# SENATE BILL REPORT
# E2SHB 2396

As of February 24, 2018

**Title**: An act relating to establishing the working families' child care access and affordability through regional employers act.

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

**Sponsors**: House Committee on Finance (originally sponsored by Representatives Reeves, Robinson, Kagi, Valdez, Doglio, Riccelli and Stonier).

**Brief History:** Passed House: 2/12/18, 84-13.
**Committee Activity**: Ways & Means: 2/24/18.

**Brief Summary of Bill**

- Requires the Department of Children, Youth, and Families (DCYF) to provide guidance for the provision of employer-supported child care.
- Establishes a Child Care Workforce Conditional Scholarship and Loan Repayment (CCWCSLR) program.
- Provides a business and occupation (B&O) or public utility tax (PUT) credit for certain businesses contributing to dependent care flexible spending accounts of eligible employees.

## SENATE COMMITTEE ON WAYS & MEANS

**Staff**: Maria Hovde (786-7474)

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

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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.*

Department of Commerce (Commerce). Commerce administers programs intended to promote community and economic development. Commerce 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. Loan repayment programs repay a student loan, in whole or in part, in exchange for services rendered according to an agreement.

B&O Tax. Washington's major business tax is the 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.

PUT. 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.

Dependent Care Flexible Spending Accounts (FSAs). A dependent care 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.

Tax Preference Performance Statement. All new tax preference legislation must include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference. New tax preferences expire ten years after the effective date of the tax preference, unless otherwise provided.

***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.

DCYF must develop a website in collaboration with Commerce 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.

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

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. 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.
*CCWCSLR.* The CCWCSLR Account (Account) is created in the custody of the State Treasurer. The Account must receive all monies 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. When contributions of the Account exceed $100,000, DCYF must implement the CCWCSLR program, and notify affected parties and the Legislature.

A 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, DCYF, private business, child care center providers, family day care providers, and a union representing child care providers.

When selecting participants, 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.

*Loan Repayment.* 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 DCYF. The agreement between the participant and DCYF 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 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 DCYF, the participant must repay the conditional scholarship with interest and pay an equalization fee to 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.

Part III: Child Care Tax Incentives. *Employer Contributions to Dependent Care Accounts.* A business with at least five, but no more than 100, employees is allowed a B&O or PUT credit for contributions to dependent care FSAs for eligible employees with annual gross wages of $98,880 or less. The credit is equal to the full amount of qualifying contributions made to pay for the care of children under age 13. Credits may be earned between January 1, 2019, and December 31, 2028, and claimed in the calendar year immediately following the year in which the credits were earned. No credit may be claimed after December 31, 2029. Credits are limited to $5,000 per employee, $50,000 per employer, and $500,000 per year for all employers.

*Tax Preference Performance Statement.* A tax preference performance statement is provided. The stated objective of the tax incentives is to encourage employers to assist their employees with child care expenses by contributing to employee dependent care flexible spending accounts. JLARC must publish an evaluation of the tax preferences by July 31, 2022. If a review finds that employers request more credits than are available each year, the Legislature intends to increase the annual amount of statewide credits and expand the program to additional employers.

**Appropriation**: None.

**Fiscal Note**: Requested on February 13, 2018.

**Creates Committee/Commission/Task Force that includes Legislative members**: No.

**Effective Date**: The bill contains several effective dates. Please refer to the bill.

**Staff Summary of Public Testimony**: PRO: The costs of child care can be a barrier to parents' participation in the workforce. This bill aims to increase the accessibility and availability of child care.

**Persons Testifying**: PRO: Alex Hur, SEIU 925; Mark Johnson, Washington Retail Association.

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