

HOUSE BILL REPORT

HB 2158

As Reported by House Committee On: Finance

Title: An act relating to creating a workforce education investment to train Washington students for Washington jobs.

Brief Description: Creating a workforce education investment to train Washington students for Washington jobs.

Sponsors: Representatives Hansen, Tarleton, Ormsby, Sullivan, Robinson, Bergquist, Slatter, Pollet, Valdez, Sells, Tharinger, Ortiz-Self, Appleton, Dolan, Macri, Senn, Thai, Kloba, Goodman, Stanford and Orwall.

Brief History:

Committee Activity:

Finance: 3/29/19, 4/19/19 [DPS].

Brief Summary of Substitute Bill

- Establishes a Workforce Education Investment Accountability and Oversight Board.
- Establishes the Washington College Grant Program, the Washington Student Loan Program, and a career connected learning cross-agency work group and grant program.
- Makes changes to the Working Connections Child Care Program and the Washington State Opportunity Scholarship.
- Imposes a 20 percent business and occupation (B&O) surcharge on the income from service and other activities of select businesses.
- Imposes a 33.33 percent B&O surcharge on the income from service and other activities of advanced computing businesses with revenue of more than \$25 billion but less than \$100 billion.
- Imposes a 66.66 percent B&O surcharge on the income from service and other activities of advanced computing businesses with revenue of more than \$100 billion.
- Establishes a Workforce Education Investment Account.

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.

- Makes biennial operating budget appropriations for the 2019-21 biennium.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Tarleton, Chair; Walen, Vice Chair; Chapman, Frame, Macri, Morris, Orwall, Springer and Wylie.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Stokesbary and Vick.

Staff: Rachele Harris (786-7137) and Megan Mulvihill (786-7304).

Background:

State Need Grant.

The State Need Grant (SNG) is the state's largest financial aid program administered by the Washington Student Achievement Council (WSAC). Resident students enrolled at a participating higher education institution with a family income less than 70 percent of the state median family income (MFI) are eligible. Students with family incomes at or below 50 percent of the state MFI receive a maximum award, whereas students with family incomes between 51 and 70 percent of state MFI receive a prorated award. For 2018, 68,205 students received a SNG award, and over 22,600 were eligible but did not receive an award due to funding limits.

Career Connect Washington.

Career connected learning (CCL) focuses on combining classroom learning with work-based learning. In 2017 the Governor created the Career Connect Washington Task Force (CCW) to develop strategies for expanding CCL.

The CCW Task Force issued its recommendation in 2018, which focused on:

- building community, education, and industry partnerships;
- ensuring students have more access to CCL opportunities, including registered apprenticeships; and
- building a systemic strategic plan to better connect Washington's youth with the education and training needed to fill employment gaps.

State Student Loan Programs.

Washington has two laws granting the state the authority to develop state educational loans. In 2007 the Washington Higher Education Facilities Authority was granted permission to issue taxable and tax-exempt bonds to acquire and originate student loans. In 2009 the Higher Education Loan Program was created to issue low-interest educational loans. However, neither program was ever funded.

Washington State Opportunity Scholarship.

The Washington State Opportunity Scholarship (WSOS) provides scholarships to low-income and middle-income resident students pursuing professional-technical degrees or bachelor's degrees in high-demand majors in science, technology, engineering, mathematics, and healthcare. In 2018 the WSOS was expanded to include advanced degrees in health professions if the student agrees to a service obligation following graduation. The WSOS is a public-private partnership in which the state matches private contributions to fund the scholarships.

Working Connections Child Care.

The Working Connections Child Care (WCCC) program is a subsidized child care program for families with a household income at or below 200 percent of the federal poverty level who are engaged in work activities or meet WorkFirst participation requirements. A parent who is not participating in WorkFirst that is under the age of 22 may be eligible for the WCCC program without meeting required work hours if the parent is enrolled in high school or a General Education Development program. A parent who is age 22 or older must work either an average of 20 or more hours per week of unsubsidized employment or an average of 16 or more hours per week in a paid federal or state work study program.

