HOUSE BILL REPORT
E2SHB 2396

As Passed House:
February 12, 2018

Title: An act relating to establishing the working families' child care access and affordability through regional employers act.

Brief Description: Establishing the working families' child care access and affordability through regional employers act.

Sponsors: House Committee on Finance (originally sponsored by Representatives Reeves, Robinson, Kagi, Valdez, Doglio, Riccelli and Stonier).

Brief History:

Committee Activity:

Early Learning & Human Services: 1/9/18, 1/17/18 [DPS];
Finance: 1/30/18, 2/5/18 [DP2S(w/o sub ELHS)];
Appropriations: 2/6/18 [DP2S(FIN)].

Floor Activity:

Passed House: 2/12/18, 84-13.

Brief Summary of Engrossed Second Substitute Bill

- Requires the Department of Children, Youth, and Families to provide guidance for the provision of employer-supported child care.
- Establishes a Child Care Workforce Conditional Scholarship and Loan Repayment program.
- Provides a business and occupation or public utility tax credit for certain businesses contributing to dependent care flexible spending accounts of eligible employees.

HOUSE COMMITTEE ON EARLY LEARNING & HUMAN SERVICES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Kagi, Chair; Senn, Vice Chair; Dent, Ranking Minority Member; McCaslin, Assistant Ranking Minority Member; Eslick, Goodman, Griffey, Kilduff, Klippert, Lovick, Muri and Ortiz-Self.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Without recommendation. Signed by 1 member: Representative Frame.

Staff: Dawn Eychaner (786-7135).

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Early Learning & Human Services. Signed by 11 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

Staff: Serena Dolly (786-7150).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill by Committee on Finance be substituted therefor and the second substitute bill do pass. Signed by 25 members: Representatives Ormsby, Chair; Robinson, Vice Chair; MacEwen, Assistant Ranking Minority Member; Bergquist, Caldier, Cody, Condotta, Fitzgibbon, Graves, Hansen, Harris, Hudgins, Jinkins, Kagi, Lytton, Manweller, Pettigrew, Pollet, Sawyer, Senn, Springer, Stanford, Sullivan, Tharinger and Wilcox.

Minority Report: Do not pass. Signed by 8 members: Representatives Chandler, Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Buys, Haler, Schmick, Taylor, Vick and Volz.

Staff: Kelci Karl-Robinson (786-7116).

Background:

<u>Department of Children, Youth, and Families</u>.
The Department of Children, Youth, and Families (DCYF) was established in 2017 with the stated purpose of protecting children and youth from harm and promoting healthy development with effective, high quality prevention, intervention, and early education services delivered in an equitable manner. On July 1, 2018, all functions of the Department of Early Learning and the child welfare functions of the Department of Social and Health Services (DSHS) will be integrated into the DCYF. On July 1, 2019, the juvenile justice functions of the DSHS Juvenile Rehabilitation Administration will move to the DCYF.

<u>Department of Commerce</u>.
The Department of Commerce (COM) administers programs intended to promote community and economic development. The COM provides businesses with assistance in various areas including export, siting, expansion, and infrastructure.

<u>Conditional Scholarship and Loan Repayment Programs</u>.

A conditional scholarship is a forgivable loan used to incentivize higher education students to work in certain professions and in geographic shortage areas. For example, the Alternative Routes Conditional Scholarship program recruits teachers in subject matter and geographic shortage areas by providing conditional scholarships in return for teaching specific subjects or in geographic areas in public schools. Loan repayment programs repay a student loan, in whole or in part, in exchange for services rendered according to an agreement.

Business and Occupation Tax.
Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business.

Public Utility Tax.
The public utility tax (PUT) is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of electricity, natural gas, and water. The PUT is imposed on gross income derived from operation of public and privately owned utilities in lieu of the B&O tax.

Dependent Care Flexible Spending Accounts.
A dependent care flexible spending account (FSA) is a reimbursement account offered as an employee benefit by an employer. Employees and employers may make pre-tax contributions to the account, up to the federal limit of $5,000 annually. Funds may only be used to pay for out-of-pocket child care or dependent care expenses. Employers typically contract with a third party to administer the accounts.

