

State of Washington
Joint Legislative Audit & Review Committee (JLARC)



**Manufacturing Innovation
Sunset Review:
Legislature Should Allow
Unused Program to Expire**

Report 11-9

December 1, 2011

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alternative formats for persons with disabilities.*

Joint Legislative Audit and Review Committee

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The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in Chapter 44.28 RCW, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

Committee Approval

On December 1, 2011, this report was approved for distribution by the Joint Legislative Audit and Review Committee.

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STATE OF WASHINGTON
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REVIEW COMMITTEE

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In Summary

In 2008, the Legislature created the “Washington Manufacturing Innovation and Modernization Extension Service Program” (MIMES Program; SSB 6510).

The purpose of the MIMES Program was to increase the availability of innovation and modernization services to Washington manufacturers, with the intent of enabling these manufacturers to reduce costs, increase sales, become more profitable, and expand job opportunities. Legislation also noted that this growth would result in increased revenues from business and occupation taxes paid by these manufacturers. **However, no manufacturer has used the MIMES Program.**

The 2008 legislation included a sunset of the MIMES Program statutes. The Sunset statutes (Chapter 43.131 RCW) direct that, absent specific action by the Legislature, the “Washington Manufacturing Innovation and Modernization Extension Service Program” will cease to exist on June 30, 2012. These statutes also require the Joint Legislative Audit and Review Committee (JLARC) to review the MIMES Program and respond to the following four questions:

1. **Does the Program comply with legislative intent?** No. The MIMES Program has not been used. Therefore it has not met the expected outcomes - for manufacturers who have engaged in innovation and modernization services - to reduce costs, increase sales, become more profitable, and expand jobs.
2. **Is the Program operating efficiently?** Because the MIMES Program has not been used, JLARC could not assess the efficiency of the Program.
3. **Is the Program meeting its performance goals and targets?** Because manufacturers have not used the Program, JLARC could not assess whether manufacturers who received innovation and modernization services improved their performance.
4. **Is the Program duplicating services?** JLARC did not find duplication of services with the MIMES Program, although there is possible overlap with programs that provide general assistance to Washington businesses.

Because no manufacturers are using the Program, this JLARC sunset review recommends that the Legislature **allow the MIMES Program to expire.**

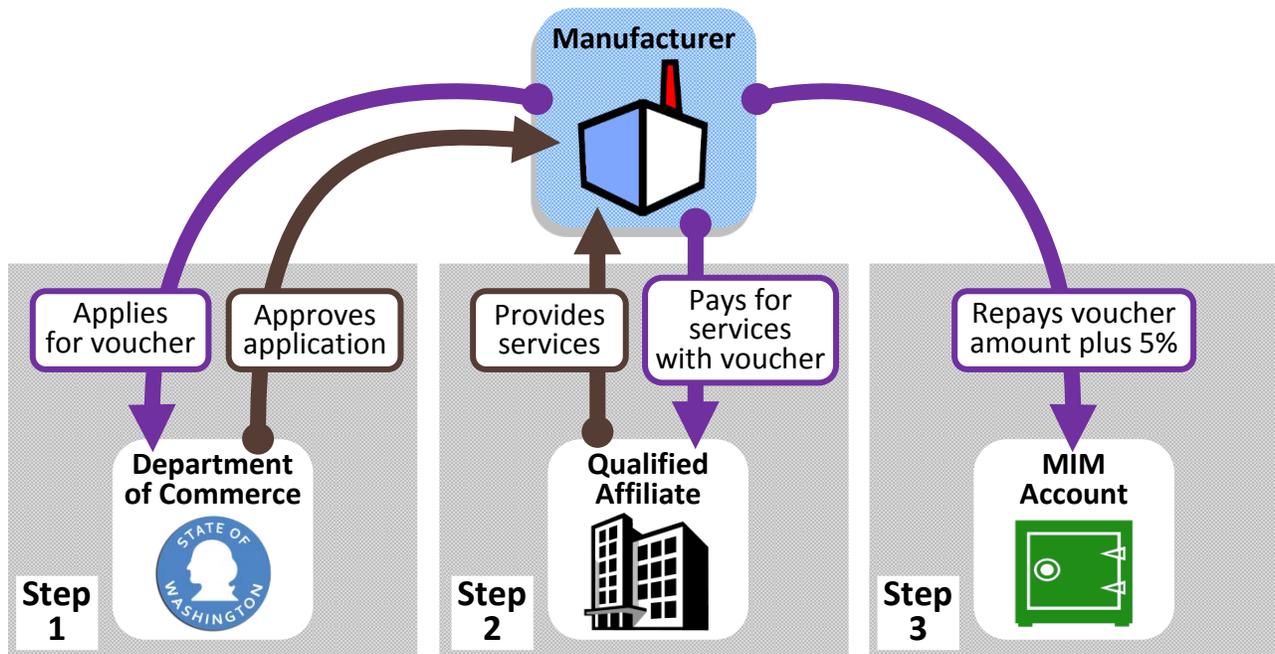
The 2008 Legislature Created the MIMES Program

