BILL ANALYSIS

Early Learning & Human Services Committee

HB 2396

Brief Description: Establishing the working families' child care access and affordability through regional employers act.

Sponsors: Representatives Reeves, Robinson, Kagi, Valdez, Doglio, Riccelli and Stonier.

Brief Summary of Bill

- Requires the Department of Children, Youth, and Families to provide guidance for the provision of employer-supported child care.
- Establishes a Child Care Workforce Conditional Scholarship and Loan Repayment program.
- Provides a business and occupation or public utility tax credit for businesses contributing to employee dependent care flexible spending accounts or the Child Care Workforce Conditional Scholarship and Loan Repayment program.
- Exempts from sales and use tax qualified expenditures for the construction or renovation of child care facilities.

Hearing Date: 1/9/18

Staff: Dawn Eychaner (786-7135).

Background:

Department of Children, Youth, and Families.
The Department of Children, Youth, and Families (DCYF) was established in 2017 with the stated purpose of protecting children and youth from harm and promoting healthy development with effective, high quality prevention, intervention, and early education services delivered in an equitable manner. On July 1, 2018, all functions of the Department of Early Learning and the child welfare functions of the Department of Social and Health Services (DSHS) will be

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integrated into the DCYF. On July 1, 2019, the juvenile justice functions of the DSHS Juvenile Rehabilitation Administration will move to the DCYF.

Department of Commerce.
The Department of Commerce (COM) administers programs intended to promote community and economic development. The COM provides businesses with assistance in various areas including export, siting, expansion, and infrastructure.

Conditional Scholarship and Loan Repayment Programs.
A conditional scholarship is a forgivable loan used to incentivize higher education students to work in certain professions and in geographic shortage areas. For example, the Alternative Routes Conditional Scholarship program recruits teachers in subject matter and geographic shortage areas by providing conditional scholarships in return for teaching specific subjects or in geographic areas in public schools.

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.

Public Utility Tax.
The public utility tax (PUT) is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of electricity, natural gas, and water. The PUT is imposed on gross income derived from operation of public and privately owned utilities in lieu of the B&O tax.

Sales and Use Tax.
Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services (including construction). A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Dependent Care Flexible Spending Accounts.
A dependent care flexible spending account (FSA) is a reimbursement account offered as an employee benefit by an employer. Employees and employers may make pre-tax contributions to the account, up to the federal limit of $5,000 annually. Funds may only be used to pay for out-of-pocket child care or dependent care expenses. Employers typically contract with a third-party to administer the accounts.

Summary of Bill:

Part I: Employer-Supported Child Care
Employer-supported child care is defined as a licensed child care center operated at or near the workplace by an employer for the benefit of employees or financial assistance provided by an employer for an employee's licensed child care expenses.

The Department of Children, Youth, and Families (DCYF) must develop a website in collaboration with the Department of Commerce (COM) that contains business resources and guidance for employer-supported child care. The website must also include a model policy for establishing a "Bring Your Infant to Work" program and a link to a licensed child care registry developed and maintained by a professional organization of child care providers jointly with participating employers.

The COM must assist businesses with identifying resources and incentives for the provision of employer-supported child care.

The DCYF must consult with the Office of Financial Management (OFM) to develop a "Bring Your Infant to Work" program policy for use in state agencies. The OFM must provide the model policy and implementation guidelines to state agency directors by December 1, 2018, and agencies must be required to adopt the policy by June 1, 2019. Agencies may modify the policy or limit its application as appropriate based on working conditions and job duties.

Part II: Child Care Workforce Conditional Scholarship and Loan Repayment Program
A Child Care Workforce Conditional Scholarship and Loan Repayment (CCWCSLR) program is established. The DCYF must administer the CCWCSLR and select eligible students to receive conditional scholarships and loan repayments. The DCYF must adopt program rules and guidelines, publicize the program to maximize participation of individuals in child care shortage areas and among populations expected to experience the greatest growth in the workforce, collect and manage repayments from participants who do not meet their obligations under the program, and solicit and accept grants and donations from public and private sources for the program.

