

SENATE BILL REPORT

SB 5752

As Reported by Senate Committee On:
Human Services, Reentry & Rehabilitation, January 28, 2022

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

Brief Description: Creating the Washington future fund trust fund program.

Sponsors: Senators Trudeau, Lovick, Das, Dhingra, Frockt, Hasegawa, Keiser, Lias, Lovelett, Nguyen, Nobles, Pedersen, Randall, Rivers, Salomon, Stanford, Wellman and Wilson, C.; by request of State Treasurer.

Brief History:

Committee Activity: Human Services, Reentry & Rehabilitation: 1/13/22, 1/28/22 [DPS-WM, DNP, w/oRec].

Brief Summary of First Substitute Bill

- Creates the Washington Future Fund Trust Fund in the custody of the State Treasurer to provide a sum of 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.
- Creates the Washington Future Fund Trust Fund Committee.

SENATE COMMITTEE ON HUMAN SERVICES, REENTRY & REHABILITATION

Majority Report: That Substitute Senate Bill No. 5752 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Wilson, C., Chair; Nguyen, Vice Chair; Saldaña and Trudeau.

Minority Report: Do not pass.

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

Signed by Senator Dozier.

Minority Report: That it be referred without recommendation.

Signed by Senator Gildon, Ranking Member.

Staff: Alison Mendiola (786-7488)

Background: State Treasurer. The State Treasurer is a separately elected position within Washington State government. The Office of the Treasurer 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 (SIB) was created in 1981. The SIB has a staff of 105 employees that work across three organizational teams—investments, operations, and institutional relations. The executive director is appointed by the SIB to oversee the staff, develop and recommend agency and investment policies for SIB adoption, and ensure adherence to state policies and laws. As of September 30, 2021, the SIB manages \$186.3 billion worth of total assets.

Washington's Birth Rate. In 2020, there were 81,756 births recorded in Washington State. Of these births, 37,412 were Medicaid-related and of this number approximately 20,000 births were covered by the Apple Health for Pregnant Women Program.

Apple Health. Apple Health is Washington's Medicaid program. Apple Health for Kids Coverage is free to children in households with an income at or below 215 percent of the federal poverty level (FPL) as determined by the federal Department of Health and Human Services, and available for a monthly premium to children in households with an income at or below 317 percent of the FPL. Apple Health for Pregnant Women provides coverage to pregnant women with an income at or below 198 percent of the federal poverty level without regard to citizenship or immigration status.

Federal Poverty Level. Currently and in 2021, the FPL in the 48 contiguous states is \$12,880. For each additional person in the household, the FPL increases by \$4,450. If there are more than eight people in the household, the FPL then increases by \$4,520 per additional person.

Baby Bonds. Federally, the proposed baby bonds policy as provided for in U.S. Senator Cory Booker's Opportunity Accounts program, would provide every child in the U. S. with a tax-free account up to \$2,000, based on that child's family's 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, when they would be able to access these accounts for specified uses including education, homeownership, and retirement. Connecticut recently enacted a Baby Bonds Program. This program went into

effect July 1, 2021, and creates a trust for babies whose births are covered by the state's Medicaid program. When those children are between the ages of 18 and 30, and have completed a financial literacy course, they can submit a claim to access funds from the trust for specific expenses. These expenses include higher education costs, the purchase of a home in Connecticut, investment in a business in Connecticut, or saving for retirement.

Summary of Bill (First Substitute): The Washington Future Fund Trust Fund. The Washington Future Fund Trust Fund (Trust) is established in the custody of the State Treasurer. Expenditures from the Fund may only be used for the purposes of the Fund.

Beginning on a designated beneficiary's 18th birthday and before the designated beneficiary's 31st birthday, a designated beneficiary is eligible to receive the total sum of the initial investment and investment earnings to be used for an eligible expenditure. The designated beneficiary may submit a claim for benefits subject to the following conditions:

- the designated beneficiary must be a resident of the state of Washington;
- the designated beneficiary must have successfully completed a financial education course or a comparable financial education offering as determined by the State Treasurer; and
- the designated beneficiary must be facing financial hardship.

