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**Finance Committee**

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**HB 2158**

**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 Summary of Bill**

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

**Hearing Date:** 3/29/19

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

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*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.*

## **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 career connected learning (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 (WHEFA) 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 (DOR) 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:**

Legislative Workforce Education Investment Accountability and Oversight Board.

The Legislative 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 meet four times a year and report to the Legislature annually.

Workforce Education Investment Policies.

*Washington College Grant:* The Washington College Grant is established to replace the State Need Grant. 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 median family income (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:

<b>Median Family Income Range</b>	<b>Percentage of Maximum Grant</b>
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 State Need Grant 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 (CCL) 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 Governor's office.

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 others organizations 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 Workforce Education Investment Account. 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 workforce education investment account 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.

**Appropriation:** The bill contains multiple appropriations.

**Fiscal Note:** Requested on March 25, 2019.

**Effective Date:** The bill contains multiple effective dates.