A BLUEPRINT for RECOVERY from the WASHINGTON STATE SENATE SPECIAL COMMITTEE ON ECONOMIC RECOVERY

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INTRODUCTION

In May 2020, the Washington State Senate established the Special Committee on Economic Recovery, a bipartisan committee of seven members whose purpose is to look deeply at the structural changes the pandemic and the related public health driven closures have made to our state and regional economies, and to make recommendations on how we can help workers and the businesses that employ them come out stronger on the other side. The committee's goal was to work together, without partisanship, in order to drive innovative ideas that can help the people in every corner of this state recover and prosper.

The bipartisan committee focused its meetings on a wide variety of topics, including unemployment, childcare, health care, regional challenges, including wildfires, unique challenges for small businesses, short and long-term recovery strategies, supply chains, aerospace, manufacturing, tourism, and hospitality. A complete list of the meeting agenda topics and presenters is provided as an appendix to this report.

Since our first meeting in June, the Committee heard from more than 40 witnesses, experts and residents. Over the course of 20 hours of testimony, and countless presentations and analysis, it has become clear that the pandemic and our necessary, lifesaving response to it, have exhausted many small businesses in our state, and stressed hundreds of thousands of Washingtonians through unemployment, inability to cover rent and mortgages, and food insecurity. As we enter 2021, the continual struggles faced by workers and businesses reinforces advice given by many prominent economists during our first meeting in June: we can't enter a real recovery until the virus ebbs and people feel safe to resume their regular lives. Federal relief helped early in the crisis, but as the federal stalemate continues, pressure mounts on the state to respond. The recently passed federal stimulus bill will create additional opportunities to leverage federal dollars for businesses and consumers alike.

Washington entered the pandemic with one of the most robust safety nets in the nation. An expanded Medicaid system, one of the nation's healthiest unemployment insurance trust funds, a portable paid family and medical leave insurance system, and financial assistance for higher education and technical training. With review and potential adjustments, these programs can continue to assist our state's economic recovery. This report lays out a series of recommendations for rebuilding an economy that works for all Washingtonians.

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SUMMARY OF MEETINGS

In its initial meeting, the seven member committee heard from prominent economists, including Austan Goolsbee, Professor of Economics at Chicago University and former Chair of the Council of Economic Advisers under President Obama. Economist Betsey Stevenson, Professor of Economics and Public Policy at the University of Michigan and former Chief Economist at the U.S. Department of Labor under Obama. Annaliese Vance-Sherman, Labor Economist at the state Employment Security Department and Debra Glassman, Principal Lecturer of Finance and Business Economics at the University of Washington’s Department of Finance and Business Economics also weighed in.

The critical message from this meeting, and one that set the tone for the following sessions, is that recovery from the pandemic recession will take place when the virus ebbs and people feel safe to resume their regular lives. Economists noted that past economic shocks nationally (Great Recession, Post 9/11) and regionally (New York post-9/11 and Louisiana post-Katrina) suggest a full job recovery will take multiple years. However, there was also a prediction, since born out, that the most severe parts of the pandemic recession would aggressively hit sectors like airlines, hotels, and restaurants. Economists pointed out to the committee that in planning for economic recovery, there is no “silver bullet”, and that while the crisis has deepened existing income inequality in our state, it might also provide the state with an opportunity to strategically invest in important economic priorities.

In subsequent meetings, the committee further explored these themes. During a meeting on September 27, a presentation from Yelp showed how urgently our small businesses need help: through mid-September, Washington saw nearly 5,000 businesses close, the fifth highest closure rate in the nation.1 More than 3,000 of those have closed permanently. Washington's Employment Security Department data from mid-November further highlights the pandemic's unequal impact across economic sectors: over 34% of accommodation and food service businesses are expected to see their contributions to unemployment insurance rise over eight rate classes in one year.2 In addition, manufacturing, retail trade, and construction are also facing double digit rate increases.

We concluded our series of public meetings with a presentation from Lisa Brown, Director of Washington's Commerce Department on a new tool the agency created to aid regional and state leaders facing policy choices over how to use limited resources to best aid economic recovery. Director Brown gave a tour of the new "economic recovery dashboard" that is publicly available at https://www.commerce.wa.gov/datadashboard/.