If the designated beneficiary is deceased before submitting a valid claim or does not submit a valid claim before the designated beneficiary's 31st birthday, such accounting shall be credited back to the assets of the Trust.

Trust assets are not considered assets for determining an individual's eligibility for assistance under any program administered by the Department of Social and Health Services or needs-based institutional aid grants offered to an individual at the public educational institutions in the state.

Definitions. Designated beneficiary means an individual who is born on after January 1, 2024, whose birth was eligible for or subject to medical assistance as described in statute, and who is facing financial hardship at the time of making a claim for funds provided by the Trust.

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

- postsecondary education of a designated beneficiary in Washington State, including universities , colleges, community and technical schools, trade schools, apprenticeships, and technical certifications and licensures;
- purchase of a home in Washington State by a designated beneficiary; or
- the formation of a business in Washington State by a designated beneficiary.

Facing financial hardship means having an income less than 215 percent of the Federal poverty level. If a designated beneficiary wants to use benefits from the Fund to form a business, the designated beneficiary must first complete a new business or start-up

education course or consult with a local Associated Development Organization.

Committee on the Washington Future Fund Trust Fund. A committee on the Washington Future Fund Trust Fund (Committee) is established, with the following members:

- the President of the Senate is to appoint one member of the Senate from each of the two largest caucuses;
- the Speaker of the House of Representatives is to appoint one member of the House of Representatives from each of the two largest caucuses;
- the State Treasurer, or the Treasurer's designee;
- the State Treasurer is to appoint three members representing underrepresented communities, one member representing an economic empowerment organization, one member representing a financial institution, and one member representing a chamber of commerce or an Associated Development Organization;
- the Director of the Washington Health Care Authority, or the Director's designee;
- the Executive Director of the Washington Housing Finance Commission;
- the Secretary of the Department of Social and Health Services, or the Secretary's designee; and
- the Director of the Department of Commerce, or the Director's designee;

Appointed members are to serve two-year terms that begin on January 1st unless appointed to fill a mid-year vacancy.

The Committee is chaired by the State Treasurer and staffed by the Office of the Treasurer. The State Treasurer is to convene the initial meeting of the Committee by June 1, 2023. Subsequent meetings are to be held as follows:

- at least annual meetings through 2034;
- semi annual meetings in 2035 through 2039; and
- quarterly meetings in 2040 through 2042.

The Committee is to review the following topics and report to the Legislature on

- efficient distribution of funds in alignment with the intent of the Trust;
- direct distribution of funds to entities as directed by beneficiaries;
- the adequacy of the definition of financial hardship to achieve programmatic goals;
- the designated beneficiary's use of funds to ensure compliance with program requirements;
- the program's impact on generational wealth inequities based on consulting with experts to study issues of generational wealth inequity and how the program impacts generational wealth inequities;
- an evaluation of fund solvency and performance relative to programmatic objectives and goals; and
- other policy considerations that may arise and be pertinent to the programmatic elements of the Trust.

Legislative members are reimbursed for travel expenses as provided in statute.

Nonlegislative members are not entitled to be reimbursed for travel expenses if they are elected officials or are participating on behalf of an employer, governmental entity, or other organization. Stipends may be provided to cover the costs of attending meetings including transportation, lodging, and child care, if these costs are not covered by a committee member's employer. Any reimbursement for other nonlegislative members is subject to limitation as provided in statute.

Committee expenditures are subject to approval by the Senate Facilities and Operations Committee and the House of Representatives Executive Rules Committee, or their successor committees.

The Committee is to provide annual updates on the progress of its work, including any legislative recommendations, to the Legislature annually starting December 1, 2023, through December 1, 2039, as well as provide a final report of its findings and recommendations to the Legislature by December 1, 2040. The statutory authority for the Committee expires on December 31, 2024.

