
Appropriations Committee

HB 1960

Brief Description: Addressing fiscal notes.

Sponsors: Representatives Chandler, Manweller, Wilcox and Stokesbary.

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 fiscal impacts only when the legislation has an annual revenue impact more than positive or negative \$10 million or when the legislation is a broad-based business or labor regulation reasonably likely to exceed \$10 million per year in impact on business.
- Establishes a work group to explore ways to improve and expand nonpartisan fiscal and program information available to the Legislature.
- Directs the work group to analyze whether the state should create a new nonpartisan fiscal agency, study fiscal notes, inventory fiscal information currently made available to the public, and inventory the use of dynamic spending and revenue estimates in other states.

Hearing Date: 2/16/17

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 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, 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 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 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.

California Legislative Analyst's Office (LAO)

In California, responsibilities of the LAO include:

1. analyzing the Governor's budget request and making recommendations in certain instances;
2. forecasting state revenues and expenditures;
3. estimating the fiscal estimate of ballot initiatives prior to circulation and preparing an analysis of all initiatives qualifying for the ballot; and
4. preparing various other studies, handouts and reports.

The LAO employs 43 analysts and 13 support staff and is overseen by the Joint Budget Committee.

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 Senate Ways and Means, House of Representatives Appropriations, House of Representatives Finance (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 or the legislation is a broad-based business or labor regulation reasonably likely to exceed \$10 million per year in impact on business.

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.

By July 1, 2018, 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.

Work Group.

A work group is created to explore ways to improve and expand nonpartisan fiscal and program information available to the Legislature. The work group is convened by the Director of the House of Representatives Office of Program Research and the Director of Senate Committee Services, 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 three individuals each appointed to represent an agency (LEAP, WSIPP, and OFM).

The work group must recommend methods to:

1. improve the accuracy and timeliness of cost and revenue estimates for proposed legislation;
2. improve the long-term budget projections for proposed and enacted budgets;
3. improve and expand the regular reporting and analysis of state spending and revenue totals; and
4. to the extent practicable, include dynamic fiscal estimates in both revenue and expenditure estimates.

The work group must also:

1. analyze whether a new nonpartisan legislative fiscal agency should be created including examination of models used in other states including the California Legislative Analyst's Office;
2. conduct a study of the accuracy and reliability of fiscal notes by examining a sample of fiscal notes on enacted legislation;
3. inventory nonpartisan program and fiscal information made available to the public by the legislative branch including information posted at fiscal.wa.gov, the web site for the LEAP, web sites for the House of Representatives and Senate, the web site of the Joint Legislative Audit and Review Committee, and the web site for the WSIPP; and
4. inventory the use of dynamic spending and revenue estimates in other states, including their use in fiscal notes.

If the work group recommends the establishment of a new legislative agency, it must identify the responsibilities of the new nonpartisan legislative fiscal agency and whether any existing functions or entities should be transferred to or subsumed in the new entity.

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 December 31, 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.