

SENATE BILL REPORT

SB 5125

As of January 15, 2023

Title: An act relating to the creation of the Washington future fund program.

Brief Description: Creating the Washington future fund program.

Sponsors: Senators Trudeau, Rivers, Cleveland, Dhingra, Frame, Hasegawa, Hunt, Kuderer, Lias, Lovelett, Lovick, Nguyen, Nobles, Pedersen, Randall, Robinson, Saldaña, Stanford, Valdez, Van De Wege, Wellman and Wilson, C.; by request of State Treasurer.

Brief History:

Committee Activity: Human Services: 1/16/23.

Brief Summary of Bill

- Directs appropriations from the state general fund to the Washington Future Fund Account based on the number of those born into poverty in a particular year, available for eligible claimants at age 18 through 35 for the purpose of education, purchasing a home, or starting a business in Washington through the Washington Future Fund Program, in the Office of the State Treasurer.
- Creates the Washington Future Fund Committee which will review specified topics and report its findings to the Legislature and Governor.

SENATE COMMITTEE ON HUMAN SERVICES

Staff: Alison Mendiola, 786-7488

Background: Baby Bonds. Federally, the proposed baby bonds policy would provide every child in the U.S. with a tax-free account up to \$2,000, based on that child's family income with the stated goal of substantially closing the wealth gap. Each subsequent year, children would be eligible for additional payments based on family income until at age 18,

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when they would be able to access these accounts for specified uses including education, homeownership, and retirement. Other jurisdictions such as Connecticut and Washington D.C. have recently enacted baby bond legislation.

Washington Future Fund. In 2022, SB 5752 was introduced which proposed creating the Washington Future Fund Trust Fund in the custody of the State Treasurer to provide money in a savings and investment account for individuals born into families with limited means for the purpose of postsecondary education, purchasing a home, or starting a business, provided the individual meets certain eligibility requirements and makes a claim for funds at the age of 18 through 30. Through the 2022 supplemental operating budget, ESSB 5693, the Legislature provided funding for the Office of the State Treasurer (OST) to establish the committee on the program impacts of the Washington Future Fund Baby Bonds investment model on wealth gaps. The committee was directed to study generational wealth inequities in Washington and report its findings to the Legislature and the Governor. In December 2022, the Washington Future Fund Committee (WFFC) published its report which includes a number of key findings, including:

- poverty is persistent;
- if an individual is going to move out of poverty, they are most likely to do so in their late 20s or early 30s;
- the eligible uses of funds proposed in the 2023 Washington Future Fund policy can help break the cycle of poverty—homeownership, business, and education; and
- without an intervention, it is anticipated that current inequities will persist and worsen.

State Treasurer. The State Treasurer is a separately elected position within Washington State government. The OST dates back to Washington's statehood and serves as the bank for Washington's state government. It manages the debt, investments, banking, cash and operations, and public deposit protection activities for state government.

Washington State Investment Board. The Washington State Investment Board (WSIB) was created in 1981. The WSIB has over 100 employees that work across three organizational teams—investments, operations, and institutional relations. The executive director is appointed by the WSIB to oversee the staff, develop and recommend agency and investment policies for WSIB adoption, and ensure adherence to state policies and laws. As of the end of fiscal year 2022, the WSIB was managing \$182.3 billion in total assets.

Caseload Forecast Council. The Caseload Forecast Council is charged with forecasting the entitlement caseloads, and other caseloads, for the state of Washington. The Council meets several times a year to adopt official forecasts that are the basis of the Governor's budget document and used by the Legislature in the development of the Omnibus Biennial Appropriations Act.

Maternity Access Care Program. The Maternity Access Care Program is a program for low-income pregnant women developed by the Health Care Authority to ensure healthy birth

outcomes.

Summary of Bill: Washington Future Fund. The Washington Future Fund Program (WFFP) is created, implemented, and administered by the OST with the stated goal of reducing capital barriers inhibiting the potential for those born into poverty to alter their financial future.

When a claimant, who is a member of a funded cohort, is 18 through 35, the claimant, or the claimant's legal guardian, may apply for a disbursement from the Washington Future Fund Account to a designated institution to be used for an eligible expenditure which includes:

- education, training, and professional development of the claimant at an institution of higher education in Washington;
- purchase of a residence in Washington; or
- creation or purchase of a business in Washington.

