

HOUSE BILL REPORT

HB 2377

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

Title: An act relating to funding health care and the working families' tax rebate with a voter-approved temporary sales tax increase.

Brief Description: Funding health care and the working families' tax rebate with a voter-approved temporary sales tax increase.

Sponsors: Representatives Pettigrew, Dickerson, Darneille, Williams and Hunt.

Brief History:

Committee Activity:

Health & Human Services Appropriations: 4/17/09, 4/21/09 [DPS].

Brief Summary of Substitute Bill

- Increases the sales and use taxes by 0.3 percent from January 1, 2010, through December 31, 2012.
- Establishes and makes appropriations from the Health Care Trust Account to fund the Basic Health Plan, public health services, health care, mental health care, hospitals, and long-term care nursing homes.
- Makes appropriations to fund the Working Families' Tax Rebate program.
- Refers the sales and use tax provisions to voters.

HOUSE COMMITTEE ON HEALTH & HUMAN SERVICES APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Pettigrew, Chair; Seaquist, Vice Chair; Appleton, Cody, Dickerson, O'Brien, Roberts and Wood.

Minority Report: Do not pass. Signed by 7 members: Representatives Schmick, Ranking Minority Member; Alexander, Assistant Ranking Minority Member; Ericksen, Johnson, Miloscia, Morrell and Walsh.

Staff: Chris Blake (786-7392)

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.

Background:

Sales and Use Tax.

The sales and use tax is imposed on the retail sales of most items of tangible personal property and some services. The use tax is imposed on the privilege of using tangible personal property or services in instances where the sales tax does not apply. Sales and use taxes are levied by the state and local governments. Total rates range from 7 percent to 9.5 percent. Changes to the rates may not be imposed sooner than 75 days before the change is enacted into law and only on the first of January, April, July, or October. Sales taxes are collected by the seller from the buyer at the time of sale. Use tax is remitted directly to the Department of Revenue (DOR). State sales and use tax revenues are deposited in the state General Fund.

Working Families' Tax Exemption.

In the 2008 session, the Working Families' Tax Exemption (WFTE) was created. The WFTE functions as a remittance to individuals who have paid the Washington sales and use taxes, resided in Washington for more than 180 days, filed a federal income tax return as a Washington resident, received a federal Earned Income Tax Credit (EITC), and applied to the Department of Revenue. Remittances applied for in 2010 equal the greater of \$25 or 5 percent of the person's EITC. In 2011 the amounts rise to the greater of \$50 or 10 percent of the person's EITC. The WFTE does not begin until it is approved in the state's Omnibus Appropriations Act. This has not yet occurred.

Health Services.

The state purchases health care for individuals through numerous programs with public and private entities. The Department of Social and Health Services contracts with health care providers and facilities to provide health-related services to eligible individuals. These services include acute care services, long-term care services, and mental health services. The Health Care Authority administers the Basic Health Plan which provides subsidized health care to low-income individuals. Local health jurisdictions receive state funds from both the Department of Health and the Department of Community, Trade and Economic Development to conduct public health activities locally.

Summary of Substitute Bill:

Sales and Use Tax Increases.

Beginning January 1, 2010, the retail sales tax is temporarily increased by 0.3 percent. Of the additional revenue collected, 13.2 percent shall be deposited into the State General Fund in fiscal years 2010 and 2011 and 22 percent in fiscal year 2012 to fund the Working Families' Tax Rebate (as the Working Families' Tax Exemption was renamed in the bill). The remaining funds shall be deposited in the Health Care Trust Account. The use tax is increased by the same amount and is to be distributed in the same proportions.

The increases in both the sales tax and the use tax are discontinued as of January 1, 2013. The expiration date for the sales tax may not be repealed or extended unless there is a two-thirds vote of both houses of the Legislature or a vote of the people. The prohibition on a

sales and use tax being imposed sooner than 75 days after its enactment and only on the first of January, April, August, or October does not apply to the temporary sales tax increase.

Health Care Trust Account.

The Health Care Trust Account (HCTA) is created. The HCTA is an appropriated account to be funded through a temporary increase in the retail sales and use taxes. The Legislature may appropriate money from the HCTA to fund the Basic Health Plan, public health services, health care, mental health care, hospitals, and long-term care nursing homes. The HCTA expires on January 1, 2013.

Activities Funded by the Sales and Use Tax Increases.

In calendar year 2011, the remittance under the Working Families' Tax Rebate is reduced to the calendar year 2010 level of the greater of \$25 or 5 percent of the applicant's Earned Income Tax Credit. The application date for the Working Families' Tax Rebate is delayed until July 1, 2010.

