

SENATE BILL REPORT

E2SHB 2158

As Reported by Senate Committee On:
Ways & Means, April 27, 2019

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: House Committee on Appropriations (originally sponsored by 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: Passed House: 4/26/19, 52-45.

Committee Activity: Ways & Means: 4/27/19 [DP, DNP].

Brief Summary of Bill

- Establishes a Workforce Education Investment Accountability and Oversight Board.
- Establishes the Washington College Grant Program, the Washington Student Loan Refinancing Program, and a career connected learning cross-agency work group and grant program.
- Makes changes to the Working Connections Child Care Program.
- 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.
- Makes biennial operating budget appropriations for the 2019-21 biennium.

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.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Billig, Carlyle, Conway, Darneille, Hasegawa, Hunt, Keiser, Liias, Palumbo, Pedersen and Van De Wege.

Minority Report: Do not pass.

Signed by Senators Mullet, Capital Budget Cabinet; Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Bailey, Becker, Rivers, Schoesler, Wagoner, Warnick and Wilson, L..

Staff: Daniel Masterson (786-7454), Jeffrey Mitchell (786-7438)

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.

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 Bill: Workforce Education Investment Accountability and Oversight Board. The Workforce Education Investment Accountability and Oversight Board (Board) is established with 17 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 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 funded workforce education investments 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. 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. Maximum grants awards are pro-rated as follows:

Median Family Income Range	Percentage of Maximum Grant
0-55 percent	100 percent award
56-60 percent	70 percent award
61-65 percent	60 percent award
66-70 percent	50 percent award
71-75 percent	24.5 percent award
76-100 percent	10 percent award

A maximum Washington College Grant covers tuition fees, building fees, and services and activities fees at the public higher education institutions. Grants for students attending

private institutions are tied to the current SNG levels, with increases per year tied to the tuition growth factor.

Higher education institutions that receive state financial aid dollars must submit student-level data to the education data center for the purpose of legislatively authorized research and evaluation of state aid programs.

The Caseload Forecast Council is required to forecast the Washington College Grant.

Student Loan Refinancing Program. A state student loan refinancing program is created. The program allows WSAC to contract with up to five private financial institutions to provide more favorable terms by refinancing student loans. Private financial institutions may leverage some combination of two financial incentives (1) interest rate buy down, or (2) loan loss reserve coverage.

Washington State residents may refinance existing student loans under the program. A loan may only be refinanced if the financial institution under the terms of the program can offer better terms including lower interest rates, shorter payment periods, or overall lower costs of debt service. If a federal student loan is being refinanced, the financial institution must disclose to the borrower that they may lose certain protections, including loan forgiveness or income-based repayment options.

Career Connected Learning. Career connected learning is a learning experience integrated with work-related content and skills in 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. The grant program is subject to appropriations.

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. Private sources of funds are defined to include donations from private organizations, corporations, tribes, municipalities, counties, or other sources but not include state dollars.

Private sources, including tribes, municipalities and counties, are eligible for the state match. If the donation from the private source is from a municipality or county, an amount at least

equal to the value of the private source plus the state match must be returned to recipients within the municipality or county.

The service obligation is removed as a requirement for individuals enrolled in an eligible advanced degree program.

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.

Health Professionals Loan Repayment Program. For the 2019-21 biennium, eligibility for loan repayment must also be given to chiropractors.

Veteran and National Guard Tuition Waivers. The mandatory tuition waiver credit limit is increased from 200 to 250 for children, spouses, and domestic partners of service members who died as a result of service, became totally disabled, or have a POW or MIA designation.

For the purposes of tuition waivers, the definition of eligible veteran or National Guard member is expanded to also include veterans or National Guard members who receive any discharge if the sole reason for discharge is due to gender or sexuality.

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 \$373.8 million for the 2019-21 biennium. Some of the larger WEIA appropriations for the biennium include:

- \$162.7 million to close the State Need Grant waitlist by one-third in the first year and then the remaining two thirds in the second year and expand eligibility under the Washington College Grant program;
- \$60.8 million for increasing nurse educator salaries and high-demand program faculty salaries at the community and technical colleges;
- \$32.1 million for implementing Guided Pathways at the community and technical colleges;
- \$17.1 million for new degrees and expanded enrollments in high-demand programs;
- \$62.3 million for foundational support in community and technical colleges and public baccalaureates;
- \$14.4 million for WSU medical school completion and expansion;
- \$11.5 million for career connected learning initiatives;
- \$2.3 million for student support services; and
- \$2.0 million for the student loan refinancing program.