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RECOMMENDATIONS

The following represent recommendations from the committee for various aspects and sectors of our state’s economy. These recommendations are based upon the testimony, data, and perspectives of the presenters which the committee heard from over the summer and autumn of 2020.

**Focus on People at Risk of an Immediate Housing, Food, Childcare or Job Crisis**

1. In the immediate, the legislature must take action to support individuals getting back to work, and support employers so they can continue to provide jobs that will allow individuals and families the ability to, once again, provide for themselves. Hundreds of thousands of working Washingtonians are excluded from existing safety net programs. At the same time, the legislature recognizes that it will need to continue to offer relief and economic assistance to families and businesses as the economy recovers, while also leveraging federal dollars to benefit Washingtonians.

2. The state should implement policies to avoid individuals being stranded on a “long term unemployment island,” including specifically to enhance Washington’s work share program so that workers can stay connected to their jobs as the economy recovers.

3. To ensure long term economic security for both employees and employers, the state should restore a solvent unemployment insurance system while mitigating new burdens to employers adversely impacted by the pandemic.

4. Focus on lowering the disconnected youth rate through summer job and internship assistance and programs to encourage reengagement in education. While youth between the ages of 16-24 have traditionally faced higher unemployment rates compared with older working-age adults, this trend has been exacerbated by the pandemic, threatening their future economic prospects for the next 10 years.³ Explore providing stipends for soon-to-be WA college graduates to help them pursue summer internships, and providing stipends for youth for summer opportunities similar to the conservation corps.

5. Assist local school districts with the supports necessary – which could include both financial and technical support - to re-open as soon as safely possible to reduce emotional and financial hardships on students and families. The committee recognizes that the widespread closure of schools to in-person learning represents a financial hardship to many families and impediment to economic recovery, as parents must either remain home to supervise children’s schooling or pay for childcare. The committee further recognizes that the Superintendent of Public Instruction has concluded that remote learning is failing thousands of students, and disproportionately those at highest risk.

6. Washington must aggressively reduce barriers to widely available and affordable childcare. Such barriers prevent a return to people participating in the economy.
   - Childcare providers must be evaluated from the standpoint of supply and treated as the small businesses that they are. They must be supported through adequate rates

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for the provision of childcare for families of lower income individuals and afforded
tax relief and additional support for fixed cost expenditures so that they can build out capacity.

- The state should reduce regulatory burdens for providers to operate. The state has seen a major decline in newly onboarded childcare providers, which has exacerbated childcare deserts statewide, and further amplified the need for providers in rural areas. More providers are necessary to meet the diverse economic, geographic, and cultural needs of Washingtonian families statewide. Further, the state should recognize that the childcare needs of families vary, including availability, and should support what works for individual families, including, but not limited to, in-home daycare.

- The state should work to inform consumers that high-quality childcare is available in each childcare setting, and work to increase access and choices for parents to decide what type of care works best for them, as well as educate consumers who hold preconceived notions or biases against a particular childcare setting. The state should recognize that the childcare needs of families vary and should support what works for individual families.

- The state should continue to invest capital dollars in the early learning facilities fund in order to continue to build out childcare and early learning capacity.

7. Long term growth requires that Washington make long term investments in educational opportunity, healthcare, and infrastructure.

8. Washington policies need to be specific to target specific industries and categories of workers who have been displaced e.g. workers in the hospitality and aerospace sector. To this end, Washington should:

- Fund targeted re-skilling for displaced workers through its Career Connect program;
- Maintain its policy of extending the College Need Grant to all low-income Washingtonians to attend a community college or trade school in order to skill up, while continuing to connect those skilled workers with growth industries and apprenticeships; and
- Consider micro-credentialing of displaced workers to earn certifications in specific fields.

**Relief for Small Businesses & Supporting Hospitality & Leisure**

In 2017 Washington State ranked as the nation's most business-friendly state. As of September 15, 2020, nearly 5000 businesses had closed for some period of the pandemic and nearly 60% of those indicated they were closed permanently. The hospitality sector, in particular, has seen an almost complete shutdown due to public health concerns. Conventions have been canceled, hotels stand near empty, and the countless small businesses, restaurants and shops that are part of this once thriving sector have few customers. Half of all Washington businesses have fewer than 50 employees. Though some small businesses are struggling through with federal Paycheck Protection Program (PPP) loans and limited hours and operations, many remain on the cusp of closure and are

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surviving on borrowed time. The data shows that more than 17,000 Washington businesses are implementing necessary health and safety measures, from social distancing to reduced capacity to personal protective equipment (PPE) to increased cleaning. They are also putting money into changing the services they offer, adding takeout, virtual consultations, and contactless delivery.

