HOUSE BILL REPORT
HB 1337

As Reported by House Committee On:
Health & Human Services Appropriations & Oversight

Title: An act relating to creating the safety net assessment to fund services for people with developmental disabilities.

Brief Description: Creating the safety net assessment to fund services for people with developmental disabilities.

Sponsors: Representatives Pettigrew, Walsh, Green, Orwall, Stanford, Moscoso, Kagi, Seaquist, Liias, Warnick, Appleton, Van De Wege, Roberts, Darneille and Kenney.

Brief History:
Committee Activity:
Health & Human Services Appropriations & Oversight: 2/15/11, 2/16/11 [DPS].

Brief Summary of Substitute Bill

- Adds community residential service businesses to the public utility tax at a rate of 5.029 percent.
- Places revenue into accounts which may only be used to increase developmental disability community residential vendor rates and to enhance compensation to staff providing habilitative instruction and support services.
- Requires that whenever vendor rates for supported living providers are modified, the rate must be allocated so that the difference in rates paid between King and Snohomish counties remains the same as established in 2010.

HOUSE COMMITTEE ON HEALTH & HUMAN SERVICES APPROPRIATIONS & OVERSIGHT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Dickerson, Chair; Cody, Green, Kagi, Pettigrew and Walsh.

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.

Minority Report: Do not pass. Signed by 4 members: Representatives Johnson, Ranking Minority Member; Schmick, Assistant Ranking Minority Member; Harris and Overstreet.

Staff: Carma Matti-Jackson (786-7140).

Background:

The business and occupation (B&O) tax is Washington's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited to the State General Fund. Depending on the types of activities conducted, a business may have more than one B&O tax rate. Firms that provide services are generally taxed at a rate of 1.8 percent.

The state public utility tax (PUT) applies to public service businesses. It applies to a variety of public and privately owned utilities. The PUT is applied to the gross receipts of the business. The tax rate depends on the business classification. Classifications include distribution of water (5.029 percent), generation/distribution of electrical power (3.873 percent), telegraph, distribution of natural gas, and collection of sewerage (3.852 percent), urban transportation and watercraft vessels (0.642 percent), hauling of logs (1.3696 percent), and railroads and motor transportation (1.926 percent).

Neither the PUT nor the B&O tax permits deductions for the costs of doing business, such as payments for raw materials and wages of employees. A number of exemptions, credits, deductions, and other preferences have been enacted for specific types of business activities under the PUT and the B&O tax statutes. For example, B&O taxpayers with annual taxable service activity under $46,667 and PUT taxpayers with annual taxable activity under $24,000 do not have to file tax returns. Businesses that pay the PUT are exempt from the B&O tax on the same activity.

The B&O tax provides a deduction of government payments made to nonprofit businesses that provide health care services and therapeutic, diagnostic, rehabilitative, or restorative services for the care of the sick, aged, physically disabled, developmentally disabled, or emotionally disabled individuals. The PUT does not have a similar exemption.

Community residential service businesses provide habilitation, instruction, and support to persons with developmental disabilities (DD) who live in their own homes. The DD community residential services includes Supported Living, State Operated Living Alternative (SOLA), and DD Group Homes. One-to-one support provided to clients may vary from a few hours per month up to 24 hours per day. Clients pay for their own rent, food, and other personal expenses.

Developmental disabilities community residential providers are paid a client specific rate that includes administrative costs, transportation, direct care costs, and professional services. The direct care staff component of individual client rates are based on a benchmark rate. Data used to arrive at the determination of the benchmarks included average wage, cost of living and labor statistics that identified county or regional variations. In 1999 benchmark rates were segregated into three categories to reflect provider input on the differential cost of administration, operations, and direct care staff wages. The three service categories are Metropolitan Statistical Area (MSA), Non-MSA, and King. A MSA must include:

- one city with 50,000 or more inhabitants; or
- a Census Bureau-defined urbanized area (of at least 50,000 inhabitants) and a total metropolitan population of at least 100,000.

King County is recognized as having unique characteristics relative to other MSA counties.

Summary of Substitute Bill:

Community residential service businesses are added to the PUT at a rate of 5.029 percent.

Of the revenue from the tax on community residential services, 80.5 percent is deposited into the new Community Residential Investment Account. Money in this account may be used to increase rates paid to community residential service businesses over amounts provided in the operating budget adopted in 2009 and to increase compensation to staff providing habilitative instruction and support services.

The differential between the benchmark rate paid to Snohomish County, which is a MSA, and to King County, must remain the same as established in 2010.

Substitute Bill Compared to Original Bill:

A reference to the home and community based investment account is removed. The bill did not create this account.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed, except for sections 2 and 4, which, because of prior amendments, take effect on June 30, 2013.

Staff Summary of Public Testimony:

(In support) This will bring in additional funds by drawing in federal matching funds. The proposal will keep the General Fund whole by allowing 19.5 percent PUT revenue to be used to replace lost revenue from providers that will no longer be subject to the B&O tax. The revenue will stabilize community services for DD clients. Staff that serve clients with DD in supported living homes are underpaid for what they do. Most employees have to work two jobs to survive. On average the state's turnover is 38 percent for staff that work in residential settings and serve clients with DD. High turnover effects individual clients in a negative way by causing clients additional stress which causes negative behaviors. It also interrupts the continuity of care. Clients with DD deserve the stability that this additional revenue can provide by facilitating quality staffing and lower turnover rates. There is a consensus among all providers that this is an acceptable and reasonable revenue stream. We ask that this revenue be used in a way that will allow the gap in the benchmark rate to narrow between Snohomish County and King County.

(Opposed) None.

Persons Testifying: Sue Closser and Mark Gjurasic, Sunrise Services; Janet Michaelsen, Snohomish County Coalition of Support Living Providers; Scott Livengood, Chad Higman, and Robbin Naylor, Community Residential Services Association; and Kelly Bardwell and Mike Janetos, Ambitions.

Persons Signed In To Testify But Not Testifying: None.