

## Briefing Paper Study Session

<b>Division &amp; Department:</b>	City Council				
<b>Subject:</b>	Business Registration & Personnel Fees for Social Purpose Corporations and Certified B Corporations				
<b>Date:</b>	May 31, 2018				
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<b>City Council Sponsor:</b>	Ben Stuckart				
<b>Executive Sponsor:</b>	None				
<b>Committee(s) Impacted:</b>	Urban Development/Finance & Administration				
<b>Type of Agenda item:</b>	<input type="checkbox"/> Consent <input checked="" type="checkbox"/> Discussion <input type="checkbox"/> Strategic Initiative				
<b>Alignment:</b> (link agenda item to guiding document – i.e., Master Plan, Budget , Comp Plan, Policy, Charter, Strategic Plan)	<p>Sustainability Action Plan 4.1.8 Strategy 8-C – Support growth of “clean and green” businesses in the community.</p> <p>Comprehensive Plan Economic Development 3.1 – Economic Growth</p> <p>Comprehensive Plan Economic Development 3.4 – Value Added Business Strategy</p> <p>Comprehensive Plan Economic Development 4 – Economic and Employment Opportunity</p>				
<b>Strategic Initiative:</b>	Marketing Spokane; Sustainability				
<b>Deadline:</b>	Will file for Council consideration following committee meeting.				
<b>Outcome:</b> (deliverables, delivery duties, milestones to meet)	Increase in Social Purpose Corporations in Spokane; Tool for socially conscious business recruitment; Cultivate a business environment in Spokane that attracts and rewards corporate responsibility and sustainability				
<b>Executive Summary:</b>					
<p>This ordinance will establish the same reduced business registration fee reduction currently provided to low gross income and non-profit businesses to Social Purpose Corporations and Certified B Corporations. Any company registered as a Certified B Corporations® will also be eligible for the personnel fee (“Head Tax”) waiver currently received by non-profit organizations.</p>					
	<b>Regular Business</b>	<b>Non-Profit</b>	<b>Low Gross Income</b>	<b>Social Purpose Corporation</b>	<b>Certified B Corp</b>
Reduced Business Registration Fee	No	Yes	Yes	Yes	Yes
Personnel Fee (“head tax”) Waiver	No	Yes	No	No	Yes

The current fee for a regular business registration is \$113 per year. In addition to the basic registration fee, businesses pay a per employee fee also known as a “head tax”.

<6 Employees	6-10 Employees	>10 Employees
\$10 per employee	\$15 per employee	\$20 per employee

Businesses who fall under a low gross income threshold are eligible for a reduced business registration fee (one-half of the fee), however low gross income businesses are still required to pay the “head tax”. Non-profit organizations are also eligible for the reduced business registration fee (again, one-half the basic registration fee) and the “head tax” is waived for all non-profits. The City’s “head tax” currently generates more than \$2 million dollars in revenue.

In 2012, the state legislature adopted the Social Purpose Corporation (SPC) Law for Washington State. Similar to a Benefit Corporation (recognized in 37 states outside of Washington), Social Purpose Corporations are a business status that allows businesses to consider social and environmental impacts and goals when making business decisions. Under the Social Purpose Corporation status, companies are required to make a commitment to pursue a social or environmental impact that it specifies in its charter. Unlike Benefit Corporations, Social Purpose Corporations are not required to have a “general public benefit purpose” or operate in a full triple-bottom-line manner<sup>1</sup>.

Social Purpose Corporations can be established through the Washington Secretary of State or by electing to become a Social Purpose Corporation after a recommendation by the board of directors as well as consent by two-thirds of the shareholders. Social Purpose Corporations are required to notify potential investors that the corporation’s mission is not limited to earning a profit. Social Purpose Corporations are also required to publish an annual public report that provides detail on the social purposes of the corporation’s goals. Social Purpose Corporations do not currently receive any specific local, state, or federal tax benefits.

Although Washington’s Social Purpose Corporation lacks the ‘teeth’ of traditional Benefit Corporations, Social Purpose Corporations can meet the intent of Benefit Corporations by certifying through a third-party certifier such as B Lab’s B Corp Certification. Third-party certification allows companies to distinguish themselves from other companies who claim to be “green”, “sustainable”, or “socially conscious”. Major Certified B Corporations have included: Patagonia, Warby Parker, Method (cleaning sprays), New Belgium Brewing, Ben & Jerry’s, and Hootsuite.

Businesses seeking B Corporation certification begin the process by completing an impact assessment based on the company’s impact on workers, community, customers, and environment. Impact assessment example questions include:

**GOVERNANCE:** Does the company have a formal process to share financial information (except salary info) with its full-time employees?

**WORKERS:** Based on referenced compensation studies, how does your company’s compensation structure (excluding executive management) compare with the market?

<sup>1</sup> Profit, People, & Planet

COMMUNITY: What % of management is from underrepresented populations? (This includes women, minority/previously excluded populations, people with disabilities, and/or individuals living in low-income communities.)

ENVIRONMENT: Does your company monitor and record its universal waste production?

The interest in conscious capitalism continues to grow.<sup>2</sup>Benefit corporations are beginning to attract support from investors and entrepreneurs as a way to protect their businesses whose social benefit purpose is critical to the existence of the business. Consumers continually express that sustainability is priority when shopping. Studies also show that employees prefer working for organizations that have a strong social and environmental track record.

The city of Spokane currently has only a handful of Social Purpose Corporations. There is one Certified B Corporation. The current lack of these types of businesses allows the City to craft and implement a clean slate incentive for new, established, and relocating businesses that believe in sustainable business practices and are willing to back up their values through this business model.

## References

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<https://www.forbes.com/sites/theyec/2014/05/30/why-consider-a-benefit-corporation/#7c78774065e9>

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<sup>2</sup> See Dick's Sporting Goods recent move change gun selling policy

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<http://meansofinnovation.com/292/washington-state-legislature-passes-new-social-purpose-corporation-law/>

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Budget Impact:

Approved in current year budget?  Yes  No

Annual/Reoccurring expenditure?  Yes  No

If new, specify funding source:

Other budget impacts: (revenue generating, match requirements, etc.) The City will lose business registration revenue for current businesses that become Certified B Corporations or reincorporate as Social Purpose Organizations. Revenue loss because of this ordinance is limited to the General Fund. The fiscal impact of this ordinance is indeterminate because it is unknown which, if any, current businesses will reincorporate as Social Purpose Corporations or become Certified B Corporations.

There are 5 Social Purpose Organizations in the City. These businesses will be eligible for the business fee reduction upon their annual license renewal. This will have an estimated reduction in City revenue of \$282.50.

There is one Certified B Corporation in the City. This business has less than 6 employees. This business will be eligible for the business fee reduction and personnel fee waiver upon their annual license renewal. This will have an estimated reduction in City revenue of no more than \$116.50.

The City's cost of implementing this ordinance is minimal.

Operations Impact:

Consistent with current operations/policy?  Yes  No

Requires change in current operations/policy?  Yes  No

Specify changes required: Known challenges/barriers: