

**SMALL BUSINESS  
INCUBATORS:  
REVIEW OF  
STATE POLICY,  
FUNDING, AND  
INCUBATOR  
PERFORMANCE  
REPORT 07-10**

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# REPORT SUMMARY

Small business incubators provide services to firms in an attempt to help the firms succeed and thus lower the rate of small business failures. Such services might be one or all of the following: floor space, shared equipment, clerical support services, assistance in how to run a business, access to capital, and technical assistance.

To better understand small business incubators, the Legislature directed JLARC to answer a number of questions, summarized in three topic areas:

- How many and where are they in the state?
- What is the state's role in supporting incubators and what are their costs to the state?
- How are incubators performing?

At their core, these questions focus on the fundamental policy concern of whether incubators assist in the creation and expansion of firms and keep businesses from failing.

After conducting an extensive review of the literature and visiting incubators in Washington State, we found no analysis that answers the key question: "if not for the incubator, what would have happened to the firms using its services?" **Thus it was not possible for JLARC to determine the true impact of incubators in Washington.**

We did, however, learn much about incubators in Washington State, in other states, and in other nations. We provide insights about incubators and offer suggestions for information that can be systematically collected to help policymakers better evaluate incubators in the future. Like many other economic development efforts, incubators might best be characterized as ongoing experiments. Improved information will help policymakers understand whether these experiments are producing the desired results.

## **Identifying Business Incubators: How Many and What Types of Incubators Exist in Washington State?**

There are no licensing or certification requirements for business incubators, nor any tax identification code or other common coding convention that identifies an entity as an incubator. Therefore, determining the exact number of incubators is difficult. JLARC found two estimates of the number of incubators in Washington.

The Department of Community, Trade and Economic Development (DCTED) is charged with administering the small business incubator grant program. DCTED's 2005 survey found 53 current or potential "self-proclaimed" incubators.

More recently, the Washington Association of Small Business Incubators (WASBI is part of a national organization, the National Business Incubation Association) estimated that there are 24 incubators (16 in existence and 8 in the planning stage) in Washington State. WASBI uses a more stringent definition of what constitutes an incubator and also defines "types" of incubators. WASBI attempts to determine if an incubator follows national (NBIA) best practices, such as providing business assistance or having a graduation policy. WASBI's approach moves beyond the definition of an incubator providing only floor space.

## What is the State's Role in Supporting Business Incubators and What Are Their Costs to the State?

In 2004, the Legislature created a statutory definition for incubators, established policy, and created a competitive small business incubator grant program in the Department of Community, Trade and Economic Development (Chapter 43.176, Revised Code of Washington). Statute states: "It is hereby declared the policy of the state of Washington to assist in the creation and expansion of innovative small commercial enterprises that produce marketable goods and services through the employment of Washington residents...through the use of small business incubators."

Business incubators are defined in statute as a *facility* that offers:

- Space for start-up and expanding firms;
- The shared use of equipment and work areas;
- Daily management support services essential to high-quality commercial operations; and
- Technical assistance.

To qualify for program grants, incubators must meet the definitions above, be nonprofit, and focus on developing small businesses in an economically distressed area. In each of the three years that grant money has been available (fiscal years 2005, 2006, and 2007), four organizations received one-year grants averaging \$48,000 per year. No grant funding was included for the program in the recently passed 2007-09 Operating Budget.

Outside of the grant program, select incubators have received specific state funding in the operating or capital budgets. **Each of these selected appropriations has exceeded the total yearly amount available for the competitive grants.** Finally, since incubators frequently bring funding from a variety of sources together, there are instances where other funding has been provided by the state but not identified as incubator funding.

Determining the total amount of this funding is not possible.

Washington State does not provide any tax incentives to business incubators.

## How Are Business Incubators Performing?

Since there is no analysis that answers the key question "if not for the incubator, what would have happened to a firm and the jobs it created?" it is not possible to answer the most important performance question. This report's focus on performance reporting shifts to the collection of more basic performance indicators and measures. These indicators might include: the number of firms assisted by an incubator, how long the firms stay in business, the number of employees of those firms, and the revenues of those firms.

For instance, one of the current requirements for receiving a grant from DCTED is that each incubator must report the number of firms assisted and the number of employees working for those firms. Over the three-year history of the grants, five different incubators have received awards. DCTED does not collect information on business incubators not receiving grants. Thus, systematic collection of performance information is limited.

The National Business Incubation Association (NBIA) is in the process of publishing a "toolkit" for incubators to use to help gauge incubator economic impact. This toolkit recognizes two key issues about incubators: there is too little information on the performance of incubators, and some incubators use inaccurate "apples to oranges" comparisons when talking about performance. If incubators begin consistently collecting performance information over a suitable time period (NBIA suggests five years), policymakers will be in a better position to understand the performance of specific incubators. This information might help with the important but difficult job of answering the *key question* "if not for the incubator, what would have happened to the firm?"