

# HOUSE BILL REPORT

## HB 2983

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**As Reported by House Committee On:**  
Community & Economic Development & Trade

**Title:** An act relating to creating the Washington global health technologies and product development competitiveness program and allowing certain tax credits for program contributions.

**Brief Description:** Creating the Washington global health technologies and product development competitiveness program and allowing certain tax credits for program contributions.

**Sponsors:** Representatives Kenney and Maxwell.

**Brief History:**

**Committee Activity:**

Community & Economic Development & Trade: 1/28/10, 2/1/10 [DPS].

**Brief Summary of Substitute Bill**

- Creates a Global Health Technologies and Product Development Competitiveness Program (Program) and requires that it be administered by a 501 (c) (6) nonprofit organization whose board of directors (Board) is appointed by the Governor.
- Creates an account in the custody of the State Treasurer for federal funds received by the Board and directs the Board to create an account for non-federal contributions received.
- Authorizes a business and occupations tax credit and an insurance premium tax credit beginning July 1, 2010, for persons contributing to the Program, and limits each tax credit to \$5 million total and \$500,000 per person per fiscal year.

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**HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE**

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Kenney, Chair; Smith, Ranking Minority Member; Lias, Moeller, Orcutt and Probst.

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*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.*

**Minority Report:** Do not pass. Signed by 1 member: Representative Chase.

**Staff:** Meg Van Schoorl (786-7105).

**Background:**

Global Health Care Industry in Washington.

According to a 2009 summary report by the Legislative Committee on Economic Development and International Relations, Washington's global health sector is responsible for approximately 50,000 primary and secondary high-paying jobs, over \$1.7 billion in salaries, and \$4.1 billion in business activity. A November 2009 Berk and Associates study conducted for the Washington Global Health Alliance (WGHA) reported that WGHA partner organizations are currently involved in more than 480 global health projects in 92 countries focusing on issues including infectious diseases, non-communicable diseases and conditions, and exposure to environmental toxins. The study identified global health expertise as being distributed statewide, but with facilities concentrated in Seattle, Richland, and Pullman.

Business and Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Depending on the types of activities conducted, a business may have more than one B&O tax rate. There are a number of different rates. The major rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services and other non-classified activities.

Premium Tax.

The premium tax is a gross receipts tax that is similar to the B&O tax. This tax is levied against an insurer's premium volume at 2 percent.

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**Summary of Substitute Bill:**

Program and Board of Directors.

The Global Health Technologies and Product Development Competitiveness Program (Program) is created. It must be administered by a nonprofit organization exempt from income taxation under Sec. 501 (c) (6) of the federal internal revenue code. Its 10 member board of directors (Board) , appointed by the Governor after consultation with a statewide alliance of global health research, nonprofit and private entities, must include three members from private global health service companies, three members from nonprofit organizations that support global health research, three members from public research institutions, and one member who is a former statewide elected official. The Board's duties include: contracting with the Department of Health (DOH) for management services; soliciting and receiving gifts, grants, royalty payments, licensing income, other private donations, and federal government funds; establishing grant-making eligibility criteria and procedures; and making grants for the development, production and delivery of global health technologies and products. Factors that the Board must consider when evaluating proposals include the quality

of the proposed project; the potential to improve global health outcomes and leverage additional funding; the potential to stimulate employment or technical skills training in the state; and the willingness of the grant recipient to enter into licensing or royalty sharing agreements with the Board. Grant contracts must specify that the research, development, and subsequent production activities must occur in Washington, and noncompliance will require the recipient to return the grant award. An exception to the in-state policy is allowed when an activity, such as a clinical trial, must be carried out in a developing country. If recommended by the Washington Economic Development Commission, the Board may fund recruitment and employment by public research institutions and global health nonprofit organizations of global health researchers with a history of technology commercialization.

#### Accounts.

The Board must create and administer an account for depositing all non-federal funds received. A Global Health Technologies and Product Development Account (Account) is created in the custody of the State Treasurer into which all federal funds received by the Board must be deposited. The Account will receive its proportionate share of earnings from the State Treasury on a monthly basis. Expenditures may be made from either account only to fund Program activities. Only the Board of Directors or the Board's designee may authorize expenditures. The DOH may use up to 3 percent of the total funds deposited in the two accounts for administrative expenses.

