Multiple Agency Fiscal Note Summary

Bill Number: 5096 SB	**Title:** Employee ownership

Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(229,000)	(229,000)	(229,000)	(852,000)	(852,000)	(852,000)	(925,000)	(925,000)	(925,000)
Total $	**(229,000)**	**(229,000)**	**(229,000)**	**(852,000)**	**(852,000)**	**(852,000)**	**(925,000)**	**(925,000)**	**(925,000)**

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Financial Institutions	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Commerce	3.7	1,754,384	1,754,384	1,754,384	3.7	1,455,106	1,455,106	1,455,106	3.7	1,162,306	1,162,306	1,162,306
Department of Revenue	1.3	483,500	483,500	483,500	.2	41,800	41,800	41,800	.2	41,800	41,800	41,800
Total $	**5.0**	**2,237,884**	**2,237,884**	**2,237,884**	**3.9**	**1,496,906**	**1,496,906**	**1,496,906**	**3.9**	**1,204,106**	**1,204,106**	**1,204,106**

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Financial Institutions	.0	0	0	.0	0	0	.0	0	0
Department of Commerce	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

Prepared by: Gwen Stamey, OFM	**Phone:** (360) 790-1166	**Date Published:** Final

FNPID 65456

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 5096 SB	Title: Employee ownership	Agency: 102-Department of Financial Institutions

Part I: Estimates

[X] **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:
NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:	Kellee Gunn	Phone: 786-7429	Date: 12/29/2022
Agency Preparation:	Emily Fitzgerald	Phone: (360) 902-8780	Date: 01/06/2023
Agency Approval:	Levi Clemmens	Phone: (360) 902-8818	Date: 01/06/2023
OFM Review:	Amy Hatfield	Phone: (360) 000-0000	Date: 01/09/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

This legislation creates the Washington Employee Ownership program to support the efforts of businesses considering a sale to an employee ownership structure. Section 2(2)(a)(vi) of this legislation directs the Department Commerce to work with the Department of Financial Institutions (DFI) to shape and implement guidance on lending to broad-based employee ownership vehicles.

Ownership interests in an employee cooperative would likely be securities, but securities issued by a mutual or cooperative association are eligible for an exemption from registration under RCW 21.20.320, provided some criteria are met. For the purposes of this fiscal note, DFI assumes that employee cooperatives would not be required to register as securities.

The guidance issued by DFI on lending to broad-based employee ownership vehicles would fall under the agency's existing regulatory responsibilities and the cost of that work would be absorbed. This bill has no fiscal impact.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 5096 SB	Title: Employee ownership	Agency: 103-Department of Commerce

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	3.7	3.7	3.7	3.7	3.7
Account					
General Fund-State 001-1	876,831	877,553	1,754,384	1,455,106	1,162,306
Total $	876,831	877,553	1,754,384	1,455,106	1,162,306

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Kellee Gunn	Phone: 786-7429	Date: 12/29/2022
Agency Preparation:	Karen McArthur	Phone: 360-725-4027	Date: 01/09/2023
Agency Approval:	Jason Davidson	Phone: 360-725-5080	Date: 01/09/2023
OFM Review:	Gwen Stamey	Phone: (360) 790-1166	Date: 01/11/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 2 creates the Washington employee ownership program in the Department of Commerce (department) and directs the department how to implement the program. By December 1st of each year, the department must submit report to the legislature on program activities. The first report must include rules and guidelines for the administration of the program.

Section 3 creates the Washington employee ownership commission (commission) to exercise the powers to develop and oversee the program. One representative from the department will chair the first meeting prior to the election of a chair. The commission in consultation with the director shall development rules and guidelines to administer the program.

Section 6 directs the department as part of the state small business credit initiative program, to administer the small business collateral support, subject to the availability of funding.

Section 7 creates the employee ownership revolving loan program account at the state treasury to be used only for the purpose of the program.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

To complete this work the department estimates the following will be needed.

0.20 FTE WMS Small Business Finance and Community Support Managing Director (420 hours) to provide leadership, oversight, supervision, rules coordination and decision-making over-all elements of the program.

1.0 FTE Commerce Specialist 4 (2,088 hours) to function as an agency expert for the program. Create and work with a network of technical support and service providers to work with businesses considering employee ownership structures; work with state agencies regarding regulations and programs that affect employee-owned business; create partnership with relevant private, nonprofit, and public organizations to promote employee ownership benefits and successful models; work with the department of financial institutions and other appropriate entities to shape and implement program guidance; look for and apply for federal funding to establish a revolving loan program to assist business in the transition to employee ownership.