The OST is authorized to establish rules necessary to implement the program, including, but not limited to:

- an application and application process;
- fund distribution to designated institutions;
- promotional campaigns to increase public awareness of the program; and
- definition of terms as they relate to claimant requirements

The OST shall issue a disbursement amount to a designated institution after approving an application from the claimant. The OST shall only make one disbursement on behalf of each claimant during the claimant's lifetime. Disbursements are not considered assets for the purposes of state public assistance or financial aid eligibility and calculation of benefit amount. The legal guardian of a claimant may act on behalf of the claimant.

The Health Care Authority is to assist the OST in verifying that a claimant is a member of funded cohort.

If a claim is denied, the OST is to issue a written notice identifying the reason for the denial and the process for appeal. The appeal is to be resolved through the adjudicative proceedings process provided by law.

Washington Future Fund Account. The Washington Future Fund Account (account) is created in the custody of the State Treasurer. Except as otherwise provided, the account may only be used for issuing disbursement amounts to designated institutions. Except as otherwise provided, cohort principals and associated investment earnings for the WFFP must be deposited into, and retained within, the Account.

Only the State Treasurer, or the State Treasurer's designee may authorize expenditures from the Account.

Beginning in 2025, the OST must report the status of the Account, including the balance and activity on behalf of each funded cohort, in an annual report. The State Treasurer and OST are not considered an insurer of the Account.

Funding. Beginning September 2023, and every year thereafter, the Caseload Forecast Council (CFC) shall estimate cohort populations. For 2023, the CFC is to estimate the 2024 cohort population. Beginning in 2024, and prior to each regular legislative session in an odd-numbered year, the CFC must:

- estimate the anticipated population of the next two cohorts, beginning on January 1st of the preceding calendar year; and
- if necessary, increase or decrease the previous funded cohort population estimates to reflect updated available data.

The Legislature shall appropriate funds for the WFFP from the state general fund to the Account in an amount equal to the population estimate for a given year multiplied by \$4,000.

Moneys that are not awarded because a claimant is deceased or has not submitted a valid application is to be retained within the Account and used to fund the principal for a future cohort.

Washington Future Fund Committee. The Committee on the WFFP (Committee) is established. The Committee is chaired by the State Treasurer, who must convene the initial meeting of the Committee by September 1, 2024. Subsequent meetings will be held on at least:

- an annual basis through 2034;
- twice annually between 2035 and 2040; and
- quarterly between 2041 and 2042.

The Committee is to review the following topics or make recommendations on:

- the efficient distribution of funds;
- the adequacy of the eligibility criteria to fulfill the intent of the program set forth in this chapter, periodically evaluating the potential of incorporating wealth-based qualification requirements;
- the eligible expenditures, periodically reviewing additional wealth- building activities to consider adding to the definition of eligible expenditures;
- the status of the fund and performance relative to the programmatic objectives and goals;
- whether the initial investment amount is enough to achieve the intent of the program in this chapter and, if it is not, an initial investment level that is anticipated to achieve the intent of the program for future cohorts;
- opportunities to establish public-private partnerships; and
- other policy considerations that may arise and be pertinent to the programmatic elements of the program.

Before June 30, 2036, the Committee shall recommend to the Legislature criteria that a claimant must meet at the time of application to demonstrate financial need. While developing the recommendation, the committee must consider:

- maximizing program participation among funded cohort members;
- current economic conditions, including the cost of eligible expenditures;
- general requirements to qualify for a real estate, student, or business loan;
- minimizing impact to a claimant's ability to qualify for local, state, and federal public assistance programs; and
- feasibility of a wealth-based qualification requirement.

It is the intent of the Legislature to consider the recommended criteria prior to the conclusion of the 2038 legislative session. Staff support for the Committee shall be provided by the OST. The Committee shall participate in wealth inequity studies and related data collection efforts necessary to perform the work required.