The pandemic recession has hit the Washington hospitality sector harder than any other part of the Washington economy. Workers in this sector tend to be younger and have fewer education credentials. Unemployment claim rates for those without a college degree were 35% higher than those with. Moreover, early in the crisis, the leisure and hospitality sector accounted for 35% of all job losses with a total reduction of at least 150,000 jobs as of May. As of late September, total continued unemployment claims were still well over 400,000 in Washington, although down from as much as 700,000 in May. However, accommodation and food services workers continued to account for the highest number of ongoing unemployment claims. The Washington Tourism Alliance reported that the pandemic recession was 9 times more damaging to the tourism industry than 9/11; had resulted in a 75% reduction in visitor expenditures of more than $4 billion; and accounted for nearly 42% of pandemic related unemployment. In the Seattle metro area, hotel occupancy fell off by as much as 70%, with that figure up to 88% in downtown Seattle. Wenatchee reported comparable fall offs in occupancy and employment, as well as corresponding tourism-related tax revenues for local government. Leaders of the Tourism Alliance estimate that it will take 3-5 years for the industry to recover to pre-pandemic levels.

Every presenter to the committee, from the most liberal economists to more moderate and conservative witnesses, from which the committee heard, agree that government should provide fixed cost assistance and some measure of regulatory relief to small businesses as they recover. Small grants and loans as envisioned under the federal Paycheck Protection Program may be one such opportunity to access struggling small businesses as well as recent grant and loan programs established by the State of Washington. It is crucial that we continue to provide opportunities that keep our struggling small businesses above water while they find a path forward as the virus ebbs and people feel safe to resume their regular lives.

To make Washington policy more intentional and strategic, the committee recommends that the state:

1. Mitigate burdens of unemployment insurance rate increases and other challenges faced by struggling businesses.
   - Provide financial supports to minority, female, or veteran owned businesses that have not been able to secure other relief. The Linked Deposit Program is a program that could be leveraged to do this. It provides below-market rate loans to minority, female, or veteran owned businesses. Washington should work to leverage this existing program for the benefit of Washington residents.
   - Explore innovative partnerships leveraging federal dollars and private funds and Community Development Financial Institutions (CDFIs) to expand access to capital for small businesses, ensuring that the State doesn’t take on financial risk. Establish a small business resilience fund with needs-based criteria.
Examine waiving licensing fees for businesses that are trying to keep their doors open and employees working.

Examine liability protections for businesses and minimize the need for new rulemaking that would inhibit economic recovery.

2. Increase funding of the programs to encourage entrepreneurship.

- Establish a commercial landlord resiliency fund to assist commercial lessors who provide rent abatement or deferral to small business tenants.

- Examine taxes and fees paid by businesses to help those businesses across Washington that have been disproportionately impacted by the pandemic. Revise and empower business/labor task force to identify regulations and permitting at the state and local level that can be modified in order to spur small business investment and entrepreneurship.

- Examine the permitting process for opportunities to simplify the process for new and existing businesses.

- Streamline process for "small" and "disadvantaged" business certifications to make it easier for such firms to do business with the state.

- Direct more state procurement to Washington based small and medium businesses.

- Encourage both business-to-business and retail spending in Washington with a more aggressive buy and shop local PSA campaign.

- Partner more intentionally and robustly with Associate Development Organizations (ADOs) and other local economic development associations in order to direct efforts to provide main street businesses with more help to access capital for small, Main Street and micro enterprises.

