
Appropriations Committee

SSB 5443

Brief Description: Concerning fiscal notes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Brown, Darnelle, Miloscia, Becker, Rivers, McCoy, Sheldon, Walsh, Chase, Bailey, Hobbs, Ericksen, Warnick, Angel, Honeyford, Rolfes, Padden, Billig, Zeiger, Wilson, Conway, Fain, Keiser, Hunt and Kuderer).

Brief Summary of Substitute Bill

- Establishes dynamic fiscal impact statements as part of the fiscal note process, subject to specified conditions, including submission of a request 60 days in advance of the legislative session.
- Authorizes requests for dynamic fiscal impact statements to account for behavioral changes and consequent fiscal impacts when the legislation has an annual revenue impact more than positive or negative \$10 million a year.
- Directs fiscal notes, subject to specified conditions, to include an estimate of the fiscal impact of expenditure reductions or increases on other state or local program expenditures and return on investment information.
- Limits that additional information to legislation dealing with corrections, child welfare, and mental health issues and where the projected impact to state expenditures is more than positive or negative \$5 million.
- Establishes a work group to explore creating a new nonpartisan fiscal agency and to consider whether existing named entities or a new entity should subsume those responsibilities.
- Directs the work group to study the accuracy and reliability of fiscal notes by examining a sample of fiscal notes on enacted legislation.
- Conditions certain requirements on specified amounts being appropriated for certain purposes.

Hearing Date: 3/15/17

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.

Staff: Dave Johnson (786-7154).

Background:

Fiscal Notes.

A fiscal note is a statement estimating the expenditure and revenue impact of proposed legislation. A fiscal note estimates the impact for the current fiscal biennium and for the following two biennia. In addition, a 10-year revenue projection is required for legislation that increases taxes or fees. Fiscal note estimates include impacts to both state and local government. The fiscal note process is supervised and coordinated by the Office of Financial Management (OFM) and estimates are typically prepared by potentially impacted state agencies. Local government impacts are estimated by the Department of Commerce (on behalf of local governments), the Superintendent of Public Instruction (on behalf of local school districts), and the Administrator for the Courts (on behalf of local courts).

Individual fiscal notes are prepared by the executive branch, typically upon request from the Legislature. The OFM then assigns each fiscal note request to one or more state agencies thought to be potentially impacted. In preparing fiscal notes, agencies measure the direct impact of the legislation on their agency and typically do not include potential secondary and tertiary impacts. Revenue estimates typically incorporate assumptions about elasticity. Under instructions issued by the OFM, fiscal notes are due to the Legislature five business days after the fiscal note request is made to the OFM.

According to the OFM, there were 2,266 requests (6,121 agency assignments) made during the 2015 legislative session and 1,450 fiscal note requests (4,154 agency assignments) made during the 2016 legislative session.

Although fiscal notes provide estimated impacts to the Legislature, the Legislature ultimately decides agency funding levels through the budget process.

Fiscal Analysis on Behalf of the Legislature.

The House of Representatives (Office of Program Research) and the Senate (Senate Committee Services) each employ nonpartisan fiscal staff. Those staff analyze state agency fiscal matters and various budget proposals (including those made by the Governor, state agencies, and others). At the request of members, staff prepare budget alternatives as well as various budget documents reflecting decisions of members. Staff also prepare bill analyses, bill reports, draft amendments, and present bills in committee. Finally, staff also answer fiscal questions from members, review outcome evaluations and performance audits, and perform requested ad hoc fiscal analyses.

The Legislative Evaluation and Accountability Program (LEAP) is a legislative agency and committee providing fiscal analysis support to the Legislature. The LEAP committee consists of legislators from each of the two largest caucuses of the House of Representatives and Senate.

Responsibilities of the LEAP include maintaining legislative budgeting and reporting systems used by nonpartisan fiscal staff, maintaining certain historical financial information, and providing legislative access to current financial data. The LEAP also administers the fiscal.wa.gov website, which provides the public with information about budget proposals as

well as information and reports on expenditures, staffing, salaries, personal services contracts, capital projects, transportation projects, revenues, and payments to vendors.

