

HOUSE BILL REPORT

HB 2508

As Reported By House Committee On:

Higher Education

Finance

Title: An act relating to economic development by improving the skills and productivity of Washington workers.

Brief Description: Promoting economic development in Washington by increasing the skills and productivity of workers.

Sponsors: Representatives Kenney, Carlson, Conway, Hankins, Grant, Delvin, Santos, Dunn, Cox, Dickerson, Lantz, Dunshee, Veloria, Reardon, Cooper, Lovick, Ogden, Ruderman, Linville, Kessler, Regala, Stensen, Constantine, Haigh, Hurst, Keiser, Wolfe and Kagi; by request of Governor Locke.

Brief History:

Committee Activity:

Higher Education: 1/25/00, 1/28/00 [DPS];

Finance: 2/7/00 [DP2S].

Brief Summary of Second Substitute Bill

· Authorizes the Workforce Training and Education Coordinating Board to create a program to close the skills gap, through partnerships with business and labor, working with training providers, and providing grants to local workforce development councils, economic development councils, community colleges, and technical colleges.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Carlson, Republican Co-Chair; Kenney, Democratic Co-Chair; Lantz, Democratic Vice Chair; Radcliff, Republican Vice Chair; Dunn; Edmonds; Esser and Gombosky.

Staff: Tracey Taylor (786-7196).

Background:

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. There are 10 different rates that apply to various classifications of business activities. Businesses are taxable according to the activities they engage in and therefore may be subject to more than one tax rate. Under the B&O tax, there are no deductions for raw materials and wages of employees. However, there are many exemptions and deductions for specific types of business activities, and approximately 10 types of tax credits permitted under the B&O tax statutes, including tax credits for new job creation, small businesses, and research and development activities.

Public and privately owned utilities, and certain other businesses, are subject to the public utility tax instead of the B&O tax. Like the B&O tax, the public utility tax is applied to the gross receipts of the business. The principal difference between the B&O tax and public utility tax is a higher rate schedule applied under the public utility tax.

The Workforce Training and Education Coordinating Board (Workforce Training Board) was created to make the state's workforce training and education system more efficient and coordinated, more responsive to the needs of business, workers, and local communities, and more accountable for its performance.

Summary of Substitute Bill:

The Workforce Training Board must create a program to close the skills gap. This includes creating partnerships with business and labor, as well as working with the State Board for Community and Technical Colleges (SBCTC) and other training providers to develop programs that address the skills needs and expand the use of skills standards and customized training. The Workforce Training Board is responsible for accrediting the skills training programs and must maintain a directory of qualified programs.

A B&O tax credit is provided for state-approved, employer-funded skills training. The skills training is limited to direct expenditures made to upgrade the skills of the employer's existing workforce, in a job class covered by the Fair Labor Standards Act, at a training institution accredited by the Workforce Training Board. This tax credit is not available for tuition reimbursement programs, except at those institutions accredited by the Workforce Training Board.

An employer may receive a tax credit for 50 percent of its workforce training payments. It is limited to \$5,000 per employee per calendar year and an employer maximum of \$100,000 per calendar year. The annual state workforce training tax credits is \$1,000,000. Amounts in excess of the yearly employer or state maximum may be carried over for up to five years.

The workforce training tax credit is available for the public utilities tax, but the same workforce training payment cannot be used to obtain tax credits for both the public utilities tax and the B&O tax. Payments used to obtain a job training services credit under RCW 82.04.4333 may not be used to take a B&O tax credit for the same payment.

The application for the tax credit must be submitted to the Department of Revenue after the workforce training payment has been made, and must include an affidavit of compliance. All workforce training payments made before the effective date of this legislation are ineligible.

Substitute Bill Compared to Original Bill: The substitute clarifies the organizations that will receive the grants and how the skills gap grants will be used.

Appropriation: None.

Fiscal Note: Requested on January 17, 2000.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2000.

Testimony For: Closing the skills gap is vital to the economic development of this state. There is a shortage of skilled workers, especially those with vocational training. Moreover, many of the unfilled jobs have high wages. The bill encourages employers to invest in their existing workforce. It also promotes the collaboration of labor, post-secondary institutions, workforce training boards, business and industry to address an issue that will continue in this new century.

Testimony Against: None.

Testified: (In support) (Original Bill) Rep. Phyllis Kenney, prime sponsor; Rich Nafziger, Governor's Office; Rick Wickman and Pam Lund, Washington Food Processor's Association; Tom Martinis, Nestle Company; Jeff Leichleiter and Richard Nixon, Tim's Cascade Chips; John Loyle, Pacific Mountain Workforce Development Council; Tim Probst, Workforce Development Executives of WA; and Colin Conant, Director, Workforce Development Council.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass. Signed by 11 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Cairnes, Republican Vice Chair; Reardon, Democratic Vice Chair; Carrell; Conway; Cox; Dickerson; Pennington; Santos and Veloria.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee on Finance Compared to Recommendation of Committee on Higher Education: The second substitute bill clarifies how skills gap grants will be used and eliminates the tax credit for employer-funded work force training.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: The bill takes effect on July 1, 2000.

Testimony For: This bill has two parts. The first part is a grant program that provides resources to the Workforce Training and Education Coordinating Board to work with employers and others to plan ahead to solve the skills gap problem. The second part uses a small tax credit to create an incentive for businesses to train their own workers. This program begins the move from a supply oriented work force training program to an employer based system. The bill should be amended to require at least \$200,000 of the tax credits go to employers with less than 25 employees.

Testimony Against: None.

Testified: (In support) Representative Conway; Wes Pruitt, Workforce Training Board; and Dan McConnon, SBCTC.

(In support with amendment) Gary Smith, Independent Business Association.