
Appropriations Committee

HB 2830

Brief Description: Addressing fiscal notes and fiscal impact statements.

Sponsors: Representative Chandler.

Brief Summary of 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.
- Directs requested dynamic fiscal impact statements to account for behavioral changes and consequent changes to revenue resulting from legislation that has an annual revenue impact more than positive or negative \$10 million.
- Requires any requested fiscal note dealing with corrections, child welfare, or mental health to include the estimated impact of any expenditure reductions or increases on other state or local program expenditures and to identify any return on investment.
- Establishes a work group to explore the establishment of a nonpartisan agency to conduct fiscal analysis on behalf of the Legislature.
- Directs the work group to identify whether the Washington State Institute for Public Policy (WSIPP) should become the nonpartisan fiscal agency, conduct a fiscal note study, and identify whether certain functions should be performed by this agency.

Hearing Date: 2/3/16

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

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.

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 1,347 fiscal note requests (3,631 agency assignments) made during the 2014 legislative session and 2,266 requests (6,121 agency assignments) made during the 2015 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 the 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, 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 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 WSIPP typically conducts a literature review seeking high-quality studies identifying the impact of certain policy approaches. When directed to do so, typically by the Legislature, the WSIPP also conducts outcome evaluations. High-quality studies are not available for all policy approaches. When one or more studies has been judged to be sufficiently rigorous, the WSIPP then calculates the cost to Washington State taxpayers to produce that result and calculates any monetary benefits. Monetary benefits include not only impacts to taxpayers (at all levels) but also include impacts to participants and others such as crime victims. Both costs and monetary benefits may be spread over multiple years. From these two numbers, a benefit-cost ratio is then calculated.

The Economic Revenue Forecast Council (ERFC) consists of two gubernatorial appointees, four legislative appointees, and the State Treasurer. At least three times a year, the ERFC must adopt a four-year budget outlook. A statutory work group prepares the estimates used in the outlook. Members of that work group include one staff from each of the following entities: OFM, LEAP, Office of the State Treasurer (OST), ERFC, Caseload Forecast Council (CFC), Senate Ways and Means Committee, and House Appropriations Committee.

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 Statement.

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 House or Senate Ways and Means (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 reflects a positive or negative revenue impact of greater than \$10 million per fiscal year. A dynamic fiscal impact statement is not included in a fiscal note if the OFM determines that a substantive amendment made to the bill would likely impact a previously included dynamic impact estimate. In addition, dynamic fiscal impact statements are excluded from a fiscal note whenever the dynamic fiscal impact estimate would reduce the existing General Fund ending balance to less than 1 percent of current biennial appropriations.

By July 1, 2017, the OFM, in consultation with the ERFC, must establish the process and methodology for dynamic fiscal estimates and dynamic fiscal impact statements. Provisions dealing with dynamic fiscal estimates and statements expire June 30, 2023.

Fiscal Notes Dealing With Corrections, Child Welfare or Mental Health.

No later than January 1, 2018, fiscal notes dealing with corrections, child welfare, and mental health issues must also include 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 resulting from the proposed legislation.

The OFM and the WSIPP, in consultation with university-based research institutions, must work together to implement these changes.

Provisions dealing with corrections, child welfare, and mental health fiscal notes expire June 30, 2023.

Work Group.

A work group is created to explore the establishment of a nonpartisan agency to conduct objective, impartial fiscal analysis on behalf of the Legislature. The work group is convened by the Director of the OFM 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 agency (LEAP, CFC, ERFC and OST).

The work group must:

1. consider whether the WSIPP should subsume the functions of impartial fiscal analysis on behalf of the Legislature;
2. determine whether any existing agencies or functions can be transferred to or subsumed in the new nonpartisan agency;
3. conduct a study on the reliability and accuracy of fiscal notes; and
4. review whether the nonpartisan agency should perform certain functions.

Functions to be reviewed for inclusion in the new agency are:

1. analyzing the Governor's proposed budgets;
2. providing the Legislature with long-term budget projections;
3. providing cost estimates on proposed and introduced legislation;
4. providing a monthly analysis of state spending and revenue totals; and
5. providing frequent tabulations of legislative action affecting spending and revenues and whether this action is consistent with the spending and revenue levels set in the enacted budgets.

The first meeting of the work group must occur no later than August 1, 2016. The work group must report its findings and recommendations to the Governor and the appropriate committees of the Legislature no later than December 1, 2017.

Provisions dealing with the work group expire June 30, 2018.

Appropriation: None.

Fiscal Note: Available.

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