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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may pay more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing and 0.484 percent for manufacturing, wholesaling, and extracting. A 1.5 percent rate is paid on services and on activities not classified elsewhere. Several preferential rates also apply to specific business activities.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$28,000 per year or less than \$46,667, if at least 50 percent of its taxable income is from services or activities not classified elsewhere.

Summary of Substitute Bill:

Workforce Education Investment Accountability and Oversight Board.

The Workforce Education Investment Accountability and Oversight (Board) is established with 16 members consisting of the chairs and ranking minority members of the respective higher education and workforce development committees of the Legislature and representatives of business, labor, higher education, students, and the WSAC. The purpose of the Board is to provide guidance and recommendations to the Legislature on which workforce education priorities should be funded and to ensure accountability that the

workforce education investments that were funded are producing the intended results. The Board must report to the Legislature annually.

Workforce Education Investment Policies.

Washington College Grant. The Washington College Grant is established to replace the SNG. The WSAC is the administrator, and beginning with academic year 2020-21, all eligible students are entitled to a grant. Eligible students must be residents, file a financial aid application, not already have a bachelor's degree, be enrolled in a higher education institution or apprenticeship program, and demonstrate financial need. Until academic year 2020-21, students with family incomes at or below 70 percent of the state MFI qualify as demonstrating financial need. Beginning with academic year 2020-21, students with family incomes at or below 100 percent of state MFI qualify. Grants are pro-rated as follows:

Median Family Income Range	Percentage of Maximum Grant
0-70 percent	100 percent award
71-80 percent	50 percent award
81-90 percent	25 percent award
91-100 percent	10 percent award

A maximum Washington College Grant covers tuition fees, building fees, and services and activities fees at the public institutions of higher education. Grants for students attending private institutions are tied to the current SNG levels, with increases per year tied to the tuition growth factor. The Caseload Forecast Council is required to forecast the Washington College Grant.

Washington Student Loan Program. The Washington Student Loan Program is established and administered by the WSAC. Beginning with academic year 2021-22, the WSAC may award 1 percent student loans to eligible students enrolled at least half-time at public and not-for-profit institutions of higher education in programs leading to a certificate, associate, or bachelor's degree. Eligible students must be residents who graduated from Washington high schools with family incomes no greater than 140 percent of the state MFI who complete a financial aid form. Among other duties, the WSAC must establish loan limits, repayment terms, and an appeals process. The WSAC may contract with a third party to provide loan servicing.

Career Connected Learning. Career connected learning is defined as a learning experience that is integrated with work-related content and skills in the following three categories: career awareness and exploration; career preparation; and career launch. Within existing resources, a CCL cross-agency work group is established. The work group's purpose is to coordinate agency functions and external partnerships to carry out a variety of CCL responsibilities, such as creating a statewide CCL system, expanding participation in CCL, making budget recommendations to the Office of Financial Management regarding CCL education programs, supporting the formation and operation of regional networks to guide CCL, and developing a data enclave for CCL.

The CCL grant program is established to support regional CCL networks in rural and urban areas and to support CCL program intermediaries. The CCL grant program is administered

by the Employment Security Office, with consultation provided by the Office of the Governor.

Beginning in the 2019-20 school year, school districts must be funded up to 1.2 full-time equivalent students for career launch programs to allow students to engage in learning outside of the school day.

Washington State Opportunity Scholarship. The WSOS program is amended to allow municipalities, counties, federally recognized Indian tribes, and other organizations to contribute funding to the WSOS program by adding a definition of "private contributions." The WSOS program administrator must ensure that if a private contribution is from a municipality, county, or federally recognized Indian tribe, that an amount equal to the contribution plus the state match is awarded to participants within the municipality, county, or federally recognized Indian tribe.

In addition, three other changes are made. First, the conditional scholarship for advanced degrees in health professions is changed to a traditional scholarship with no service obligation. Second, the WSAC and higher education institutions are prohibited from considering WSOS awards as state aid for the purpose of determining awards for other state financial aid programs. Third, state matching funds for the WSOS must be based on donations and pledges received as of the date each official state caseload forecast is submitted by the Caseload Forecast Council to the legislative fiscal committees to ensure predictable treatment of the WSOS and that the program is budgeted at maintenance level.