3. Strengthen the economic development ecosystem by:

- Supporting and expanding business recruitment, retention and Expansion Programs;

- Supporting technical assistance to small business entrepreneurs;

- Investing more robustly in public works trust fund and other avenues to enhance local infrastructure that drives economic development;

- Enhancing local revitalization financing and tax increment financing options for local community development;

- Supporting initiatives to increase investments in distressed communities through a more formal community redevelopment grant program in the capital budget and utilization of federal opportunity zone mechanisms;

- Actively assist the tourism industry in recovery by stimulating visitor expenditures in order to generate local tax revenues and grow back tourism jobs;
Fully invest in and expand the Washington Tourism Alliance Public Private Partnership in this budget cycle;
Assist the 20 Destination Marketing Organizations in Washington that have been decimated with layoffs and underfunding due to the crisis; and
Create a new and enhanced tourism marketing program for the state.

**Aerospace and Manufacturing**

The aerospace industry continues to be a major employer in Washington state, making up an annual average of 82,700 workers or 3% of the statewide nonfarm workforce. With an extensive supply chain throughout Washington, the economic impact in 2019 was estimated at 240,000 jobs. 5 2020 found Boeing facing a perfect storm of issues. As the largest U.S. exporter, the trade uncertainty and the pandemic-caused global downturn both have outsized impacts on Boeing, which was already reeling from the grounding of the 737 Max. In October 2020 Boeing announced thousands more job cuts by the end of 2021, some of which are sure to land in Washington. In addition, Boeing plans to reduce their real estate footprint of all their facilities by a third. 6 Driven in large part by Boeing, manufacturing in Washington was one of the industry sectors hit hardest by Covid-19. Manufacturing saw a drop of $3.99 billion in taxable income in July of 2020 compared to July of 2019, while leisure and hospitality was the second most impacted with a drop of $833 million. 7

Manufacturing employment in the non-aerospace sector, pre-pandemic, saw a marked decline in employment in the 21st century, declining by over 40,000 jobs. This is the only sector of the economy, prior to the pandemic, that had seen a net decline in jobs over the last 20 years. These jobs, both historically and today, are among the highest paying in local communities, with average wages over $75,000 annually as of 2018.

Over the last several years, the state Department of Commerce’s Industry Sector Development Program focused in part on building up industries that help diversify the state’s economy, pay living wage jobs, and insulate the state from the worst effects of global economic recessions. An early pilot of this program was the Maritime Blue alliance effort which aimed to accelerate maritime innovation. This industry cluster strategy could be replicated in other areas. Several industry sectors offer clear opportunities for the state to build back manufacturing in Washington: solar and polysilicon, batteries, electric aviation, space and satellites, and autonomous vehicles.

The committee recommends that Washington:

1. Diversify our aerospace manufacturing sector to prepare for reduced demand from Boeing and to proactively pivot to the state's burgeoning and innovative space industry including SpaceX, Blue Origin, and Amazon’s satellite program.

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7 WA State Department of Commerce presentation to the Special Committee on Economic Recovery, October 27, 2020, [https://app.leg.wa.gov/committeeschedules/Home/Document/223738#toolbar=0&enavpanes=0](https://app.leg.wa.gov/committeeschedules/Home/Document/223738#toolbar=0&enavpanes=0).
2. Support the local aerospace industry in competing for any new airplane Boeing pursues.
3. Invest in the Industry Sector Development Program to target acceleration of high growth sectors across the state that will help drive job creation to provide living wage jobs and compete globally for new business expansion.
4. Provide incentives for developers to create industry parks that benefit businesses by forming economic clusters.
5. Expand Department of Commerce's export assistance to provide virtual training.
6. Create a virtual trade matchmaking platform to enable WA businesses to find trade partners.
7. Invest in collaborative solutions that lead to cleaner air and a healthier environment for all Washingtonians regardless of where they live and work.
8. Provide manufacturer tax incentives to encourage resurgence of manufacturing capacity and family wage jobs.

