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**ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1777**

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**State of Washington 65th Legislature 2017 Regular Session**

**By** House Capital Budget (originally sponsored by Representatives Kagi, Johnson, Doglio, Dent, Ryu, MacEwen, Senn, Farrell, Nealey, Ortiz-Self, McBride, Macri, Fey, Slatter, and Jinkins)

AN ACT Relating to financing early learning facilities to support the needed expansion of early learning classrooms across Washington; amending RCW 43.185.050; reenacting and amending RCW 43.84.092; adding new sections to chapter 43.31 RCW; creating a new section; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  The legislature finds that there is a significant and critical need for additional early learning facilities to meet the state's commitment to providing high quality early learning opportunities to low-income children, including the legal mandate to provide preschool opportunities through the early childhood education and assistance program to all eligible children by 2023.

The legislature further finds that private and public partnerships and investments are critical to meeting the need for increased classrooms necessary to deliver high quality early learning opportunities to low-income children across Washington.

The legislature intends to provide state financial assistance to leverage local and private resources to enable early childhood education and assistance program contractors and child care providers to expand, remodel, purchase, or construct early learning facilities and classrooms necessary to support state-funded early learning opportunities for low-income children.

NEW SECTION. **Sec.**  The department of early learning, in consultation with stakeholders, shall review existing licensing standards including, but not limited to, plumbing, fixtures, and playground equipment, related to facility requirements to eliminate potential barriers to licensing while ensuring the health and safety of children in early learning programs. The department must create a process by which projects for eligible organizations and school districts receiving grants or loans from the early learning facilities revolving account or the early learning facilities development account created in section 4 of this act can be preapproved under existing licensing standards related to facility requirements. The licensing standards accepted in the preapproval are the licensing standards that must be met upon project completion.

NEW SECTION. **Sec.**  Unless the context clearly requires otherwise, the definitions in this section apply throughout this act:

(1) "Department" means the department of commerce.

(2) "Director" means the director of commerce.

(3) "Early learning facility" means a facility providing regularly scheduled care for a group of children one month of age through twelve years of age for periods of less than twenty-four hours.

NEW SECTION. **Sec.**  (1) The early learning facilities revolving account and the early learning facilities development account are created in the state treasury.

(2) Revenues to the early learning facilities revolving account shall consist of appropriations by the legislature, early learning facilities grant and loan repayments, taxable bond proceeds, and all other sources deposited in the account.

(3) Revenues to the early learning facilities development account shall consist of tax-exempt bond proceeds.

(4) Expenditures from the accounts shall be used, in combination with other private and public funding, for state matching funds for the planning, renovation, purchase, and construction of early learning facilities as established in sections 6 through 12 of this act.

(5) Expenditures from the accounts are subject to appropriation and the allotment provisions of chapter 43.88 RCW.

NEW SECTION. **Sec.**  (1) The department, in consultation with the department of early learning, shall oversee the early learning facilities revolving account and the early learning facilities development account, and is the lead state agency for the early learning facilities grant and loan program.

(2) It is the intent of the legislature that state funds invested in the accounts be matched by private or local government funding. Every effort shall be made to maximize funding available for early learning facilities from public schools, community colleges, education service districts, local governments, and private funders.

(3) Amounts used for program administration by the department may not exceed an average of four percent of the appropriated funds.

(4) Commitment of state funds for construction, purchase, or renovation of early learning facilities may be given only after private or public match funds are committed. Private or public match funds may consist of cash, equipment, land, buildings, or like-kind. In determining the level of match required, the department shall take into consideration the financial need of the applicant and the economic conditions of the location of the proposed facility.

NEW SECTION. **Sec.**  (1) The department must expend moneys from the early learning facilities revolving account to provide state matching funds for early learning facilities grants or loans to provide classrooms necessary for children to participate in the early childhood education and assistance program and working connections child care.

(2) The department must expend moneys from the early learning facilities development account to provide state matching funds for early learning facilities grants to provide classrooms necessary for children to participate in the early childhood education and assistance program and working connections child care.

(3) Funds expended from the accounts as specified in subsections (1) and (2) of this section may fund projects only for:

(a) Eligible organizations identified in section 7 of this act; and

(b) School districts.

