

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 5096 S SB	<b>Title:</b> Employee ownership
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## 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
Office of State Treasurer	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Department of Revenue	(229,000)	(229,000)	(229,000)	(852,000)	(852,000)	(852,000)	(925,000)	(925,000)	(925,000)
<b>Total \$</b>	<b>(229,000)</b>	<b>(229,000)</b>	<b>(229,000)</b>	<b>(852,000)</b>	<b>(852,000)</b>	<b>(852,000)</b>	<b>(925,000)</b>	<b>(925,000)</b>	<b>(925,000)</b>

## 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
Joint Legislative Audit and Review Committee	.0	15,700	15,700	15,700	.1	17,800	17,800	17,800	.2	77,300	77,300	77,300
Office of State Treasurer	.0	0	0	0	.0	0	0	0	.0	0	0	0
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
<b>Total \$</b>	<b>5.0</b>	<b>2,253,584</b>	<b>2,253,584</b>	<b>2,253,584</b>	<b>4.0</b>	<b>1,514,706</b>	<b>1,514,706</b>	<b>1,514,706</b>	<b>4.1</b>	<b>1,281,406</b>	<b>1,281,406</b>	<b>1,281,406</b>

## Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Office of State Treasurer	.0	0	0	.0	0	0	.0	0	0
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
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

# Estimated Capital Budget Breakout

<b>Prepared by:</b> Gwen Stamey, OFM	<b>Phone:</b> (360) 790-1166	<b>Date Published:</b> Final
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# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5096 S SB	<b>Title:</b> Employee ownership	<b>Agency:</b> 014-Joint Legislative Audit and Review Committee
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## 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
<b>Account</b>					
General Fund-State      001-1	11,200	4,500	15,700	17,800	77,300
<b>Total \$</b>	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.

Legislative Contact: Trevor Press	Phone: 360-786-7446	Date: 01/25/2023
Agency Preparation: Dana Lynn	Phone: 360-786-5177	Date: 01/30/2023
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 01/30/2023
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 01/30/2023

## 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.*

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 and creating and detailing membership requirements for the Washington employee ownership commission, and detailing 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 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 these preferences in 2028.

The expenditure detail reflects work conducted to prepare for the future review of the preferences 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
<b>Total \$</b>			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-					
<b>Total \$</b>	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
<b>Total FTEs</b>					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.*

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5096 S SB	<b>Title:</b> Employee ownership	<b>Agency:</b> 090-Office of State Treasurer
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## Part I: Estimates

No Fiscal Impact

**Estimated Cash Receipts to:**

**Non-zero but indeterminate cost and/or savings. Please see discussion.**

**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: Trevor Press	Phone: 360-786-7446	Date: 01/25/2023
Agency Preparation: Dan Mason	Phone: (360) 902-8990	Date: 01/30/2023
Agency Approval: Dan Mason	Phone: (360) 902-8990	Date: 01/30/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/30/2023

## 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.*

SSB 5096 creates the employee ownership revolving loan program account, coupled with the general fund as the recipient of the earnings from investments under RCW 43.79A.040(4).

### 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.*

Projected cash flows are currently unavailable; therefore, estimated earnings from investments are indeterminable.

There may be an impact on the debt service limitation calculation. Changes to the earnings credited to the general fund impacts, by an equal amount, general state revenues.

### 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

<b>Bill Number:</b> 5096 S SB	<b>Title:</b> Employee ownership	<b>Agency:</b> 102-Department of Financial Institutions
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## Part I: Estimates

**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: Trevor Press	Phone: 360-786-7446	Date: 01/25/2023
Agency Preparation: Emily Fitzgerald	Phone: (360) 902-8780	Date: 01/30/2023
Agency Approval: Levi Clemmens	Phone: (360) 902-8818	Date: 01/30/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/31/2023

## 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. Therefore, 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

<b>Bill Number:</b> 5096 S SB	<b>Title:</b> Employee ownership	<b>Agency:</b> 103-Department of Commerce
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## 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
<b>Account</b>					
General Fund-State 001-1	876,831	877,553	1,754,384	1,455,106	1,162,306
<b>Total \$</b>	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: Trevor Press	Phone: 360-786-7446	Date: 01/25/2023
Agency Preparation: Karen McArthur	Phone: 360-725-4027	Date: 01/26/2023
Agency Approval: Jason Davidson	Phone: 360-725-5080	Date: 01/26/2023
OFM Review: Gwen Stamey	Phone: (360) 790-1166	Date: 01/30/2023

## 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.*

Differences between the SSB 5096 and the original bill:

Section 2 adds an inventory of employee-owned businesses in the state including employee stock owner plans, worker cooperatives, and employee ownership trust to what the Department of Commerce (department) must do to implement the employee ownership program and reporting.

Section 6 was removed and the remaining sections 7-9 to 6-8.

Summary of SSB 5096:

Section 2 creates the Washington employee ownership program in the 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 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
<b>Total \$</b>			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-					
<b>Total \$</b>	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
<b>Total FTEs</b>		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

<b>Bill Number:</b> 5096 S SB	<b>Title:</b> Employee ownership	<b>Agency:</b> 140-Department of Revenue
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## 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)
<b>Total \$</b>		(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
<b>Account</b>					
GF-STATE-State 001-1	462,600	20,900	483,500	41,800	41,800
<b>Total \$</b>	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: Trevor Press	Phone: 60-786-7446	Date: 01/25/2023
Agency Preparation: Sara del Moral	Phone: 60-534-1525	Date: 02/02/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 02/02/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/02/2023

Request # 5096-2-1

## 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).

#### COMPARISON OF THE SUBSTITUTE BILL WITH THE ORIGINAL:

The substitute bill amends the definition of employee stock ownership plan (ESOP), for the purpose of the business and occupation (B&O) tax credit, to have the same meaning as the definition under federal law as of the effective date.

#### CURRENT LAW:

The 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 1.750%. Preferential rates are available for certain activities.

Several credits against the B&O tax are available. However, state law does not allow a credit for the cost of converting a firm to an employee-owned structure.

#### PROPOSAL:

A credit against the B&O tax is provided for each qualifying business that converts to using any of the following employee ownership structures:

- ESOP
- worker-owned cooperative
- employee ownership trust

For each firm converts to using an ESOP, the credit is equal to the greater of the following:

- 50% of conversion costs
- \$100,000

For each firm converting to a worker-owned cooperative or employee ownership trust, the credit is equal to the greater of the following:

- 50% of conversion costs
- \$25,000

Each firm 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.
- Approved by the department 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 conducts significant outreach about the credit, leading to a greater number of conversions.
- The number of businesses annually converting to employee ownership is:
  - 13 during the first year the credit is available.
  - 15 for subsequent years.
- All converting businesses use the credit.
- For each converted business that uses the credit, the credit equals:
  - \$45,000 for an employee stock ownership plan.
  - \$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
- Economic and Revenue Forecast Council, November 2022 forecast
- National Center for Employee Ownership

### 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
<b>Total \$</b>	<b>\$462,600</b>	<b>\$20,900</b>	<b>\$483,500</b>	<b>\$41,800</b>	<b>\$41,800</b>

**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		
<b>Total FTEs</b>		<b>2.4</b>	<b>0.2</b>	<b>1.4</b>	<b>0.2</b>	<b>0.2</b>

**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.