 100 employees and those same firms will be supplying the employment growth for the future. They are the ones that need the assistance. This is a share of the unanticipated B&O tax increases.

Persons Testifying (Ways & Means): PRO: Senator Kastama, prime sponsor; Trent House, Aerospace Futures Alliance; Ron Newbry, Impact Washington.