Working Connections Child Care. Beginning August 1, 2020, the Department of Children, Youth, and Families may not require an applicant or consumer to meet work requirements to receive WCCC benefits if the applicant or consumer is a single parent enrolled full-time at a community, technical, or tribal college and is pursuing vocational education in a degree or certificate program for a specific occupation that does not result in a bachelor's or advanced degree.

Workforce Education Investment Surcharge.

A three-tiered Workforce Education Investment surcharge is established. The first tier of surcharge is imposed on selected businesses based on their primary business activity. An activity is considered to be a business' primary activity if more than 50 percent of the business' cumulative gross income was generated from engaging in that activity in the entire current or preceding calendar year. Selected business activities include 44 categories of service and other activities, including, but not limited to, architecture and engineering services, legal services, insurance carriers, financial services, medical services, software publishing, scientific research, electronic shopping, telecommunications services, and others.

Under the first tier of the Workforce Education Investment surcharge, if a business is primarily engaged in one or more of the activities described, the surcharge is 20 percent of the total amount of taxes payable by the business on activities taxed under the B&O tax rate for services.

The second tier of the surcharge is imposed on advanced computing businesses that have worldwide gross revenue of more than \$25 billion but less than \$100 billion. The surcharge

is 33.33 percent of the total amount of taxes payable by the business on activities taxed under the B&O tax rate for services.

The third tier of the surcharge is imposed on advanced computing businesses that have worldwide gross revenue of more than \$100 billion. The surcharge is 66.66 percent of the total amount of taxes payable by the business on activities taxed under the B&O tax rate for services.

An advanced computing business is one that designs or develops software or computer hardware, including modifications thereto, or provides cloud computing services, operates an online marketplace, an online search engine, or an online social networking platform.

Workforce Education Investment Account.

The Workforce Education Investment Account (WEIA) is created. All revenues from the Workforce Education Investment surcharges are to be deposited in the WEIA. The account may be used only for higher education programs, higher education operations, higher education compensation, and state-funded student aid programs. Expenditures from the WEIA must be used to supplement, not supplant, other federal, state, and local funding for higher education.

Workforce Education Investment Appropriations.

Appropriations from the WEIA are provided, totaling \$389.6 million for the 2019-21 biennium. Some of the larger WEIA appropriations for the biennium include:

- \$218.6 million for the Washington College Grant;
- \$60.8 million for increasing nurse educator salaries and high-demand program faculty salaries at the community and technical colleges;
- \$55.1 million for implementing Guided Pathways at the community and technical colleges;
- \$20.9 million for new degrees and expanded enrollments in high-demand programs;
- \$16.5 million for career connected learning initiatives; and
- \$10 million for the Washington Student Loan Program.

Substitute Bill Compared to Original Bill:

The substitute bill removes the legislative elements of the Board, so it is not an official legislative board. It also changes the staffing to the Workforce Training and Education Coordinating Board. The substitute bill removes the specific requirement of a 26.5 percent salary increase for nurse educators at the community and technical colleges. The substitute bill is named the Workforce Education Investment Act. The substitute bill clarifies that appropriations for the Washington College Grant are to fund half the backlog of unserved students in fiscal year 2020.

Appropriation: The bill contains multiple appropriations.

Fiscal Note: Preliminary fiscal note available.

Effective Date of Substitute Bill: The bill contains multiple effective dates.