Health Care Authority. On or before the first day of September each year beginning in 2022, the Treasurer is to submit to the Office of Financial Management the total number of Washington births eligible for medical assistance, as described in RCW 74.09.470, in the prior year. The State Treasurer and the HCA are to enter into a memorandum of understanding to establish information sharing practices to carry out the purposes of the legislation, subject to federal and state laws governing the disclosure of confidential information related to designated beneficiaries. The HCA is to enter into a data sharing agreement with the Office of the State Treasurer to share the necessary data to facilitate the Trust. The HCA is to retain client eligibility records for children born under Apple Health until they turn 31 years old. Disclosure is mandatory for the purpose of Federal Health Insurance Portability and Accountability Act.

Funding the Washington Future Fund Trust Fund. The Legislature must appropriate from the State General Fund into the Fund for the fiscal year ending June 30, 2022, and each fiscal year thereafter a total amount based on the number of Washington births eligible for medical assistance, as described in RCW 74.09.470, in the previous year multiplied by \$3,200.

Washington Future Fund Trust Fund Management. The Trust is administered under of the Office of the State Treasurer (OST). The Treasurer may adopt rules to implement this Act, including rules on all technical aspects related to the Washington future fund trust fund program including:

- a claims process for receipt of funds including distribution of funds;
- balancing the right of the parent giving birth to opt out of disclosing information relevant for the designated beneficiary while allowing a person who believes oneself to be qualified to be a designated beneficiary alternative methods of proving eligibility to be considered a designated beneficiary;

- determination of eligibility at the time of the claim including identification verification;
- implementation of automated eligibility processes for designated beneficiaries where applicable;
- creation of promotional campaigns to increase public awareness of beneficiary eligibility for the program;
- the identification and approval of financial education course offerings or equivalent; and
- other technical considerations that may arise and be pertinent to the administration of the trust

All receipts from all sources for the Washington Trust Fund Fund Program must be deposited in the fund. An appropriation is not required for expenditures and the Fund is not subject to allotment procedures. Only the State Treasurer or the designee may authorize expenditures from the fund. All monies in the fund, all property and rights purchased from the Trust, are to be held in trust by SIB, for the exclusive benefit of the Trust beneficiaries. The Legislature must provide provide general fund appropriation authority for the State Treasurer for the Fund program administration costs.

The State Investment Board. The SIB has the full power to invest, reinvest, manage, contract, sell, or exchange investment money in the Trust. All of the earnings from the investment of money shall be paid in accordance with state law. All investments made by the SIB are to be made with the exercise of judgment and care required by statute and consistent with the investment policy established by the SIB. As deemed appropriate by the SIB, money in the Trust may be commingled for investment with other funds subject to investment by the SIB. The authority to establish all policies relating to the Trust resides with the State Treasurer. The SIB is to routinely consult and communicate with the State Treasurer on the investment policy, earnings of the Trust, and related needs of the program. The Trust must receive its proportionate share of earning based on the Trust's average daily balance for the period.

Appeal process. A person denied benefits from the Fund may file a complaint with the State Treasurer. Complaints must be in writing, include the complainant's name, telephone number, and mailing address, and include a clear and concise description of the alleged error. The State Treasurer may provide assistance in preparing a written complaint. A person must file the application for an adjudicative proceeding with the State Treasurer within 90 days after receiving notice of the aggrieving decision unless good cause is shown. "Good cause" is defined as a substantive reason or legal justification for failing to meet a hearing deadline. Good cause to fail to meet a hearing deadline may include, but is not limited to, military deployment, medical reasons, housing instability, language barriers, or domestic violence. The adjudicative proceeding is governed by the Administrative Procedure Act and this Act.

Other Provisions. The State Treasurer, the Office of the State Treasurer, and the SIB are

not liable to the state, to the Trust, or any other person as a result of their activities relating to this Trust, whether these activities are ministerial or discretionary, except for the willful dishonesty or intentional violations of the law. The State Treasurer may purchase liability insurance for the State Treasurer and the Office of the State Treasurer. The SIB may purchase liability insurance for its members.

The State Treasurer may solicit or receive gifts, grants, and endowments from public or private sources, in trust or otherwise, for the use and benefit of the purposes of the Trust. The State Treasurer may expend gifts, grants, and endowments according to their terms.

A technical correction is made to clarify that the Rosa Franklin Legislative Intern Program Scholarship is listed in statute as the Rosa Franklin Legislative Intern Program Scholarship Account.