The DCYF must establish a planning committee to assist with developing criteria for participant selection. Committee members must include representatives of the Department of Social and Health Services, the DCYF, private business, child care center providers, family day care providers, and a union representing child care providers.

When selecting participants, the DCYF must prioritize individuals providing early learning services in rural, underserved, and low-income areas. A priority participant may receive up to $5,000 per year. All other participants may receive up to $2,500 per year.

For conditional scholarships, an eligible student must make satisfactory educational progress according to his or her institution of higher education. Participants of the CCWCSLR may receive conditional scholarships or loan repayments for a maximum of six years.

<u>Loan Repayment</u>.
A participant may receive loan repayment, a student loan that is repaid in whole or in part, if the participant renders early learning services according to an agreement with the DCYF. The agreement between the participant and the department must detail the obligations of both parties, including the amount of loan repayment the participant will receive in exchange for meeting service requirements. At the end of each year the participant must provide evidence that he or she has met requirements under the agreement and the DCYF must pay the participant for a year of full-time or pro-rated part time service.

Conditional Scholarship.
A conditional scholarship is a loan given to an eligible student under an agreement in which the student is relieved of repayment obligations in exchange for providing early learning services in the state. If a participant does not provide early learning services for each year of scholarship received and meet other requirements under an agreement with the DCYF, the participant must repay the conditional scholarship with interest and pay an equalization fee to the DCYF. An equalization fee is an amount added to the principal of the loan to equate the debt to that which the student would have incurred if the loan was received through the federal student loan program. The entire principal and interest of each payment must be forgiven for each payment period in which the participant provides early learning services and meets other requirements of the agreement, until the entire repayment obligation is satisfied.

Child Care Workforce Conditional Scholarship and Loan Forgiveness Repayment Account.
The Child Care Workforce Conditional Scholarship and Loan Forgiveness Repayment Account (Account) is created in the custody of the State Treasurer. The Account must receive all moneys for the CCWCSLR program and receipts from repayments. Expenditures may only be used for conditional loans and loan repayments for program participants and for program administration costs. The Account is not subject to appropriation.

Part III: Child Care Tax Incentives
Employer Contributions to Dependent Care Accounts.
A business is allowed a B&O or PUT credit for contributions to dependent care FSAs for employees. The credit is equal to the full amount of contributions made to pay for the care of children under age 13. Credits may be earned between July 1, 2018, and June 30, 2028, and claimed the calendar year immediately following the year in which the credits are earned. No credit may be claimed after December 31, 2029.

Offsetting Employer Administrative Costs.
A business is allowed a B&O or PUT credit for amounts paid to a third-party for administering employee dependent care FSAs. The credit is equal to the actual amount paid to the third-party administrator, up to one thousand dollars in a calendar year. The credits may only be earned in the first three years an employer offers a dependent care FSA. Credits may be earned between July 1, 2018, and June 30, 2028, and claimed the calendar year immediately following the year in which the credits are earned. No credit may be claimed after December 31, 2029.

Employer Contributions to the Child Care Workforce Conditional Scholarship and Loan Repayment Program.
A business is allowed a B&O or PUT credit for contributions to the child care workforce conditional scholarship and loan repayment program. The credit is equal to the full amount of contributions made. Credits may be earned between July 1, 2018, and June 30, 2028, and claimed the calendar year immediately following the year in which the credits are earned. No credit may be claimed after December 31, 2029.

Sales Tax Exemption for Construction of Child Care Facilities.
Qualified expenditures for the construction or renovation of child care facilities are exempt from sales and use tax. A child care facility is defined as a structure used by a child day care center or a family day care to provide early childhood education and early learning services for a group of children.

The exemption is limited to 50 percent of the state tax paid, up to $100,000 per tax year. To claim the exemption, the owner of a child care facility first must pay the sales or use tax and then seek a remittance. Exemptions in excess of $500 must be repaid if the property is not operated as a child care facility for at least five years, with some exceptions.

Qualified expenditures include charges for labor and services paid to construct a new child day care center; to add space to an existing child care facility; to renovate an existing structure for use as a child day care; and for modifications needed to comply with the Americans with Disabilities Act, a state child care licensing agreement, a condition imposed by the state or tribal authority, or health and safety standards.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.