Staff Summary of Public Testimony:

(In support) This is a targeted tax for immediate investment in higher education. The Washington College Grant will fund apprenticeships in addition to other degrees. This bill fully funds the Guided Pathways Initiatives at community and technical colleges to assist with guiding students. This bill also funds high demand degrees. In many fields, current graduation levels are not enough to fill demand, including computer science, nursing, and engineering. Many of the targeted businesses were paying a 1.8 percent B&O rate not so long ago. Businesses operating in the highly educated fields affected are generally willing to pay the additional surcharge in order to fund a new generation of educated workers. Management consulting services require a very specific skill set and an advanced degree, and this tax will help support the needs of these businesses as well as the needs of the state for a skilled workforce. The inclusion of Career Connect Washington is wonderful and will provide a high return on investment for the state. The work on Student Promise will help support students' transition from high school to college. Finding this appropriate funding source for higher education is a great achievement. Providing opportunities for a prosperous future is critical, and this bill does a good job at achieving this. Expansions in kindergarten through grade 12 (K-12) and other funding has come at the expense of higher education funding, so it is time to re-invest. This investment will help us get past the shortage of nurse educators. Law firms are among the businesses being asked to contribute, and it is a reasonable thing to ask of them. The University of Washington (UW)-Tacoma has had a transformative impact on the Tacoma community. Businesses in this state need a skilled workforce in order to succeed. This will help prevent a reduction in funding in the case of a potential recession. The UW supports the bill, with the want of the UW to be accessible and affordable, and to maintain high-demand degrees. The fund wisely invests during this time during economic vitality, so that there will be less suffering in times of economic need. Start-up companies have difficulty hiring from out of state; they rely on our in-state workforce supply. It would be wonderful to be able to hire even more locally and make sure that kids that were born and raised in this state will be assisted with the dedicated investment to higher education. This bill makes a significant impact on getting more skilled labor into the pipeline. This would allow Western Washington University to meaningfully expand some of the most in-demand degrees. This would reduce barriers for low-income families to access higher education by expanding student financial aid programs. This improves student access and will also reduce student loan debt. A permanently dedicated funding resource is fantastic and is enthusiastically supported by the community and technical colleges. There is work to do in terms of closing achievement gaps, and the investment in this bill will do so. The ability to serve underrepresented communities is undermined by lack of funding for the SNG. This bill provides critical financial aid to first generation, low-income, and other underrepresented students. The SNG is severely underfunded, and many of the students who qualify do not receive the assistance that they desperately need. The WSOS has been reduced and that reduction was felt disproportionately by low-income students. The bill will help fix this. Community support models are critical and should be funded in addition to general state need funding. The state tax structure does not keep pace with the service needs of the state's residents. This state makes it very difficult to qualify for childcare subsidies through the work requirement, which makes it really hard for parents to maintain a life as a student. Having access to childcare while studying is extremely important and can help

people graduate faster and have a job quicker so they are not relying on other state resources for support. The SNG allows for pursuit of opportunities for people who would otherwise likely not attend college, but it is currently underfunded. At UW-Tacoma 40 percent of the campus takes advantage of the SNG, which would be expanded even further with the bill. These are minority and other underprivileged students who are taking advantage of this and who will be helped by this bill.