In 2008, the Legislature created the “Washington Manufacturing Innovation and Modernization Extension Service Program” (MIMES Program; SSB 6510). The Legislature also created, in the enabling legislation, a corresponding Manufacturing Innovation and Modernization Account. According to statute, “to perform in the emerging global marketplace, Washington manufacturers must master new technologies, streamline production processes, improve quality assurance, expand environmental compliance, and enhance methods of work organization.” The Legislature further asserted that, through “innovation and modernization techniques” Washington manufacturers would be able to “compete successfully” and “pay good living wages.”

In creating the MIMES Program, the Legislature sought to provide small manufacturers (100 or fewer employees in Washington) with a voucher to pay for innovation and modernization services, that “reflect the specific needs and capabilities of the individual firms,” such as strategic planning, Six Sigma training, and supply chain management.

A manufacturer may apply for a voucher from the Department of Commerce to pay for services offered by a qualified manufacturing extension partnership affiliate. The manufacturer must agree to make a contribution to the Manufacturing Innovation and Modernization Account in an amount equal to 25 percent of the voucher upon completion of the service. The manufacturer must then make monthly or quarterly contributions to the Account over the subsequent 18 months in an amount equal to 80 percent of the voucher. The final contribution would total 105 percent of the voucher amount. Exhibit 1 below displays this description of the MIMES Program.

Exhibit 1 – The MIMES Program



Source: JLARC analysis of SSB 6510.

The legislation charged the Department of Community, Trade, and Economic Development (now known as the Department of Commerce) with administering the MIMES Program. The Legislature appropriated \$306,000 in the 2008 Supplemental Operating Budget (ESHB 2687) to the Manufacturing Innovation and Modernization Account to fund implementation of the bill. Of this amount, \$75,000 was appropriated in a 2008 budget proviso to “develop a rural manufacturer export outreach program,” separate from the MIMES Program.

The Legislature has reduced appropriations for the MIMES Program over time; the 2011-13 Operating Budget (2ESHB 1087) included an appropriation of \$61,000 for the Program.

The Department of Commerce Set Up the MIMES Program in Compliance with Statute

The Department of Commerce set up the Washington Manufacturing Innovation and Modernization Extension Service Program in preparation for administration of the MIMES Program and for processing applications from potential manufacturers. In doing so, the Department complied with statute.

Expenditures From the Account Comply with Statute, But None Have Been Used by Manufacturers to Access Services Through the MIMES Program

Through Fiscal Year 2011, the Department of Commerce has spent a total of \$105,389 from the Manufacturing Innovation and Modernization Account. Of this amount, \$60,816 was spent on a rural manufacturer export outreach program, as directed by a 2008 Supplemental Operating Budget proviso. These expenditures were separate from the MIMES Program. The remaining amount, \$44,573, was spent on Department of Commerce administrative expenses. The MIMES statute does not place a limitation on administrative expenditures. Expenditures from the Account comply with statute. None of the expenditures from the Account to date were associated with vouchers used by manufacturers to access services through the MIMES Program.

The MIMES Program Has Not Met Legislative Intent

The Legislature identified five intended outcomes for manufacturing firms receiving services through the Program.

1. Reduced costs;
2. Increased sales;
3. Increased profitability;
4. Expanded job opportunities for Washington citizens; and
5. Increased state business and occupation tax payments.