#### B&O Tax Credit.

A B&O tax credit is allowed for persons who contribute funds directly to the Program. The amount of the credit is equal to 50 percent of contributions made in any fiscal year. The amount of tax credit claimed cannot be more than taxes due and the maximum credit that may be earned per calendar year per person is \$500,000. Contributions must be made prior to claiming the credit, and refunds are not granted in the place of credits. A B&O tax credit may not be claimed for any contribution for which a premium tax credit is claimed. Tax credits not claimed in any calendar year may be carried over and claimed against the person's tax liability for a maximum of three succeeding calendar years. The cap on total credits allowed during any calendar year is \$5 million. The Department of Revenue (DOR) must make credits available on a first-in-time basis and may not allow any credits to be taken before July 1, 2010. Various DOR administrative responsibilities are detailed. The credit availability will expire June 30, 2018.

#### Premium Tax Credit for Health Insurers and Carriers.

An insurance premium tax credit is allowed for insurers who contribute funds directly to the Program. The amount of the credit is equal to 50 percent of contributions made in any fiscal year. A premium tax credit may not be claimed for any contribution for which a B&O tax credit is claimed. The amount of tax credit claimed cannot be more than taxes due and the maximum credit that may be earned per calendar year per person is \$500,000. The Office of the Insurance Commissioner (OIC) must make credits available on a first-in-time basis, and the cap on total credits allowed during any calendar year is \$5 million. Tax credits not claimed in any calendar year may be carried over and claimed against the person's tax liability for a maximum of three succeeding calendar years. Various OIC administrative responsibilities are detailed. The credit availability will expire June 30, 2018.

#### Accountability.

Grantees must report to the Board prescribed information on funding received and leveraged, the number and types of jobs created, and other information as required by the Board. The Board must use this information to prepare an annual Program evaluation report to the Legislature beginning December 1, 2012. The Board must also provide information as requested by the Joint Legislative Audit and Review Committee or the Citizen Commission for Performance Measurement of Tax Preferences.

**Substitute Bill Compared to Original Bill:**

The substitute bill specifies that the Program be administered by a 501 (c) (6) organization and requires the organization's Board to create an account for deposit of non-federal funds. An account in the custody of the State Treasurer is created to deposit federal funds received by the Board. The substitute bill removes a provision that prohibits state and local governmental funds from being deposited in the Account and a statement that moneys in the Account do not constitute public funds. For certain activities, the substitute bill allows an exception to the general prohibition on out-of-state research, development or production. The provisions for the B&O and premium tax credits are made consistent. A taxpayer may not claim both the B&O and the premium tax credit for the same contribution. A provision related to retaliatory taxes is removed and other changes are made for consistency of terminology. The substitute bill adds accountability measures that must be taken by grantees and the Board.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The global health care industry in Washington is an emerging, vital cluster that has been taken for granted. Research and development activities at the University of Washington in human health and at Washington State University in animal health are well positioned to capitalize on anticipated federal global health grants in the next six years. But scientific discovery is not enough in itself to stimulate economic development. Control of where products are manufactured depends upon how far along the research is. The goal of this bill is to move beyond laboratory research and into commercialization. This bill links the private sector, non-profit organizations, and public institutions. It provides a funding mechanism and grant program designed to leverage the strong research being done here into product development and manufacturing jobs in our state. Having this incentive available here will send a message that Washington state is the new "Silicon Valley" for this 21st century boom industry.

(With concerns) The State Treasurer's office would like to see the following sentence removed: "No state or local governmental funds may be deposited in the account and

moneys in the account do not constitute public funds for the purposes of any constitutional or statutory limitation on the use of public funds." The Office of the Insurance Commissioner would like to see the section dealing with retaliatory taxes removed because it is unnecessary and would be very confusing to administer. Undefined terms including "vested credit" and "certified investors" should also be removed.

(Opposed) None.

**Persons Testifying:** (In support) Ralph Monro and Lisa Cohen, Global Health Alliance; Charles Smith, Seattle Children's Hospital; Rhea Coler, Infectious Disease Research Institute, University of Washington; Steve Hanson, University of Washington; Harlan Patterson, Executive Director, Washington Vaccine Alliance; and Tina Vlasaty, City of Seattle Office of Economic Development.

(With concerns) Wolfgang Opitz, Office of the Treasurer; and Chris Carlson, Office of the Insurance Commissioner.

(Opposed) None.

**Persons Signed In To Testify But Not Testifying:** None.