Appropriation: The bill contains multiple appropriations.

Fiscal Note: Available. New fiscal note requested on April 26, 2019.

Creates Committee/Commission/Task Force that includes Legislative members: Yes.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony: PRO: This proposal will have a transformational impact on higher education throughout the state. The bill fully funds the state need grant, addresses the need for more openings in STEM fields at institutions, helps recruit and retain educators at the UW and other higher education institutions. This bill also shields higher education institutions from recessions and ensures funding for post-secondary institutions while delivering a world-class education.

The WSU Medical School needs funding for additional students. There is a lack of medical doctors throughout the US, and Washington state. This bill makes a commitment for those additional WSU medical school spots.

CTCs strongly support this legislation. This bill is a historic investment in degree-attainment, which will allow people to obtain jobs to support themselves and their families. This will have a multi-generational impact and provide necessary foundational support to the CTCs, which includes salary increases for faculty that are critical to maintain current operations. The proposed investments into guided pathways will allow us to graduate more high-demand students for the workforce Washington needs.

The Legislature needs to facilitate a growing economy that helps all people in the state. This bill would do that. The Workforce Investment Account opens doors to Washington families by making college and apprenticeships more affordable. Section 4 expands eligibility thresholds.

This is a game changer-for the economy. Over 74,000 jobs will be created in the next few years and these jobs need credentials. If Washington students will get these Washington jobs, we need to provide financial aid, apprenticeship opportunities, guided pathways at CTCs, and more spots at 4-year universities in high-demand fields.

As an undocumented, single mother, I would not be able to go to college without the state need grant. There are so many students that qualify for the State Need Grant but do not get it.

Financial aid is not-recession proof. This bill makes the state need grant recession-proof and would help lower-income students who would otherwise need take out education loans. As a low-income student and recipient of the state need grant, I know that this expansion will provide opportunities for students to pursue their life-long dreams and break the cycle of poverty. Underserved K-12 students do not have the same kind of guidance and career connected learning as kids from higher income families. I will happily pay B&O to support that kind of investment

Adjuncts teach all the third and fourth year classes at Bellevue College. Most people cannot afford to be an adjunct and live in Bellevue. More than half of the students who do not receive the state need grant are at the CTCs. Competitive compensation for CTC salaries are necessary to keep excellent faculty in classrooms. This bill gives adjunct faculty, and full-time faculty, a salary increase. Historically, the CTCs have passed on the increases in salaries to both collectively bargained faculty and part-time faculty.

We need nurse educators. The CTCs turned away 814 qualified nursing students because of the lack of nurse educators.

Funding more medical professionals will benefit our state. Loan refinancing will benefit health professionals from the tremendous financial burden they face with the necessary educational loans needed to complete their education. So many students are being turned away from high-demand fields because of the lack of faculty, space, and funding.

This bill is fantastic for students and the economy. Career Connect Washington allows students choices to advance in both their careers and academically. Career Connect will create 49,000 learning opportunities in this state. This will occur through regional networks

throughout the state. In a poll, 84 percent of Washington voters supported career-connected learning opportunities such as internships and apprenticeships.

UWAA members asked for the ability to fund more high-demand degrees and make higher education affordable. Highly skilled workers will be investing in the workforce system. This is a sustainable source of revenue in an unpredictable environment for higher education funding.

This is an investment in students and the economy. These students eventually pay the B&O tax surcharge, if offered the opportunity for the education to get them into that career.

This bill is the solution to the higher education and affordability crisis that we are facing.

CON: About 88,000 small businesses in this state would be effected by this legislation. The word other shows up 33 times in the classifications of businesses who will pay this tax. The way this is written, it is difficult to understand who would pay this tax. This is a technical nightmare.

In section 74, subsection 7, it allows DOR broad authority. The subsection pertaining to accountants is incomprehensible and CPAs do not understand it. There should be an exemption for those under the small business tax credit. The surcharge should be fixed, so it would not be increased if the B&O tax rate were increased.

Section 74, subsection 5, acute-care hospitals are exempted but not psychiatric facilities. Freestanding mental health facilities should be on a level playing field and should be exempted with acute-care hospitals.

The language in Section 74, on page 91, is ambiguous regarding American Indian and tribal governing bodies.

There is no protection that the revenue raised here will stay dedicated to higher education.