EFFECT OF CHANGES MADE BY HUMAN SERVICES, REENTRY & REHABILITATION COMMITTEE (First Substitute):

- A designated beneficiary's birth is not tied to Apple Health for Kids, but medical assistance under RCW 74.09.470 (Apple Health).
- Postsecondary education includes colleges, universities, community and technical schools, and licensures.
- Committee on WA Future Fund: three members (instead of two) are to represent underrepresented communities. Other entities added: The WA Housing Finance Commission, DSHS and Commerce. The initial meeting is to be held by June 1, 2023 (instead of 2029) with at least annual meetings through 2034. Appointed members to serve 2-year terms that begin on Jan. 1st unless appointed mid-year to fill a vacancy.
- Clarifies the information to be reported to the Legislature, including the direct distribution of funds to entities as directed by beneficiaries, the adequacy of the definition of financial hardship to achieve programmatic goals, the program's impact on generational wealth inequities based on consulting with experts, and an evaluation of fund solvency and performance relative to programmatic objectives and goals. The report to the Legislature may include recommendations for legislative action. Stipends may be provided to cover the cost of attending meetings. The Committee is to provide annual updates on the progress of its work to the Legislature starting in 2023 through 2039. The Committee expires Dec. 31, 2044.
- The duties of the State Treasurer are clarified, including balancing the right of the parent giving birth to opt out of disclosing information relevant for the designated beneficiary while allowing a person who believes oneself to be a designated beneficiary alternative method of proving eligibility.
- A process is established for a person to dispute denied benefits, to be resolved as provided under the Act and the Administrative Procedures Act.
- Regarding the disclosure of information by the HCA to the Treasurer, it is to be in compliance with HIPAA.
- The Legislature is to appropriate from the State General Fund into the WA Future

Fund for the fiscal year 2022, and each fiscal year thereafter, a total amount based on the number of WA births eligible for medical assistance under RCW 74.09.470 multiplied by \$3,200.

- The Treasurer may solicit gifts, grants, and endowments for the benefit of the WA Future Fund.
- HCA retaining client eligibility records is subject to HIPAA disclosure.
- The Treasurer is to appoint two additional members to the committee on the Washington Future Fund, including one member representing a financial institution, and one member representing either a Chamber of Commerce or an Associated Development Organization.
- If a designated beneficiary wants to use benefits from the Washington Future Fund to form a business, the designated beneficiary must first complete a new business or start-up education course or consult with a local Associated Development Organization.

Appropriation: Yes, section 10 of the bill.

Fiscal Note: Available.

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

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

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: Too many children are born into financial instability and it becomes an intergenerational problem which is hard to escape without the right tools. Parents want better for their children. It's time we rely on more than luck; the rule for the few needs to be the rule for the many. This addresses the cyclical cost of poverty, not a handout but a step up. There are many innovative and resilient people in our community that we could assist. Working hard alone isn't the key to success or those who are low-income would already be wealthy. The issue is the lack of access to capital which contributes to the wealth gap. If you go to high school knowing you have funds to go to college, start a business or buy a home, you just think differently. The Washington Future Fund is trying to reserve funds today to meet the needs we will need in the future. Connecticut has recently done this, although through a capital investment. We are looking for a long-term investment that will be impactful 20 years from now. The task force will be tasked with looking at distribution issues, among other things. The bill should be structured more progressively with the greatest benefit going to the greatest need.

OTHER: The committee should also look and new and emerging opportunities beyond education, starting a business and buying a home. For some communities, these don't provide as much wealth as you would think.

Persons Testifying: PRO: Senator Yasmin Trudeau, Prime Sponsor; Mike Pellicciotti,

Washington State Treasurer; Jennifer Tran, Washington State Budget & Policy Center; Nathan Gorton, Washington REALTORS; Gabriela Quintana, Economic Opportunity Institute; Shaun Scott; Samuel Martin, Washington for Black Lives; Choi Halladay, State Board for Community and Technical Colleges; Terri Standish-Kuon, Independent Colleges of Washington.

OTHER: Kamau Chege, Washington Community Alliance.

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