

Washington Opportunities for Offshore Wind Businesses

A. The Advantages of Washington

Washington offers businesses access to capital, a superior global trade network, low costs for conducting business, and access to a highly educated and skilled workforce. According to a Forbes/Praxis Strategy Group study in 2012, the Seattle area has seen the most growth in technology jobs in the nation.¹ In 2009, *U.S. News & World Report* ranked Washington as the best state to start a business, citing the myriad tax and industry incentives, relocation services, small business help, and lower than average energy costs. In 2011, the State Business Tax Climate Index ranked Washington 11th in the nation, in part for its lack of income tax. Incentives available to businesses include a reduced business and occupation tax credit for high technology R&D spending, and a sales and use tax deferral for the high technology sector.

Washington ranks fourth in investments in clean energy industries. Wind is a key industry in the state. Washington ranks seventh in the nation for installed land-based wind capacity. The state brought its first utility-scale project on-line in 2001 and has since been developing resources along the Columbia Gorge. This robust wind industry has created a strong wind energy supply chain and new manufacturing opportunities. Major wind turbine tower manufacturers, such as T.Bailey, have facilities in Washington. At least eight other facilities currently manufacture wind components in Washington.

In great part because Washington has the largest coordinated hydro-electric system in the world and is the lead hydro-electric producer in the nation, the state has some of the cheapest electricity prices in the nation. The average price of industrial electricity is 4.22 cents/kWh.

Washington has seven deep-draft ports in Puget Sound, one on the Pacific Coast, and three on the Columbia River. These ports are critical for moving goods to Asia-Pacific markets (faster than from California) and across the U.S. The various ports are important trans-shipment points for overseas vessels and river barges, offering double-stack service for railroad shippers and intermodal rail facilities. The state continues to invest in its port, rail, air, and roadway systems to meet increasing cargo volumes.

B. Government Policies Pertaining to Offshore Wind Power

Renewable Resource Portfolio Standard

Washington enacted a renewable energy standard in 2006. The standard requires utilities to obtain 15% of their 2020 electricity from renewables and invest in energy efficiency.

¹ The 2012 *Forbes* list of the highest ranking cities for technology jobs is available here: <http://www.forbes.com/sites/joelkotkin/2012/05/17/the-best-cities-for-tech-jobs/>

C. Government Policies Pertaining to Manufacturing and Service Activities Related to Offshore Wind

Business Incentive Loans and Bonds

Washington has several loan and bond programs available for expansion or start-up projects. These programs provide critical access to capital.

The **Washington State Rural Washington Loan Fund** provides gap financing to businesses creating or retaining jobs. Funding priority is given to several sectors, including manufacturing. Up to \$1 million is available per project, and the funds can be used for capital costs and the improvement or construction of a property.

The Washington Economic Development Finance Authority finances businesses through “non-recourse” loans and bonds. The Finance Authority is able to borrow the money from a bank or bond purchaser and can pass on the lower interest rate to the borrower.

Tax Credits

Tax incentives in Washington are designed to incent businesses to grow, expand, and create or preserve jobs. The various tax credits target areas with high unemployment, rural areas, manufacturers, and high technology companies.

The **B&O Credit for New Employees in Manufacturing and Research and Development in Rural Counties** provides tax credits to manufacturers, R&D laboratories, and commercial testing facilities located in rural counties or designated within a Community Empowerment Zone (CEZ). The credit amount is based on eligible new employment positions. The **High Technology B&O Credit for R&D Spending** is a similar incentive available to eligible businesses conducting R&D in Washington. Qualified fields include advanced materials, environmental technology, and electronic device technology.

Businesses whose headquarters are located in a CEZ are eligible for the **Sales and Use Tax Deferral/Waiver for Corporate Headquarters Locating in Community Empowerment Zone**. Businesses must invest at least \$30 million in the property (including buildings, tangible property, labor, and planning) and employ at least 300 qualified employees. Manufacturing facilities located in high unemployment counties or CEZs may also claim sales and use tax deferral. Manufacturers must be carrying out construction and equipment purchases for new or expanding business. The **High Technology Sales and Use Tax Deferral** is available to businesses conducting R&D and pilot-scale manufacturing. Companies must file an application for the deferral before a building permit is issued. Qualified activities include advanced-materials manufacturing, electronic device technology, and environmental technology.

Manufacturers may also claim a **Machinery and Equipment Sales and Use Tax Exemption** for qualified activities, including high-performance manufacturing, R&D, and testing operations.

Any company that generates electricity from renewable energy may claim a Sales and Use Tax Exemption for Machinery & Equipment Used to Generate Electricity. Any purchases and

installations of machinery and equipment used directly in generating renewable electricity are exempt from sales and use tax. The current exemption is in the form of a refund of 75% of sales or use tax paid.

Programs for Small Businesses

Craft3, a Community Development Financial Institution, has created a fund to serve small businesses in underserved communities. Through the **Small Business Credit Initiative**, Craft3 works with other community development financial institutions (CDFIs) in the state and with its own direct loan programs to meet financing needs in the amounts of \$1-\$5 million. The shared risk structure with other CDFIs allows the program to target smaller loans. Through the Initiative, the W Fund, a \$25 million venture fund, is able to invest in early-stage companies and research centers across Washington. The W Fund supports start-ups and projects that create jobs. Washington's Department of Commerce administers the **Capital Access Program**, which encourages lenders to make loans to small businesses that might not otherwise qualify for a conventional loan. The program has established a fund that lenders can access in the case of loan defaults. It targets small businesses with credit needs between \$50,000 and \$150,000.

Other Incentives

Teams comprised of an eligible Washington state university or non-profit research partner and a Washington company can apply for grant funding through the **Research and Technology Development Program**, which awards \$1 million annually to applied research projects. The program accepts research proposals from any technical area or industry; the maximum award size is \$100,000 for any size company and a match is required. An eligible city or county may apply for a grant under the Community Development Block Grant Float Loan Program to extend a short-term loan (24-30 months) to a private business. The loans are available at below-prime rates, but are negotiated on a case-by-case basis determined by the contribution the project will make to job creation and retention. The business must demonstrate that public financing is necessary for job creation.