Individual State Agency Fiscal Note

Bill Number: 1743 HB	Title: Employee ownership	Agency: 014-Joint Legislative Audit and Review Committee

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	0.0	0.0	0.0	0.1	0.2
Account					
General Fund-State 001-1	11,200	4,500	15,700	17,800	77,300
Total $	11,200	4,500	15,700	17,800	77,300

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.

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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.

The bill creates a new B&O tax preference for costs related to converting a qualifying business to a worker-owned cooperative, employee ownership trust, or employee stock ownership plan.

TAX PERFORMANCE STATEMENT DETAILS

SECTION 4 provides a tax preference performance statement that categorizes the preference as intended to induce certain designated behavior by taxpayers, as indicated under RCW 82.32.808(2)(a).

The specific public policy objective is stated to encourage business owners to create an employee stock ownership plan or employee ownership trust, or to convert to a worker-owned cooperative that allows the company to share ownership with their employees without requiring employees to invest their own money.

If a review finds that the number of businesses in the state offering such plans or ones that have converted to worker-owned cooperatives has increased because of the tax credit, the Legislature intends the Legislative Auditor to recommend extending the expiration date of the preference.

JLARC staff is to access and use any relevant data collected by the state.

REST OF BILL AND TAX PREFERENCE DETAILS

SECTION 1 is a new section noting legislative findings on encouraging employee ownership structures.

SECTION 2 creates a new section in chapter 43.330 RCW establishing the Washington employee ownership program to support businesses considering a sale to an employee ownership structure and defining terms.

SECTION 3 creates a new section in chapter 43.330 RCW detailing membership requirements for the Washington employee ownership commission, and its responsibilities.

SECTION 5 is a new section in chapter 82.04 RCW allowing businesses to take a credit against their B&O tax for costs related to converting a qualifying business to a worker-owned cooperative, employee ownership trust, or an employee stock ownership plan. The credit is equal to: a) Up to 50% of conversion costs not exceeding $25,000 for converting to a worker-owned cooperative or an employee ownership trust; or b) Up to 50% of conversion costs not exceeding $100,000 for converting to an employee stock ownership plan.

Details on credit use are provided. Total annual credits statewide are capped at $2 million. Credits are authorized on a first-in-time basis. Further administrative details and definitions are provided. No credits can be claimed on returns for tax periods on or after July 1, 2030. The section expires July 1, 2030.

SECTION 6 is a new section in chapter 43.330 RCW creating the employee ownership revolving loan program with the state treasurer.

SECTION 7 notes sections 4 and 5 (tax preference details) take effect 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.

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.

JLARC staff would contact and work with the Department of Revenue and other appropriate agencies or organizations immediately after passage of the bill to ensure project contacts are established and any other necessary data for JLARC staff's future evaluation needs are identified and collected. JLARC will likely review the preference in 2028.

The expenditure detail reflects work conducted to prepare for the future review of the preference as well conducting the review in 2027-2028.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2023 legislative session.

This audit will require an estimated 5 audit months.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately $22,100 per audit month.

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	11,200	4,500	15,700	17,800	77,300
		Total $	11,200	4,500	15,700	17,800	77,300

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years				0.1	0.2
A-Salaries and Wages	7,200	2,900	10,100	11,500	50,000
B-Employee Benefits	2,300	900	3,200	3,600	15,800
C-Professional Service Contracts					
E-Goods and Other Services	1,500	600	2,100	2,400	10,500
G-Travel	200	100	300	300	1,000
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	11,200	4,500	15,700	17,800	77,300

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
Research Analyst	126,694				0.1	0.2
Support staff	89,671					0.1
Total FTEs					0.1	0.2

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.