(Opposed) A B&O tax increase will hit the bottom line of rural health clinics and will also hit individual physician's bottom lines. The reality of private practice is that there have to be limits on Medicare and other programs they can accept. Physicians have high amounts of student loans that we are responsible for. This will reduce the number of Medicaid and other federal programs that physicians can accept. Value-based care is largely uncompensated, but it is the right thing to do for patients. Value-based care clinics invest in patients with bottom-line profit, which will be undercut by an increase in taxes. Physician clinics should be included in the exemption that hospitals get in the bill. About 40 percent of the Washington Medical Association will be impacted. This bill will undermine independent physicians' ability to serve and will undermine patient choice. Small employers are concerned because this bill will impact services that they contract for. For example, small businesses often do not have in-house accounting or architecture services and have to contract out for those services. This bill will increase the cost of doing business. This will affect more than 95,000 businesses, most of which are small. The majority of the tax is collected from these small businesses, but they do not reap the rewards of the tax. The committee should eliminate or reduce the 20 percent surcharge, or amend the bill to allow grants to small businesses for training their employees in targeted ways. Washington already pays some of the worst Medicaid rates in the country, which makes it hard to recruit doctors to care for these patients. The B&O tax system is already unfair and regressive because the tax is levied on gross revenues, and it layers on projects though all levels of consultants, which makes the effective tax rate higher than the base rate. There will be a disincentive created to use women and minority owned businesses. This bill is a job killer. Though it supports higher education now, there is little proof that this will hold true going forward. Redirection of the revenue generated is highly likely down the road. Business-to-business transactions are targeted in the bill, which means small businesses get hit harder than others because these businesses often rely on external contracting. You could lower the threshold for the 2 percent rate to something lower than \$25 billion so that small businesses are not targeted. There is a lack of certainty about who this bill actually affects, specifically the reference to ambulatory services, could include physical therapists, massage therapists, and other providers who are already struggling with low reimbursements and wages. Higher education is a public good; we should not accept a user-fee model for higher education or other government services. The bill says that it should be construed liberally in favor of application of the tax, which is a bad tax policy approach. Local newspapers are barely holding on; consolidation and layoffs are occurring frequently, as well as reduction in force of capitol reporters. There will be further layoffs and closures of newspapers as a result of this surcharge. The language is too broad, includes many more medical providers than those that have high prevalence of advanced degrees. Many of the targeted businesses in this bill were excluded from the recent advantages of the federal tax law change, including lawyers and accountants. This bill targets them for additional state taxes, and the compounding cost of the federal rules in this new law is very high. The surcharge applies before the application of tax credits. This means the surcharge is paid first on a company that may qualify for the small business tax

credit. They could pay no B&O tax otherwise but would still pay the surcharge. Newspapers do not pay under the service rate, but this bill presumes that they would pay. General contractors and union partners already pay for apprenticeship programs. They want more people in that pipeline, but this is not the way to do it. The WCCC should be funded separately without the B&O increase.

Persons Testifying: (In support) Representative Hansen, prime sponsor; Liz Gorman, Gorman Coale, Limited Liability Company; Maud Daudon, Career Connect Washington; Karen Fraser; Lindsey Grad, Service Employees International Union 1199; Sans Gilmore, Sans M. Gilmore Incorporated; Sarah Reyneveld, University of Washington Impact; David Zeeck and Jeremy Jaech, University of Washington Board of Regents; Andy Kaplowitz, Associated Builders and Contractors of Western Washington; Becca Kenna-Schenk, Western Washington University; Joe Kendo, Washington State Labor Council, American Federation of Labor and Congress of Industrial Organizations; Wayne Martin, State Board for Community and Technical Colleges; Michele Johnson, Pierce Colleges Chancellor; Jay Manning, Eastern Washington University; Jim Page, Olympic College Trustees; Brett Willis, Pierce Colleges Trustee; Jessica Monger, Washington State Opportunity Scholarship; Danika Martinez, Seattle Education Access; Parker Phend, Independent Project Management Consultant; Nate Nehring, Snohomish County Council; Herman Calzadillas, Everett Community College; Lorrell Noahr, Washington Education Association; Joel Ryan, Washington State Association of Head Start and Early Childhood Education Assistance Program; and Gavin Pielow, Zachary Turner, and Adan Espino Jr., Associated Students of Washington State University.

(Opposed) Chelsea Unruh, Yelm Family Medicine and Unruhly Medicine; Mary Anderson, Polyclinic; Jennifer Hanscom, Washington State Medical Association; Mark Johnson, Washington Retail; Gary Smith, Independent Business Association; Vicki Christophersen, Mednax; Van Collins, American Council of Engineering Companies of Washington; Patrick Connor, National Federation of Independent Business; Leslie Emerick, Washington State Hospice and Pall Care, Home Care Washington, Washington East Asian Medical, Washington State Psychological, and Washington Home Care; Clay Hill, Association of Washington Business; Rowland Thompson, Allied Daily Newspapers of Washington; Melanie Stewart, American Massage Therapy Association Washington Chapter; Lisa Thatcher, Washington Society of Certified Public Accountants; and Jerry Vanderwood, Associated General Contractors.

Persons Signed In To Testify But Not Testifying: None.