Appropriations are made to fund several activities:

- \$68.5 million for fiscal years 2010 and 2011 are appropriated from the State General Fund to the Department of Revenue to administer the Working Families' Tax Rebate from July 2010 through December 2011.
- \$187,352,000 is appropriated from the HCTA to the Health Care Authority to increase enrollment in the Basic Health Plan.
- \$77,250,000 is appropriated from the HCTA to the Aging and Disability Services Administration at the Department of Social and Health Services for long-term care, including in-home care, adult day health care, adult family homes, boarding homes, and nursing homes.
- \$75,000,000 is appropriated from the HCTA to the Medical Assistance program at the Department of Social and Health Services for hospital payments.
- \$13,350,000 is appropriated from the HCTA to the Medical Assistance program at the Department of Social and Health Services for reimbursing health care providers who provide care to children.
- \$19,200,000 is appropriated from the HCTA to the Medical Assistance program at the Department of Social and Health Services to provide health care through managed care systems.
- \$5,400,000 is appropriated from the HCTA to the Medical Assistance program at the Department of Social and Health Services to provide vision and hearing screening services.
- \$28,214,000 is appropriated from the HCTA to the Mental Health Division at the Department of Social and Health Services for providing community mental health services and critical services at state hospitals.
- \$10,100,000 is appropriated from the HCTA to the Department of Health to distribute to local health jurisdictions to spend on core public health functions.

Referendum

The sales and use tax portions of the bill are to be referred to the voters at the next general election. If the sales and use tax increases are not approved, then the entire bill, including the appropriations, is null and void.

Substitute Bill Compared to Original Bill:

The substitute bill renames the Working Families' Tax Exemption, the "Working Families' Tax Rebate" and changes such references in the bill. The remittance under the Working Families' Tax Rebate is reduced for 2011 to the 2010 level (the greater of \$25 or 5 percent of the Earned Income Tax Credit (EITC) instead of \$50 or 10 percent of the EITC). The percentage of revenue to be sent to the State General Fund for the Working Families' Tax Rebate is adjusted to account for the reduction in remittance levels. The applications acceptance date for the Working Families' Tax Rebate is delayed until July 1, 2010, and the appropriation is shifted to the next fiscal year. The appropriation for the Working Families' Tax Rebate for fiscal year 2011 is reduced from \$73 million to \$68.5 million. The state rebate must be based on the federal EITC granted for the prior calendar year, not the EITC granted two years prior.

The appropriation for the Basic Health Plan is increased by \$20 million. The appropriation for the Mental Health Division is increased by \$4 million and it is authorized to be used for critical services at state hospitals. The appropriation for the Department of Health is increased by \$7.1 million and the funds may be used for tobacco prevention programs as well as local health jurisdictions. An appropriation of \$5.4 million is provided for the Medical Assistance program for vision and hearing services. The use of the appropriation for the Aging and Disability Services Administration is broadened to include adult family homes and boarding homes.

Conforming technical changes are made.

Appropriation: Appropriations are made to fund several activities:

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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 sections 1 - 7, relating to the sales and use taxes, which take effect upon the approval of the voters by December 15, 2009. If the sales and use tax increases are not approved, then the entire bill, including the appropriations is null and void.

Staff Summary of Public Testimony:

(In support) Writing the state budget has been a difficult process, with many different tactics used to make ends meet. These include requiring more efficiency in delivering services while maintaining quality service. In many cases, cuts to direct services had to be made beyond everyone's comfort levels. This bill is offered as an idea for the people to consider when they see the impact of the cuts and the elimination of some services. This is an unprecedented situation, and, although a new tax is not the ideal solution, the choice should be given to the voters to provide additional revenues to restore these programs.

The tax rebate for low-income families is a smart option. It helps with tax fairness during a time we need a temporary increase in revenues. This will restore the services otherwise lost with the budget cuts, but give a significant tax break to low and modest income families. The public can decide whether to support vital priorities, which will be a nominal cost for most. The tax rebate program can build on the federal Earned Income Tax Credit, which is a proven, effective program that has been supported since President Reagan. This state needs to reduce its regressive tax system. But this is a difficult time, and requires a change in the historic stance against regressive taxes when the tax is temporary and mitigated by the tax rebate provision. The budget deficit is at least partly the fault of the state's tax system.

The "all cuts" approach to the state budget is only one option, and it is the option that will deny access to health care to many and tear apart the safety net. Persons needing mental health and drug addiction services will end up with more expensive outcomes, such as jails or emergency rooms. There will be no prevention or cost avoidance through long-term care services. The voters should have the chance to choose something besides an "all cuts" option.