I oppose the increase on the surcharge for pediatricians. Half of all children are on Medicaid. This bill would dramatically increase costs for all physicians. I just paid my own student loans last year after practicing for more than 20 years. We struggle to recruit new physicians. About 40 percent of the PolyClinic's business is from Medicaid patients. The PolyClinic is a high volume, low margin business. This tax increase will be a 33 percent cut to PolyClinic's bottom line. Other costs are increasing due to technological compliance requirements.

The 20 percent B&O tax increase will negatively affect construction engineers and others that contribute to the economy. We are support Career Connect, as it will provide more opportunities for individuals to get into construction.

Professional services are already taxed at a higher rate than other industries in this state. This bill singles out the service economy. There is a philosophical argument in the way this tax is laid out and who benefits.

At its essence, this is an increase on borrowing money. When you increase that cost, and our tax burden, you negatively affect our competitiveness. The purpose is to bolster higher education and our workforce.

There are two main areas of concern - the first, that ambiguity is construed in favor of the surcharge and the second is that it is an undue burden on small businesses. This goes against long-standing traditions in tax decisions. These tax decisions should lean in favor of the tax payer.

Health insurance and treatment are already unaffordable. The 20 percent B&O tax surcharge is going in the wrong direction. This is a subsidy for the tech giants to train their workforce. Please consider eliminating the cap on the surcharge. It seems silly that the largest corporations get to have a cap, where there is no cap for small businesses.

Many of you agree that the B&O tax is a flawed tax. The tax will apply to physicians, but not to the hospitals where they work. This will put them at a disadvantage. Physicians should be exempted from the surcharge. If not, access for vulnerable populations will be impacted.

Small businesses have to contract for services like accounting and payroll, and this will have a pyramiding effect on these businesses. Higher education is very important, but funding it this way is wrong.

There is too much ambiguity in this bill regarding the service activities that must pay this tax. Engineering and architectural services are collaborative, and small businesses who contract out more would pay more in this bill.

OTHER: Page 84, line 1, Section 74, needs review. The language in the bill would negatively affect a small business's ability to contest a tax decision

Persons Testifying: PRO: Mike Meotti, Executive Director, Washington Student Achievement Council; Ana Mari Cauce, University of Washington, President; Ron Sims, WSU Board of Regent Chair; Karen Fraser, citizen; Jan Yoshiwara, State Board for Community and Technical Colleges, Executive Director; Lukas Garcia, Associated Students of the University of Washington; Henry Pollet, Associated Students of Western Washington University; Leah Mobley, Washington Student Association, President; Zackary Turner, Central Washington University, Legislative Liaison; Simone Boe, Washington Education Association; Grace Huerta, United Faculty of Washington; Kurt Friedrich, WEA/Bellevue Faculty; Dr. John Mosby, President, Highline College; Dr. Timothy Stokes, President, South Puget Sound Community College; Steve Leahy, Seattle Community Colleges District; Charles Adkins, Director of Legislative Affairs, Geoduck Student Union; Ana Betancourt, Associated Students of Washington State University Vancouver; Maud Daudon, Career Connect Washington and Washington Student Achievement Council; Guillermo Rogel, Washington Student Association; Kaitlyn Zhou, UW Board of Regents; Sarah Reyneveld, UW Impact; Bish Paul, Washington STEM; Adán Espino Jr, University of Washington Tacoma; Brandy Seignemartin, Associated Students of Washington State University Health Sciences; Lindsey Grad, SEIU 1199; Morgan Atwood, Associated Students of Washington State University Global.

CON: Gary Smith, Independent Business Association; Jerry VanderWood, Associated General Contractors; Lisa Thatcher, Washington Society of Certified Public Accountants; Troy Nichols, Community Bankers of Washington; Clay Hill, Association of Washington Business; Patrick Connor, NFIB; Mark Johnson, Washington Retail; Beth Harvey, Washington Chapter of the American Academy of Pediatrics; Roman Daniels-Brown, The PolyClinic; Sean Graham, Washington State Medical Association; Jonathan Seib, Washington Academy of Family Physicians; Cliff Webster, Architects & Engineers Legislative Council; Jeff Gombosky, MultiCare Health System; Nick Federici, Fairfax Behavioral Health.

OTHER: Tyler Winterton, Tax Section of the Washington State Bar Association; Bill Stauffacher, Independent Insurance Agents and Brokers of Washington; Dawn Vyvyan, Yakama Nation and Sauk-Suiattle Tribe.

Persons Signed In To Testify But Not Testifying: No one.