(4)(a) Beginning August 1, 2017, the department shall:

(i) In consultation with the office of the superintendent of public instruction, implement and administer the early learning facilities grant and loan program for school districts as described in sections 9(3) and 10(1) of this act; and

(ii) Contract with one or more nongovernmental private-public partnerships that are certified by the community development financial institutions fund to implement and administer grants and loans funded through the early learning facilities revolving account or for a grant funded through the early learning facilities development account, for eligible organizations. Any nongovernmental private-public partnership that is certified by the community development financial institutions fund that is seeking early learning fund resources must demonstrate an ability to raise funding from private and other public entities for early learning facilities construction projects.

(b) The department may allow the application of an eligible organization for a grant or loan from the early learning facilities revolving account or for a grant from the early learning facilities development account created in section 4 of this act to be considered without the involvement of the nongovernmental private-public partnership that is certified by the community development financial institutions fund if a nongovernmental private-public partnership certified by the community development financial institutions fund is not reasonably available to the location of the proposed facility or if the eligible organization has sufficient ability and capacity to proceed with a project absent the involvement of a nongovernmental private-public partnership that is certified by the community development financial institutions fund.

(5) The department shall monitor performance of the early learning facilities grant and loan program. Any nongovernmental private-public partnership that is certified by the community development financial institutions fund receiving state funds for purposes of this act shall provide annual reports, beginning July 1, 2018, to the department. The reports must include, but are not limited to, the following:

(a) A list of projects funded through the early learning facilities grant and loan program for eligible organizations to include:

(i) Name;

(ii) Location;

(iii) Grant or loan amount;

(iv) Private match amount;

(v) Public match amount;

(vi) Number of early learners served; and

(vii) Other elements as required by the department;

(b) A demonstration of sufficient investment of private match funds; and

(c) A description of how the projects met the criteria described in section 10 of this act.

NEW SECTION. **Sec.**  (1) Organizations eligible to receive funding from the early learning facilities grant and loan program include:

(a) Early childhood education and assistance program providers;

(b) Working connections child care providers who are eligible to receive state subsidies;

(c) Licensed early learning centers not currently participating in the early childhood education and assistance program, but intending to do so;

(d) Developers of housing and community facilities;

(e) Community and technical colleges;

(f) Educational service districts;

(g) Local governments;

(h) Federally recognized tribes in the state; and

(i) Religiously affiliated entities.

(2) To be eligible to receive funding from the early learning facilities grant and loan program for activities described in section 8(1) (b) and (c) and (2) of this act, eligible organizations and school districts must:

(a) Commit to being an active participant in good standing with the early achievers program as defined by chapter 43.215 RCW;

(b) Demonstrate that projects receiving construction, purchase, or renovation grants or loans less than two hundred thousand dollars must also:

(i) Demonstrate that the project site is under the applicant's control for a minimum of ten years, either through ownership or a long-term lease; and

(ii) Commit to using the facility funded by the grant or loan for the purposes of providing preschool or child care for a minimum of ten years;

(c) Demonstrate that projects receiving construction, purchase, or renovation grants or loans of two hundred thousand dollars or more must also:

(i) Demonstrate that the project site is under the applicant's control for a minimum of twenty years, either through ownership or a long-term lease; and

(ii) Commit to using the facility funded by the grant or loan for the purposes of providing preschool or child care for a minimum of twenty years.

(3) To be eligible to receive funding from the early learning facilities grant and loan program for activities described in section 8(1) (b) and (c) and (2) of this act, religiously affiliated entities must use the facility to provide child care and education services consistent with subsection (4)(a) of this section.

(4)(a) Upon receiving a grant or loan, the recipient must continue to be an active participant and in good standing with the early achievers program.

(b) If the recipient does not meet the conditions specified in (a) of this subsection, the grants shall be repaid to the early learning facilities revolving account or the early learning facilities development account, as directed by the department. So long as an eligible organization continues to provide an early learning program in the facility, the facility is used as authorized, and the eligible organization continues to be an active participant and in good standing with the early achievers program, the grant repayment is waived.

(c) The department, in consultation with the department of early learning, must adopt rules to implement this section.

NEW SECTION. **Sec.**  (1) Activities eligible for funding through the early learning facilities grant and loan program for eligible organizations include:

(a) Facility predesign grants or loans of no more than ten thousand dollars to allow eligible organizations to secure professional services or consult with organizations certified by the community development financial institutions fund to plan for and assess the feasibility of early learning facilities projects or receive other technical assistance to design and develop projects for construction funding;

(b) Grants or loans of no more than one hundred thousand dollars for minor renovations or repairs of existing early learning facilities; and

(c) Major construction and renovation grants or loans and grants or loans for facility purchases of no more than eight hundred thousand dollars to create or expand early learning facilities.