1.0 FTE Commerce Specialist 3 (2,088 hours) to provide program data analysis and research to the Commerce Specialist 4 in the creation of the program, procure and manage contracts, review and process payments to vendors.

1.0 FTE Administrative Assistant 2 (2,088 hours) to provide administrative support and procedural guidance for the program, schedule commission meetings, data collection, and aid in applying for federal funds.

Salaries and Benefits:
FY24: $344,965
FY25-FY29: $356,780 each fiscal year

Professional Service Contracts:
The department assumes $300,000 ($250 per hour x 1,200 hours) in FY24-FY26 to contract with firms as provided for in Section 2(3) for the purpose of the program and for translation services.
FY24-FY26: $300,000 each fiscal year

Goods, Services, Equipment and Travel:
FY24: $118,373
FY25-FY27: $103,392 per fiscal year
FY28: $110,592
FY29: $103,392

Intra-Agency Reimbursements:
FY24: $113,493
FY25-FY29: $117,381 each fiscal year

*Note: Standard goods and services costs include supplies and materials, employee development and training, Attorney General costs, central services charges and agency administration. Agency administration costs (e.g., payroll, HR, IT) are funded under a federally approved cost allocation plan.

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Total Costs:
FY24: $876,831
FY25-FY26: $877,553 per fiscal year
FY27: $577,553
FY28: $584,753
FY29: $577,553

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	876,831	877,553	1,754,384	1,455,106	1,162,306
		Total $	876,831	877,553	1,754,384	1,455,106	1,162,306

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	3.7	3.7	3.7	3.7	3.7
A-Salaries and Wages	253,781	261,394	515,175	522,788	522,788
B-Employee Benefits	91,184	95,386	186,570	190,772	190,772
C-Professional Service Contracts	300,000	300,000	600,000	300,000	
E-Goods and Other Services	97,373	97,392	194,765	194,784	194,784
G-Travel	6,000	6,000	12,000	12,000	12,000
J-Capital Outlays	15,000		15,000		7,200
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements	113,493	117,381	230,874	234,762	234,762
9-					
Total $	876,831	877,553	1,754,384	1,455,106	1,162,306

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Administrative Assistant 2	51,302	1.0	1.0	1.0	1.0	1.0
Commerce Specialist 3	86,159	1.0	1.0	1.0	1.0	1.0
Commerce Specialist 4	90,523	1.0	1.0	1.0	1.0	1.0
Financial Services - Indirect	111,168	0.5	0.5	0.5	0.5	0.5
WMS Band 2	128,983	0.2	0.2	0.2	0.2	0.2
Total FTEs		3.7	3.7	3.7	3.7	3.7

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 5096 SB	Title: Employee ownership	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax		(229,000)	(229,000)	(852,000)	(925,000)
Total $		(229,000)	(229,000)	(852,000)	(925,000)

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	2.4	0.2	1.3	0.2	0.2
Account					
GF-STATE-State 001-1	462,600	20,900	483,500	41,800	41,800
Total $	462,600	20,900	483,500	41,800	41,800

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:	Kellee Gunn	Phone: 786-7429	Date: 12/29/2022
Agency Preparation:	Sara del Moral	Phone: 360-534-1525	Date: 01/09/2023
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 01/09/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 01/09/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

This fiscal note addresses sections 4 and 5 of the bill, which impact the Department of Revenue (department).

CURRENT LAW:
The business and occupation (B&O) tax is a gross receipts tax. It is measured on the value of products, gross proceeds of sale, or gross income of each business. The tax rate varies by classification. Rates for the major classifications range from 0.471% to 1.75%. Preferential rates are available for certain activities.

Several credits exist for the B&O tax. However, the law does not allow a credit for the cost of converting a business to an employee-owned structure.

PROPOSAL:
This bill creates a credit against the B&O tax for each qualifying business that converts to any of the following employee ownership structures:
- Employee stock ownership plan,
- Worker-owned cooperative, or
- Employee ownership trust.

For each business with an employee stock ownership plan, the credit is equal to the greater of the following:
- 50% of conversion costs, or
- $100,000.

For each business converting to a worker-owned cooperative or employee ownership trust, the credit is equal to the greater of the following:
- 50% of conversion costs, or
- $25,000.