The Committee shall submit the following electronic reports to the appropriate committees of the Legislature:

- an annual status update, including any legislative recommendations, starting December 1, 2024, through December 1, 2041; and
- a final report of its findings and recommendations by December 1, 2042.

The members of the Committee include:

- two Senators, representing one member from each of the two largest caucuses of the Senate as appointed by the President of the Senate;
- two members of the House of Representatives, representing one member from each of the two largest caucuses of the House of Representatives as appointed by the Speaker of the House;
- the State Treasurer, or the State Treasurer's designee; and

The State Treasurer must appoint:

- three members from communities with lived experience of poverty;
- three members representing economic empowerment organizations;
- at least one member representing individuals with developmental disabilities; tribal communities with tribal lands located west of the crest of the Cascade mountains; tribal communities with tribal lands located east of the crest of the Cascade mountains; higher educational institutions; trades and apprenticeship training; and at least one member who received medical services under the maternity care access program, before the member's first birthday and experienced poverty as a young adult; is a claimant; and
- from state agencies—the Director of the Health Care Authority, or the director's designee; the Executive Director of the Washington Housing Finance Commission, or the executive director's designee; and the Director of the Department of Commerce, or the director's designee.

The work of the Committee ends December 31, 2044.

Definitions. Claimant means a person who is a member of a funded cohort, successfully completed the financial education requirement, and at the time of application to the OST, is a Washington state resident that is at least 18 years old and less than 36 years old, and demonstrates financial need.

Cohort means all people born in Washington in a calendar year who received medical services under the Maternity Care Access Program, established before their first birthday.

Cohort principal means the amount appropriated by the Legislature as the principal for a funded cohort and any additional funds designated by the OST to be added to the principal for a funded cohort, including but not limited to gifts, grants, and donations.

Designated institution means an entity that may receive a distribution amount from the state, on behalf of an approved claimant, after an application to the OST is approved. Claimants identify their selected designated institution during the application process.

Allowable designated institutions are based on a claimant's chosen eligible expenditure and are as follows:

- for education, training, and professional development of the claimant:
 1. the educational, training, or professional development institution providing services to the claimant;
 2. the financial institution that issued, or is in the process of issuing, student loans to the claimant; and
 3. additional institutions defined by rule by the OST.

for purchase of a residence in Washington state: The financial institution that issued, or is in the process of issuing, the claimant a mortgage or other real estate loan, and additional institutions defined by rule by the OST.

- for the creation or purchase of a business in Washington state:
 1. The financial institution that issued, or is in the process of issuing, the claimant a business loan, and
 2. additional institutions defined by rule by the office.

Disbursement amount means:

- cohort principal and associated investment earnings for a funded cohort divided by the population of the cohort 18 years after the cohort's birth year; and
- any additional investment earnings associated with the amount provided, calculated at the time of application approval.

Eligible expenditure means an expenditure associated with any of the following:

- education, training, and professional development of a claimant at an institution of higher education in Washington;

- purchase of a residence in Washington State by a claimant; or
- creation or purchase of a business in Washington State by a claimant.

Financial education means financial coaching, specifically related to one or more eligible expenditures, as defined by rule by the OST.

Funded cohort means a cohort that has had an amount appropriated by the Legislature as principal for the cohort. Each cohort is funded independently of other cohorts, with a few exceptions.

Washington State Investment Board. The WSIB has the full power to invest, reinvest, manage, contract, sell, or exchange investment money in the Account. All investment and operating costs associated with the investment of money shall be paid pursuant to statute. With the exception of these expenses, all of the earnings from the investment of the money shall be retained by the Account. As deemed appropriate by members of the WSIB, moneys in the Account can be comingled for investment with other funds subject to investment by the WSIB. Members of the WSIB are not considered an insurer of the Account or assets, and they are not liable to the state, to the Account, or any other person as a result of their activities as members, except for willfull dishonesty or intentional violations of the law. The WSIB maybe purchase liability insurance for members. The WSIB is to routinely consult and communicate with the OST on the investment policy, earnings of the Account, and related needs of the WFFP.

Appropriation: Section 3 requires the Legislature to appropriate funds for the program.

Fiscal Note: Requested on January 11, 2023.

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

Effective Date: Ninety days after adjournment of session in which bill is passed.