(2) Activities eligible for funding through the early learning facilities grant and loan program for school districts include major construction, purchase, and renovation grants or loans of no more than eight hundred thousand dollars to create or expand early learning facilities that received priority and ranking as described in section 10 of this act.

(3) Beginning July 1, 2018, amounts in this section must be increased annually by the United States implicit price deflator for state and local government construction provided by the office of financial management.

NEW SECTION. **Sec.**  (1) It is the intent of the legislature that state funds invested in the early learning facilities grant and loan program be matched by private or local government funding. Every effort shall be made to maximize funding available for early learning facilities from public schools, community colleges, education service districts, local governments, and private funders.

(2) In the administration of the early learning facilities grant and loan program for eligible organizations, any nongovernmental private-public partnership that is certified by the community development financial institutions fund contracted with the department shall award grants or loans as described in section 8 of this act, that meet the criteria described in section 10 of this act, through an application process or in compliance with state and federal requirements of the funding source.

(3) In the administration of the early learning facilities grant and loan program for school districts, the department, in coordination with the office of the superintendent of public instruction, shall submit a ranked and prioritized list of proposed purchases and major construction or renovation of early learning facilities projects for school districts subject to the prioritization methodology described in section 10 of this act to the office of financial management and the relevant legislative committees by December 15, 2017, and by September 15th of even-numbered years thereafter.

NEW SECTION. **Sec.**  (1) The department shall convene a committee of early learning facilities experts to advise the department regarding the prioritization methodology of applications for projects described in section 8 of this act including no less than one representative each from the department of early learning, the Washington state housing finance commission, an organization certified by the community development financial institutions fund, and the office of the superintendent of public instruction.

(2) When developing a prioritization methodology under this section, the committee shall consider, but is not limited to:

(a) Projects that add part-day, full-day, or extended day early childhood education and assistance program slots in areas with the highest unmet need;

(b) Projects benefiting low-income children;

(c) Projects located in low-income neighborhoods;

(d) Projects that provide more access to the early childhood education and assistance program as a ratio of the children eligible to participate in the program;

(e) Projects that are geographically disbursed relative to statewide need;

(f) Projects that include new or renovated kitchen facilities equipped to support the use of from scratch, modified scratch, or other cooking methods that enhance overall student nutrition;

(g) Projects that balance mixed-use development and rural locations; and

(h) Projects that maximize resources available from the state with funding from other public and private organizations, including the use of state lands or facilities.

(3) Committee members shall serve without compensation, but may request reimbursement for travel expenses as provided in RCW 43.03.050 and 43.03.060.

(4) Committee members are not liable to the state, the early learning facilities revolving account, the early learning facilities development account, or to any other person, as a result of their activities, whether ministerial or discretionary, as members except for willful dishonesty or intentional violation of the law.

(5) The department may purchase liability insurance for members and may indemnify these persons against the claims of others.

NEW SECTION. **Sec.**  When funding is provided in the previous biennium, the department, in collaboration with the department of early learning, shall submit a report no later than December 1st of even-numbered years, to the governor and the appropriate committees of the legislature that provides an update on the status of the early learning facilities grant and loan program that includes, but is not limited to:

(1) The total amount of funds, by grant and loan, spent or contracted to be spent; and

(2) A list of projects awarded funding including, but not limited to, information about whether the project is a renovation or new construction or some other category, where the project is located, and the number of slots the project supports.

**Sec.**  RCW 43.84.092 and 2016 c 194 s 5, 2016 c 161 s 20, and 2016 c 112 s 4 are each reenacted and amended to read as follows:

(1) All earnings of investments of surplus balances in the state treasury shall be deposited to the treasury income account, which account is hereby established in the state treasury.

(2) The treasury income account shall be utilized to pay or receive funds associated with federal programs as required by the federal cash management improvement act of 1990. The treasury income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for refunds or allocations of interest earnings required by the cash management improvement act. Refunds of interest to the federal treasury required under the cash management improvement act fall under RCW 43.88.180 and shall not require appropriation. The office of financial management shall determine the amounts due to or from the federal government pursuant to the cash management improvement act. The office of financial management may direct transfers of funds between accounts as deemed necessary to implement the provisions of the cash management improvement act, and this subsection. Refunds or allocations shall occur prior to the distributions of earnings set forth in subsection (4) of this section.