Each business may carry over unused credit to subsequent tax periods, as long it does so within 12 months of conversion.

Statewide, the total amount of credits authorized is $2 million for each calendar year.

“Conversion costs” means amounts spent on accounting, legal, and other professional services to pay for a feasibility study and/or a transition to an employee-owned structure.

“Qualified business” means an entity that is:
- Subject to the B&O tax,
- Does not already have one of employee-owned structures for which the credit is available, and
- Approved by the Department of Revenue for the credit.

The credit expires on July 1, 2030.

EFFECTIVE DATE:
The bill takes effect 90 days after final adjournment of the session, except for the sections that create the credit which take effect on July 1, 2024.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:
- The Department of Revenue conducts significant outreach about the credit, leading to a greater number of conversions.
- The number of businesses that annually convert to employee ownership is:
  - Thirteen during the first year the credit is available, and
  - Fifteen for subsequent years.
- All converting businesses use the credit.
- For each converted business that uses the credit, the estimated credit amount is:
  - $45,000 for an employee stock ownership plan, and
  - $25,000 for a worker-owned cooperative.
- Businesses using the credit in Washington are similar to Colorado businesses granted a credit for conversions during 2022 with regards to annual revenues and type of employee ownership.
- The B&O tax base grows as forecasted by the Economic and Revenue Forecast Council.
- Currently, tribes with compacts receive a share of certain business and occupation taxes (RCW 43.06.523). Under this proposal the amount of revenue shared with tribes and local governments may decline.

DATA SOURCES:
- Colorado Office of Economic Development and International Trade, personal communication, January 5, 2023
- National Center for Employee Ownership, personal communication, January 4, 2023
- Economic and Revenue Forecast Council, November 2022 forecast

REVENUE ESTIMATES:
This bill decreases state revenues by an estimated $229,000 in the 11 months of impacted collections in fiscal year 2025, and by $417,000 in fiscal Year 2026, the first full year of impacted collections.

STATE GOVERNMENT IMPACT:
State Government (cash basis, $000):
FY 2024 - $ 0
FY 2025 - ($ 229)
FY 2026 - ($ 417)
FY 2027 - ($ 435)
FY 2028 - ($ 453)
FY 2029 - ($ 472)

LOCAL GOVERNMENT IMPACT:
Local Government, if applicable (cash basis, $000): None

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:
This bill affects less than 20 taxpayers annually.

FIRST YEAR COSTS:
The department will incur total costs of $462,600 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 2.4 FTEs.
- Adopt one new administrative rule.
- Set up, program and test computer systems for a new credit type. This includes a new credit ID and associated return processing and system indicator codes, a new E-file worksheet, and modifications to reports and data files.
- Gathering requirements, implementation meetings, documentation, and testing of system changes due to new credit.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

Object Costs - $132,000.
- Computer system changes, including contract programming.

SECOND YEAR COSTS:
The department will incur total costs of $20,900 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.2 FTEs.
- Continued computer system testing, monitoring and maintenance for new credit.
- Process returns, verify credits taken and all associated work items, including issuing assessments for return errors and underpayments.

ONGOING COSTS:
Ongoing costs for the 2026-27 biennium equal $41,800 and include similar activities described in the second-year costs. Time and effort equate to 0.2 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	2.4	0.2	1.3	0.2	0.2
A-Salaries and Wages	208,000	13,500	221,500	27,000	27,000
B-Employee Benefits	68,600	4,500	73,100	9,000	9,000
C-Professional Service Contracts	132,000		132,000		
E-Goods and Other Services	37,100	2,300	39,400	4,600	4,600
J-Capital Outlays	16,900	600	17,500	1,200	1,200
Total $	$462,600	$20,900	$483,500	$41,800	$41,800

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
EMS BAND 5	147,919	0.0		0.0		
EXCISE TAX EX 3	61,632	0.1	0.1	0.1	0.1	0.1
IT SYS ADM-JOURNEY	92,844	1.6		0.8		
MGMT ANALYST4	73,260	0.6	0.1	0.4	0.1	0.1
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.1		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		2.4	0.2	1.4	0.2	0.2

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the standard process to adopt WAC 458-20-NEW, titled: "New rule on employee ownership". Persons affected by this rulemaking would include qualifying businesses that convert to worker-owned cooperatives, employee ownership trusts, or employee stock ownership plans.