No manufacturer has used the MIMES Program; therefore legislative intent was not met. Because the MIMES Program has not been used, JLARC could not assess the efficiency of the MIMES Program nor performance goals and targets.

JLARC was unable to conduct an in-depth investigation into why manufacturers have not used the MIMES Program. However, we asked the Department of Commerce and the state's one qualified manufacturing extension partnership affiliate why they think no manufacturer has used the MIMES Program. The Department of Commerce noted that the required application process for a voucher made it "unattractive relative to some other types of personal and commercial small business loans such as credit cards and personal lines-of-credit." The qualified affiliate noted some additional reasons including lower bank interest rates and the availability of grants with little out-of-pocket costs to the manufacturer.

The MIMES Program Is Not Duplicating Services, But There Is Possible Overlap

JLARC did not find duplication of services with the "Washington Manufacturing Innovation and Modernization Extension Service Program." However, there are other programs that might be able to provide assistance to manufacturers. For example, there are other sources of funds through loans that, if received, could be used for working capital expenditures. Also, there are organizations that provide similar types of services that may be available to and useful for manufacturers. However, the focus of these other programs is not on small manufacturers.

Conclusion: The Legislature Should Allow the MIMES Program to Expire

The legislation that created the MIMES Program became law on June 12, 2008. Since that time, no manufacturer has used the MIMES Program.

Recommendation 1

The Legislature should allow the Washington Manufacturing Innovation and Modernization Extension Service Program to expire.

Legislation Required:	None required. Absent specific action by the Legislature, the MIMES Program will cease to exist on June 30, 2012.
Fiscal Impact:	Remaining 2011-13 appropriations of \$61,000 will no longer be needed for the MIMES Program and Department of Commerce administrative expenditures from the Account should cease.
Implementation Date:	Absent specific action by the Legislature, expiration will automatically occur on June 30, 2012.

Agency Responses

Department of Commerce: JLARC requested a response from the Department of Commerce, which concurred with the recommendation. Their letter of response is shown on pages 7-9 of this report.

Office of Financial Management: JLARC also requested a response from the Office of Financial Management (OFM). OFM responded that they did not have comments on this report.

Manufacturing Innovation Sunset Review



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STATE OF WASHINGTON
DEPARTMENT OF COMMERCE

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October 20, 2011

TO: Keenan Konopaski, Legislative Auditor
Joint Legislative Audit and Review Committee

FROM: Rogers Weed, Director 

SUBJECT: JLARC – Washington Manufacturing Innovation and Modernization Extension Service Program (MIMES Program; SSB 6510) Sunset Review Recommendation

This is the Department of Commerce’s (Commerce) official response to the Joint Legislative Audit and Review Committee’s (JLARC) Preliminary Report and recommendation in reference to the Manufacturing Innovation and Modernization Extension program.

RECOMMENDATION	AGENCY POSITION	COMMENTS
Recommendation No. 1: The Legislature should allow the MIMES Program to expire	Concur with the recommendation	

Here is the detailed accounting for MIMES Program expenditures and fund balance:

Original Appropriation (2008):	\$306,000.00
Expenditures since program inception:	
Salaries and Wages	\$ 24,758.51
Benefits	6,777.94
Goods and Services	1,649.68
Capital Outlays	18.68
Intra-Agency Reimbursements	11,368.21
Total Administration:	44,573.02
Grant – Impact Washington	60,816.21
Grand Total:	\$105,389.23

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Balance Remaining in Fund 15E-Manufacturing
Innovation and Modernization Account as of
October 13, 2011: \$200,610.77

Commerce has no funding allotted for the 2011-13 Biennium. If the Legislature adopts the JLARC recommendation and no requests for vouchers from the MIMES Program are submitted and approved before the program terminates, the balance of funds remaining in Fund 15E will be available to be re-purposed.

Thank you for your analysis of this issue. If you should have any questions or need further information concerning this matter, please do not hesitate to contact me.

Keenan Konopaski
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bcc: John Thomas, Internal Auditor
Roger Horn, Budget Manager
Debra Beavin, Business Loan Portfolio Manager