The health care industry is being required to cut jobs like other sectors, which results in cuts to services for the neediest. Many of these are frail elderly and disabled who, with some assistance, can still be in the community. Cuts to their hours of care will be hard on both the client and the caregiver. Without these services, taxpayers will see even higher costs in the future. Preventive care for expectant mothers and children is much cheaper because it reduces costs to the taxpayer in the long run to ward off childhood illnesses, for example.

The state also needs to address the cuts to dental and vision care and, the prescription drug program for those on state medical assistance. Restoring these services is a smart investment because of federal match money that is available that can act as an economic shot in the arm.

Other programs, like adult day health, will affect the health of many persons with disabilities who depend on these programs to prevent deterioration of their health. Cuts in reimbursement rates for pediatric services should be restored to at least the level of cuts proposed by the Governor's budget. Community mental health and community health clinics serve a great need by serving the uninsured and offering equal access to health care as a less expensive alternative. They serve a public safety role that could be lost. The budget cuts will result in individual health consequences, consequences to the services provided by the centers, and consequences to the uninsured and the health care system.

Hospitals have experience that already shows the effect of a perverse system. Hospitals must pass on the cost of unpaid care to those with insurance, which results in charges of \$1.30 for each \$1 of care. And now about 10 percent of employers have dropped health care coverage for their employees, so that there is little place left to shift the costs of unpaid care. Many hospitals are losing money each month and have very overburdened emergency rooms. Mental health patients are not getting served. Even with approval of this tax package, there will still be a cut to hospital services.

(Neutral) Funding for public health has not been sufficient and cuts have been taken in earlier budgets. Providing public health is a basic governmental function that needs a sustainable funding source. Local governments are faced with making severe cuts to public health programs. The public is not aware of the risk, because public health has continued to do its job of making water clean and preventing the spread of diseases.

(Concerns) The state must find an alternative with the least impact on the poor. This proposal is the lesser of the evils facing the state, and shows that we need a long-term, sustainable solution, including closing tax loopholes on the rich.

(Opposed) This proposal increases the lack of fairness of the existing tax system. It imposes a burden on the middle class and the poor and basically charges them twice by cutting benefits they receive and increasing their taxes. The tax burden imposed on the middle class protects the wealthy. This proposal does not raise enough revenue. More revenue could be raised by closing tax loopholes.

This proposal is a ploy to get the public to support a tax increase. The state budget funds nonessential services and holds essential services hostage to support a tax increase. Though the taxes are temporary, taxes don't remain temporary once they are in place. The tax revenue is dedicated but other dedicated tax revenue has been used for other purposes.

Raising sales taxes hurts the people that the programs to be funded are designed to help. Budget decisions that have been made should be revisited and priorities set within the context of the existing budget circumstance. Now is not the time to create new programs that require funding. This is a long-term problem that will still be here in two years. Everybody in this economy is hurting. Do not raise taxes.

The experience with the federal Earned Income Tax Credit program is that it is ineffective and non-performing. The state should not build on this program while cutting funding for technical assistance to businesses that pay the taxes.

Persons Testifying: (In support) Representative Pettigrew, prime sponsor; Remy Trupin; Leo Greenwalt, Washington State Hospital Association; Diane Sosne, Konnie Campagna, David Wilder, Adrian Dorsey, and Sarah White, SEIU 1199 NW; Jessica Field, Marianne Brown, and Glenda Faatoafe, SEIU 775 NW; Laura Lane, SEIU; Nora Gibson, and Patty Dahlman, Elderhealth Northwest; Alice Woldt, Washington Association of Churches; Sofia Aragon, Washington State Nurses Association; Jerry Reilly, Eldercare Alliance; Ann Christian, Washington Community Mental Health Council; John Masterson, Washington Community Mental Health Council; Lonnie Johns-Brown, Washington State League of Woman Voters; Tom Trompeter, Health Point Community Health Center; Joe King, Group Health Cooperative; Laurie Lippold, Washington Chapter American Academy of Pediatrics; Yuh-Line Niou, Statewide Poverty Action Network; Hugh Ewart, Seattle Children's Hospital; Nick Federici, Washington United for Quality Nursing Home Care; and Tony Lee, Solid Ground.

(Neutral) Susie Tracy, Public Health Roundtable.

(With concerns) Bev Spears, Washington State Consumer Action Network.

(Opposed) David Spring; Tim Eyman; Amber Carter, Association of Washington State Chamber of Commerce; and Ken Morse.

Persons Signed In To Testify But Not Testifying: None.