Tax Preference Performance Statement.
All new tax preference legislation must include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference. New tax preferences expire 10 years after the effective date of the tax preference, unless otherwise provided.

Summary of Engrossed Second Substitute Bill:

Part I: Employer-Supported Child Care.
Employer-supported child care is defined as a licensed child care center operated at or near the workplace by an employer for the benefit of employees or financial assistance provided by an employer for an employee's licensed child care expenses.

The Department of Children, Youth, and Families (DCYF) must develop a website in collaboration with the Department of Commerce (COM) that contains business resources and guidance for employer-supported child care. The website must also include a model policy for establishing a "Bring Your Infant to Work" program and a link to a licensed child care registry developed and maintained by a professional organization of child care providers jointly with participating employers.

The COM must assist businesses with identifying resources and incentives for the provision of employer-supported child care.

The DCYF must consult with the Office of Financial Management (OFM) to develop a "Bring Your Infant to Work" program policy for use in state agencies. The OFM must provide the model policy and implementation guidelines to state agency directors by December 1, 2018, and agencies must be required to adopt the policy by June 1, 2019. Agencies may modify the policy or limit its application as appropriate based on working conditions and job duties.

Part II: Child Care Workforce Conditional Scholarship and Loan Repayment Program.
Child Care Workforce Conditional Scholarship and Loan Forgiveness Repayment Account.
The Child Care Workforce Conditional Scholarship and Loan Forgiveness Repayment Account (Account) is created in the custody of the State Treasurer. The Account must receive all moneys for the Child Care Workforce Conditional Scholarship and Loan Repayment (CCWCSLR) program and receipts from repayments. Expenditures may only be used for conditional loans and loan repayments for program participants and for program administration costs. The Account is not subject to appropriation. When contributions of the Account exceed $100,000, the DCYF must implement the CCWCSLR program, and notify affected parties and the Legislature.

A CCWCSLR program is established. The DCYF must administer the CCWCSLR and select eligible students to receive conditional scholarships and loan repayments. The DCYF must adopt program rules and guidelines, publicize the program to maximize participation of individuals in child care shortage areas and among populations expected to experience the greatest growth in the workforce, collect and manage repayments from participants who do not meet their obligations under the program, and solicit and accept grants and donations from public and private sources for the program.

The DCYF must establish a planning committee to assist with developing criteria for participant selection. Committee members must include representatives of the Department of Social and Health Services, the DCYF, private business, child care center providers, family day care providers, and a union representing child care providers.

When selecting participants, the DCYF must prioritize individuals providing early learning services in rural, underserved, and low-income areas. A priority participant may receive up to $5,000 per year. All other participants may receive up to $2,500 per year.

For conditional scholarships, an eligible student must make satisfactory educational progress according to his or her institution of higher education. Participants of the CCWCSLR may receive conditional scholarships or loan repayments for a maximum of six years.

Loan Repayment.
A participant may receive loan repayment, a student loan that is repaid in whole or in part, if the participant renders early learning services according to an agreement with the DCYF. The agreement between the participant and the DCYF must detail the obligations of both parties, including the amount of loan repayment the participant will receive in exchange for meeting service requirements. At the end of each year the participant must provide evidence

that he or she has met requirements under the agreement and the DCYF must pay the participant for a year of full-time or pro-rated part time service.

Conditional Scholarship.
A conditional scholarship is a loan given to an eligible student under an agreement in which the student is relieved of repayment obligations in exchange for providing early learning services in the state. If a participant does not provide early learning services for each year of scholarship received and meet other requirements under an agreement with the DCYF, the participant must repay the conditional scholarship with interest and pay an equalization fee to the DCYF. An equalization fee is an amount added to the principal of the loan to equate the debt to that which the student would have incurred if the loan was received through the federal student loan program. The entire principal and interest of each payment must be forgiven for each payment period in which the participant provides early learning services and meets other requirements of the agreement, until the entire repayment obligation is satisfied.