(3) Except for the provisions of RCW 43.84.160, the treasury income account may be utilized for the payment of purchased banking services on behalf of treasury funds including, but not limited to, depository, safekeeping, and disbursement functions for the state treasury and affected state agencies. The treasury income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for payments to financial institutions. Payments shall occur prior to distribution of earnings set forth in subsection (4) of this section.

(4) Monthly, the state treasurer shall distribute the earnings credited to the treasury income account. The state treasurer shall credit the general fund with all the earnings credited to the treasury income account except:

(a) The following accounts and funds shall receive their proportionate share of earnings based upon each account's and fund's average daily balance for the period: The aeronautics account, the aircraft search and rescue account, the Alaskan Way viaduct replacement project account, the brownfield redevelopment trust fund account, the budget stabilization account, the capital vessel replacement account, the capitol building construction account, the Cedar River channel construction and operation account, the Central Washington University capital projects account, the charitable, educational, penal and reformatory institutions account, the Chehalis basin account, the cleanup settlement account, the Columbia river basin water supply development account, the Columbia river basin taxable bond water supply development account, the Columbia river basin water supply revenue recovery account, the common school construction fund, the community forest trust account, the connecting Washington account, the county arterial preservation account, the county criminal justice assistance account, the deferred compensation administrative account, the deferred compensation principal account, the department of licensing services account, the department of retirement systems expense account, the developmental disabilities community trust account, the diesel idle reduction account, the drinking water assistance account, the drinking water assistance administrative account, the drinking water assistance repayment account, the early learning facilities development account, the early learning facilities revolving account, the Eastern Washington University capital projects account, the Interstate 405 express toll lanes operations account, the education construction fund, the education legacy trust account, the election account, the electric vehicle charging infrastructure account, the energy freedom account, the energy recovery act account, the essential rail assistance account, The Evergreen State College capital projects account, the federal forest revolving account, the ferry bond retirement fund, the freight mobility investment account, the freight mobility multimodal account, the grade crossing protective fund, the public health services account, the high capacity transportation account, the state higher education construction account, the higher education construction account, the highway bond retirement fund, the highway infrastructure account, the highway safety fund, the high occupancy toll lanes operations account, the hospital safety net assessment fund, the industrial insurance premium refund account, the judges' retirement account, the judicial retirement administrative account, the judicial retirement principal account, the local leasehold excise tax account, the local real estate excise tax account, the local sales and use tax account, the marine resources stewardship trust account, the medical aid account, the mobile home park relocation fund, the money-purchase retirement savings administrative account, the money-purchase retirement savings principal account, the motor vehicle fund, the motorcycle safety education account, the multimodal transportation account, the multiuse roadway safety account, the municipal criminal justice assistance account, the natural resources deposit account, the oyster reserve land account, the pension funding stabilization account, the perpetual surveillance and maintenance account, the pollution liability insurance agency underground storage tank revolving account, the public employees' retirement system plan 1 account, the public employees' retirement system combined plan 2 and plan 3 account, the public facilities construction loan revolving account beginning July 1, 2004, the public health supplemental account, the public works assistance account, the Puget Sound capital construction account, the Puget Sound ferry operations account, the Puget Sound taxpayer accountability account, the real estate appraiser commission account, the recreational vehicle account, the regional mobility grant program account, the resource management cost account, the rural arterial trust account, the rural mobility grant program account, the rural Washington loan fund, the site closure account, the skilled nursing facility safety net trust fund, the small city pavement and sidewalk account, the special category C account, the special wildlife account, the state employees' insurance account, the state employees' insurance reserve account, the state investment board expense account, the state investment board commingled trust fund accounts, the state patrol highway account, the state route number 520 civil penalties account, the state route number 520 corridor account, the state wildlife account, the supplemental pension account, the Tacoma Narrows toll bridge account, the teachers' retirement system plan 1 account, the teachers' retirement system combined plan 2 and plan 3 account, the tobacco prevention and control account, the tobacco settlement account, the toll facility bond retirement account, the transportation 2003 account (nickel account), the transportation equipment fund, the transportation fund, the transportation future funding program account, the transportation improvement account, the transportation improvement board bond retirement account, the transportation infrastructure account, the transportation partnership account, the traumatic brain injury account, the tuition recovery trust fund, the University of Washington bond retirement fund, the University of Washington building account, the volunteer firefighters' and reserve officers' relief and pension principal fund, the volunteer firefighters' and reserve officers' administrative fund, the Washington judicial retirement system account, the Washington law enforcement officers' and firefighters' system plan 1 retirement account, the Washington law enforcement officers' and firefighters' system plan 2 retirement account, the Washington public safety employees' plan 2 retirement account, the Washington school employees' retirement system combined plan 2 and 3 account, the Washington state health insurance pool account, the Washington state patrol retirement account, the Washington State University building account, the Washington State University bond retirement fund, the water pollution control revolving administration account, the water pollution control revolving fund, the Western Washington University capital projects account, the Yakima integrated plan implementation account, the Yakima integrated plan implementation revenue recovery account, and the Yakima integrated plan implementation taxable bond account. Earnings derived from investing balances of the agricultural permanent fund, the normal school permanent fund, the permanent common school fund, the scientific permanent fund, the state university permanent fund, and the state reclamation revolving account shall be allocated to their respective beneficiary accounts.