**Healthcare**

As hundreds of thousands of Washingtonians lost their jobs due to the pandemic recession, the inequities in our current health care system rose to the surface once again. In the month just prior to the pandemic-related shutdown in March 2020, 520,000 Washingtonians (6.7%) were estimated to be without health insurance coverage of any kind. As the unemployment rate climbed toward 16% in the late spring, the number of uninsured was estimated to rise to 1,000,000 Washingtonians (13%), or nearly one in every seven Washington residents. The Covid-19 recession is the first major economic shock since the advent of the Affordable Care Act and as such its role as a true healthcare safety net was tested. Washington state responded by offering a special enrollment period on the Health Benefit Exchange which resulted in 22,000 people signing up and an increase in coverage for those who were eligible for Medicaid i.e. Apple Health. Though Washington has taken steps to increase affordability for those on the exchange, qualified health plans on the exchange can be unaffordable, even with subsidies, and may require switching insurers and doctors in a pandemic, as an expert from the Kaiser Family Foundation noted to the committee. Moreover, polling demonstrated that for individuals who skipped or postponed medical services, 11% reported their family members' medical condition got worse as a result. Additionally, the data showed an abrupt drop in cancer screenings. Surveys also showed that the share of US adults reporting symptoms of anxiety or depressive disorder had increased from 11% in 2019 to 36.5% in June 2020, a 300% increase. Health security remains a vital component of maintaining a vibrant and inclusive economy that benefits both employers and employees. Experts testified to this committee that healthcare security is critical to entrepreneurship and efficient labor markets. Washington must continue to insure affordable health care options for workers in transition.

The committee recommends that Washington:

1. Expand policies that ensure continuity of coverage regardless of employment status. This may include expanding subsidies for the purchase of health insurance on the individual

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exchange in order to make coverage more affordable. Improve consumer choice by ensuring health care options such as the individual market, employer-based coverage, and state managed care organizations are increasingly available.

2. Continue to improve efforts like Cascade Care, and others, that are designed to reduce insurance premiums for those who land in the individual market.

3. Maintain and expand payment parity to encourage further telehealth expansion. One bright spot that emerged from the employment and health care crisis was the dramatic expansion of telehealth as a critical modality for delivering care. For example, a Kaiser Permanente (KP) presenter testified to the Committee that KP had made exponential leaps in the delivery of primary care and behavioral health through video conferencing. Other systems have reported the same. This has great potential to improve the way that Washingtonians who do not have access to convenient primary or behavioral health care, can access needed care from anywhere in the state. Repeatedly presenters connected the promise of telehealth, with the need to improve and expand broadband service to residents everywhere in the state. Moreover, health care providers emphasized that the quality and speed of broadband connections must improve to allow for telehealth delivery to remain most effective.

4. The pandemic has highlighted the importance and critical role public health plays along with the funding challenges that accompany the same. We must reinvest in public health locally and statewide to modernize our public health system.

5. Address health inequities. The pandemic has highlighted the existing health inequities built into our health care system and there must be a renewed focus on addressing the disparities that have only gotten wider since the start of the Covid-19 pandemic. We must target investments and resources into the communities that are facing the highest health disparities.

**Expanding Internet Access**

The Committee agrees that the state must aggressively expand broadband and high-speed internet access to every part of the state, rural and urban, rich and poor, to once and for all, bridge the digital divide. Children must be able to access high speed internet service from their home, and any business, large or small, must be able to easily access internet in order to build their sales and operations, and to grow jobs for Washingtonians.

The committee recommends that Washington:

1. Design its policies and programs to become the #1 state in the nation in receipt of federal funding for broadband and internet access expansion.

2. Continue aggressive state mapping to ascertain broadband availability and speeds to ascertain broadband needs around the state while respecting the competitive nature of the broadband industry.

3. Expand its broadband office to ensure better coordination and buildout. Provide sufficient resources to provide assistance to community projects throughout all regions of the state.

4. Ensure equity and inclusion in all broadband policies and programs.
5. Invest significant capital dollars through new and existing programs in order to achieve expansion and assist communities engaged in planning and developing federal funding proposals.

6. Recognize that broadband access is critical not only for education, business recovery and growth, but also for the needed dramatic expansion of tele-health to rural, unserved, and underserved areas.

7. Pursue policies that are technology neutral in order to give the greatest opportunity for the service to not become outdated as technology advances.

8. Amends the current 2024 statewide broadband speed goal of 25mbps/3mbps to include scalable, future-proof networks to support delivery of the 2028 goal of symmetrical 150mpbs download and upload.

9. Prioritize unserved areas and low-income households in providing availability of broadband service and devices.

10. Support public and private cooperative efforts to bring broadband service to unserved and underserved areas.

11. Examine access to public lands, leases and easements, that could aid broadband buildout, especially in rural areas.

12. Support "dig once" and "climb once" policies to future-proof technology advances and to accommodate broadband equipment when infrastructure improvements are made in public rights of way.