Part III: Child Care Tax Incentives.
Employer Contributions to Dependent Care Accounts.
A business with at least five, but no more than 100, employees is allowed a business and occupation (B&O) or public utility tax (PUT) credit for contributions to dependent care FSAs for eligible employees with annual gross wages of $98,880 or less. The credit is equal to the full amount of qualifying contributions made to pay for the care of children under age 13. Credits may be earned between January 1, 2019 and December 31, 2028, and claimed in the calendar year immediately following the year in which the credits were earned. No credit may be claimed after December 31, 2029. Credits are limited to $5,000 per employee, $50,000 per employer, and $500,000 per year for all employers.

Tax Preference Performance Statement.
A tax preference performance statement is provided. The stated objective of the tax incentives is to encourage employers to assist their employees with child care expenses by contributing to employee dependent care flexible spending accounts. The JLARC must publish an evaluation of the tax preferences by July 31, 2022. If a review finds that employers request more credits than are available each year, the Legislature intends to increase the annual amount of statewide credits and expand the program to additional employers.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed, except sections 201 through 207, relating to the CCWCSLR program, which take effect on the date that contributions to the Account exceed $100,000.

Staff Summary of Public Testimony (Early Learning & Human Services):

(In support) Child care access and affordability for working families is a challenge. Families need to put their kids in a safe, reliable place so parents can go to work. If there is not reliable child care, parents may struggle to focus on their jobs. This bill isn't intended to focus on child care quality, but rather on how to make child care accessible and affordable. The focus is on how we can incentivize businesses to provide assistance to their employees for care. This bill has a lot of options. Most importantly, we must focus on what is going to help parents get to work in a safe and reliable manner. The loan forgiveness and scholarship component is important. Early childhood education degrees pay less over a person's lifetime than any other degree. If there isn't support for those students, we will not have the pipeline needed to fill those jobs. Existing scholarships administered by the Department of Children, Youth, and Families have wait lists.

(Opposed) None.

Staff Summary of Public Testimony (Finance):

(In support) Sixty percent of children under age 6 live in a household where all of the adults work. Safe, quality, and affordable child care benefits parents and employers. Good care allows employees to work without worrying about their children. Employers should help with the cost of child care. This bill will incentivize employers to support child care.

Washington is the third most expensive state for child care. The cost is very challenging for parents. Many families cannot afford child care, especially weekend care. It is hard for families to balance the cost of care with working. Some parents cannot even afford the co-pay with state supported care. The cost is forcing families to choose unlicensed and unsafe child care. For single parents, child care is not an option—it is a necessity. Many single mothers are forced to leave their children home alone.

The main challenge for child care providers is balancing home and work. Child care providers are leaving the field, further increasing the cost for families. Child care providers make less than pet groomers and parking lot attendants. This bill helps grow the child care workforce.

(Opposed) None.

Staff Summary of Public Testimony (Appropriations):

(In support) One of the chief barriers to employers providing child care for employees is cost. This bill will assist employers with those costs. There has been a decline in the availability of child care. This bill will create a partnership with employers to ensure their employees have access to high quality child care leading to stability in the workforce.

(Opposed) None.

Persons Testifying (Early Learning & Human Services): Representative Reeves, prime sponsor; and Ryan Pricco, ChildCare Aware of Washington.

Persons Testifying (Finance): Representative Reeves, prime sponsor; Mark Johnson, Washington Retail Association; Alex Hur, Service Employees International Union 935; Ryan

Pricco, Child Care Aware of Washington; Rachel Smith; Dora Herrera; Marcia Jacobs; and Fredericca Davis.

Persons Testifying (Appropriations): Mark Johnson, Washington Retail Association; and Alex Hur, Service Employees International Union 925.

Persons Signed In To Testify But Not Testifying (Early Learning & Human Services): None.

Persons Signed In To Testify But Not Testifying (Finance): None.

Persons Signed In To Testify But Not Testifying (Appropriations): None.