The Washington State Institute for Public Policy (WSIPP) is a nonpartisan entity administratively housed within The Evergreen State College and governed by a board of directors including legislators, legislative staff, and others (including representatives from the executive branch including higher education). The WSIPP conducts nonpartisan research at the direction of the Legislature or its board. One area of specialization is calculating the benefit-cost ratio of various policy approaches in the areas of juvenile justice, adult criminal justice, child welfare, early learning, K-12 education, children's mental health, health care, substance abuse, adult mental health, public health and prevention, and workforce development.

The Economic Revenue Forecast Council (ERFC) consists of two gubernatorial appointees, four legislative appointees, and the State Treasurer. The ERFC is responsible for adopting periodic revenue forecasts and budget outlooks.

The Caseload Forecast Council (CFC) consists of two gubernatorial appointees and four legislative appointees. The CFC is responsible for adopting periodic caseload forecasts for programs listed in statute. Examples of forecasts prepared by the CFC include, but are not limited to K-12 education, prison population, long-term care, foster care, and medical assistance.

The Office of Financial Management (OFM) serves as the Governor's budget office and is also responsible for statewide administrative, accounting, and human resource policy functions.

The State Treasurer is a statewide elected official. The Office of the State Treasurer has numerous responsibilities including cash management, debt issuance, and debt management.

The executive branch also provides other fiscal information to the Legislature. Examples include fiscal notes (discussed above), agency budget requests, the Governor's budget proposal, and program and financial information on individual agency operations.

Summary of Bill:

Dynamic Fiscal Impact Statements.

When certain conditions are met, a dynamic fiscal impact statement must be included in the narrative section of certain fiscal notes. Dynamic impact estimates are not included in the fiscal impact calculation shown on the first page of a fiscal note.

A dynamic fiscal impact statement takes into account behavioral changes of persons directly impacted by the legislation or proposed legislation and the effect that those behavioral changes may have on the economy as a whole. Dynamic impact estimates may take into consideration factors such as the effects of the legislation or proposed legislation on persons to save, spend, invest, and expand or reduce their business activities in this state.

A dynamic fiscal impact statement is prepared when the request is made by a member of the Senate Ways and Means Committee, House of Representatives Ways and Means Committee, or successor committees; the request is made at least 60 days prior to beginning of legislative

session; and the fiscal note it would be a part of either reflects a positive or negative revenue impact of greater than \$10 million per fiscal year.

Provisions dealing with dynamic fiscal estimates and statements expire July 1, 2022.

Additional Expenditure Information.

When certain conditions are met, fiscal notes dealing with corrections, child welfare, and mental health issues must include, in addition to the increases or decreases of state government revenue and expenditures, an estimate of the fiscal impact of expenditure reductions or increases on other state or local program expenditures as well as any return on investment as a result of the legislation.

This information is included only when: a request has been made by a member of a legislative fiscal committee, and the legislation is projected to result in an increase or decrease in state expenditures of more than \$5 million.

Provisions dealing with the additional expenditure information begin only after specific amounts have been appropriated for this purpose and expire July 1, 2022.

Work Group.

Subject to the availability of specifically appropriated amounts, a work group is created.

The work group must:

- explore the establishment of a nonpartisan agency to conduct objective, impartial fiscal analysis on behalf of the Legislature;
- consider whether the WSIPP, the LEAP Committee, or a new nonpartisan agency should subsume the functions of impartial fiscal analysis on behalf of the Legislature; and
- conduct a study of the accuracy and reliability of fiscal notes by examining a sample of fiscal notes on enacted legislation.

The work group is convened by the Director of the Governor's Office of Financial Management and the Director of the WSIPP, who serve as co-chairs. Other members include, at a minimum: four legislators (one from each of the two largest caucuses in the House of Representatives and one from each of the two largest caucuses in the Senate) and four individuals each appointed to represent an entity (Office of the State Treasurer, LEAP, ERFC, and CFC). Staff support for the work group must be provided by the WSIPP.

The first meeting of the work group must occur no later than August 1, 2017. The work group must report its findings and recommendations to the Governor and the appropriate committees of the Legislature no later than December 1, 2018.

Provisions dealing with the work group expire July 1, 2019.

Appropriation: None.

Fiscal Note: Available.

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