(b) Any state agency that has independent authority over accounts or funds not statutorily required to be held in the state treasury that deposits funds into a fund or account in the state treasury pursuant to an agreement with the office of the state treasurer shall receive its proportionate share of earnings based upon each account's or fund's average daily balance for the period.

(5) In conformance with Article II, section 37 of the state Constitution, no treasury accounts or funds shall be allocated earnings without the specific affirmative directive of this section.

**Sec.**  RCW 43.185.050 and 2013 c 145 s 2 are each amended to read as follows:

(1) The department must use moneys from the housing trust fund and other legislative appropriations to finance in whole or in part any loans or grant projects that will provide housing for persons and families with special housing needs and with incomes at or below fifty percent of the median family income for the county or standard metropolitan statistical area where the project is located. At least thirty percent of these moneys used in any given funding cycle shall be for the benefit of projects located in rural areas of the state as defined by the department. If the department determines that it has not received an adequate number of suitable applications for rural projects during any given funding cycle, the department may allocate unused moneys for projects in nonrural areas of the state.

(2) Activities eligible for assistance from the housing trust fund and other legislative appropriations include, but are not limited to:

(a) New construction, rehabilitation, or acquisition of low and very low-income housing units;

(b) Rent subsidies;

(c) Matching funds for social services directly related to providing housing for special-need tenants in assisted projects;

(d) Technical assistance, design and finance services and consultation, and administrative costs for eligible nonprofit community or neighborhood-based organizations;

(e) Administrative costs for housing assistance groups or organizations when such grant or loan will substantially increase the recipient's access to housing funds other than those available under this chapter;

(f) Shelters and related services for the homeless, including emergency shelters and overnight youth shelters;

(g) Mortgage subsidies, including temporary rental and mortgage payment subsidies to prevent homelessness;

(h) Mortgage insurance guarantee or payments for eligible projects;

(i) Down payment or closing cost assistance for eligible first-time home buyers;

(j) Acquisition of housing units for the purpose of preservation as low-income or very low-income housing; and

(k) Projects making housing more accessible to families with members who have disabilities.

(3) Preference shall be given for projects that include an early learning facility.

(4) Legislative appropriations from capital bond proceeds may be used only for the costs of projects authorized under subsection (2)(a), (i), and (j) of this section, and not for the administrative costs of the department.

((~~(4)~~)) (5) Moneys from repayment of loans from appropriations from capital bond proceeds may be used for all activities necessary for the proper functioning of the housing assistance program except for activities authorized under subsection (2)(b) and (c) of this section.

((~~(5)~~)) (6) Administrative costs associated with application, distribution, and project development activities of the department may not exceed three percent of the annual funds available for the housing assistance program. Reappropriations must not be included in the calculation of the annual funds available for determining the administrative costs.

((~~(6)~~)) (7) Administrative costs associated with compliance and monitoring activities of the department may not exceed one-quarter of one percent annually of the contracted amount of state investment in the housing assistance program.

NEW SECTION. **Sec.**  Sections 2 through 11 of this act are each added to chapter 43.31 RCW.

NEW SECTION. **Sec.**  This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

**--- END ---**