



Small Business Incubators: State Policy, Funding, and Performance

Proposed Final Report
Joint Legislative Audit & Review Committee
August 23, 2007

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Business Incubator Defined: Help Businesses Grow

Background

- Statute defines small business incubator as a *facility* that offers:
 - ✓ Space for start-up and expanding firms
 - ✓ Shared use of equipment and work space
 - ✓ Daily management support services essential to high-quality commercial operations; and,
 - ✓ Technical assistance.
- National Business Incubation Association:
“Comprehensive business-assistance program targeted to help start-up and early-state firms, with the goal of improving their chances to grow into healthy, sustainable companies.”

Exact Count of Incubators Difficult



How Many and What Types?

- “No licensing or certification, no UBI, SIC, or NAICS code identifies organization as “Business Incubator”
- Two estimates:
 - 2005 DCTED analysis: **53 incubators**
 - 2007 Washington Association of Small Business Incubators (WASBI):
24 incubators (16 plus 8 in planning)
- Self-declared” incubators versus incubators who meet a more stringent “best practices test” applied by WASBI
- Some organizations considered “virtual incubators”
- Some organizations stop calling themselves “incubator”

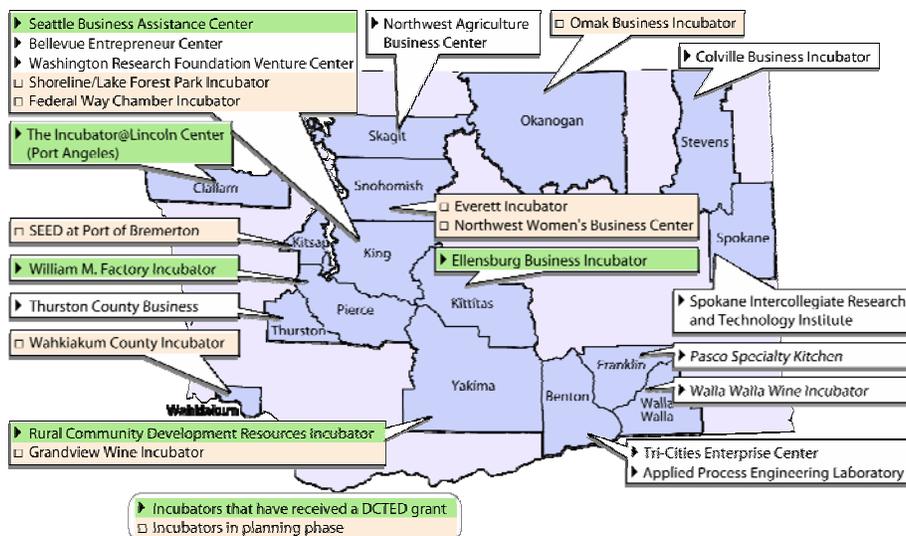
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Incubators are Spread Across State



Source: JLARC analysis of DCTED and Washington Association of Small Business Incubators (WASBI) data.

Grouping Incubators: Profit Orientation, Focus, and Location



How Many and What Types?

	N. America n=1,400	State n=24
Profit Orientation		
Profit	10%	One for-profit
Nonprofit	90%	Remainder non-profit
Types of Companies Assisted		
Mixed use	47%	62%
Technology	37%	17%
Agriculture		13%
All others	16%	8%
Location		
Urban	44%	
Suburban	16%	
Metropolitan		33%
Smaller City		50%
Rural/Other	40%	17%

Source: JLARC analysis of NBIA, WASBI, and DCTED data.

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Policy in RCW, Budget Support, but No Tax Preferences



State's Role?

- Statute declares policy, defines incubators, and creates a grant program
- Budget provides funding through grants and specific provisos
- There are no tax preferences for incubators

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Grant Total Surpassed by Specific Budget Provisos



State's Role?

- Eight years of incubator funding: FY 2002 through FY 2009

	Operating	Capital
Incubator grants	\$ 620,000	
Northwest Agricultural Business Center	\$ 1,340,000	
William M. Factory Incubator		\$ 1,360,000
Walla Walla Wine Incubator		\$ 1,500,000
Thurston County Incubator		\$ 750,000
TOTAL	\$ 1,960,000	\$ 3,610,000

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Other State Funding Sometimes Hard to Identify as "Incubator"



State's Role?

- Review of budget back-up documentation for mention of incubator
- Spokane Intercollegiate Research and Technology Institute (SIRTI)
 - \$1 million of \$4.9 million biennium total to incubator activities
- Lincoln Center in Port Angeles
 - About 25% of building is the "Incubator@Lincoln Center"
 - \$5.5 million of \$9 million to build Center from State Capital Budget

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Analyzing Incubator Performance Difficult



Incubator Performance?

- Conducted extensive literature review
- A lot of descriptive information; some data available
- Lack of comparative analysis to answer essential performance measurement question:
“But for the incubator, what would have happened to the firm?”
- Currently unable to determine this essential performance issue
- Found useful suggestions for systematic data collection for future evaluation and note DCTED collected limited data

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Suggestions for Systematic Data Collection



Incubator Performance?

- National Business Incubation Association (NBIA) recognizes lack of comparative data and suggests a number of key measures for incubated firms, that include:
 - ✓ Number of graduate firms still in business
 - ✓ Number of people employed
 - ✓ Monthly salaries and wages
 - ✓ Dollar amount of equity capital raised
- Information tracked for 5 years after firms leave incubator and then compared to similar, non-incubated firms

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Summary: How Many, How Much, How Well?



Report Summary

- How many in Washington?
 - Estimates range from 24 to 53
- State's role in supporting incubators?
 - Incubator policy in statute with a grant program
 - More funding to specific incubators through provisos than through grant program
- How well are incubators performing?
 - Cannot determine: no comparative analysis

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OFM and DCTED Provided Responses



- OFM finds report consistent with Governor's focus on measuring performance for accountability
- DCTED:
 - Shares interest in research on measuring incubator performance
 - Is willing to assist if adequate staffing and funding are provided
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