

Update: Operating Budget, Revenue Legislation, and Capital Budget

Senate Ways & Means Committee
2019 Committee Days

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Ways & Means Committee

Operating Budget

Operating Budget:

A reminder...some updates...and a few takeaways

1. What were the projected balances in the 2019-21 Biennial Budget?

Answer: \$0.1 B (ending balance); \$3.0 B (rainy day fund)

2. How have balances changed after revenue updates, vetoes, FY19 close, etc.?

Answer: Up. \$1.3 B (ending balance) ; \$2.8 B (rainy day fund)

3. Does it look like maintenance level will be up, or down, in the 2020 Supp?

Answer: Up. Drivers = caseload/utilization (K12, HCA, DOC, DCYF), WDFW, etc.

4. Does the Gov's Preliminary ML utilize much of the updated project balance?

Answer: Yes. Preliminary ML = roughly \$0.9 B.

5. Are there emergent issues, or updated information, since the 2019 Session?

Answer: Yes. RHCs, Higher Ed, WDFW, Pensions, Wildfires, IT projects, etc.

6. Are there other potential policy choices for the 2020 Session?

Answer: Yes. Vendor rates, homelessness, school safety, custody relief, etc.

Operating Budget: 2019 Session Recap

Issues with a relatively large fiscal impact...

Low Income Healthcare

- Managed Care Rates
- Savings Restorations
- All Payer Claims Database
- Program Integrity
- Hospital Safety Net Assessment

Long Term Care & DD

- Vendor Rate Increases
- **RHC Medicaid Compliance**
- SOLA Placements
- Community Respite
- Electronic Visit Verification
- Nursing Home Discharge

Mental Health

- Trueblood Settlement
- State Hospital Operations
- State Hospital Safety Measures
- Long Term Inpatient Beds
- Enhanced Discharge Placements
- Expanded Community Services

Children Youth & Families

- Behavioral Rehabilitation Services
- Child Welfare Legal Services
- Families First Prevention Services
- Child Care Rate Increases
- ECEAP
- Early Achievers

K12

- School Employee Health Care
- Special Education
- Local Effort Assistance
- Para-Educator Training
- Career & Technical Education
- Institutional Education
- Student Safety & Well-Being

Higher Education

- **WA College Grant**
- **Foundational Support**
- **CTC Faculty Salaries**
- **Guided Pathways at the CTCs**
- WSU Medical School
- High Demand Program Capacity
- UW Hospital & Dentistry Support

Corrections & Criminal Justice

- Custody Staff
- Work Release
- Capacity & Programming
- Health Care
- Sexual Assault Kits
- Toxicology Lab
- Basic Law Enforcement Academy

Other Human Services

- Homelessness & Housing
- Veterans Home Revenue
- Public Health Initiatives
- Workers' Compensation System
- Crime Victims Compensation

Natural Resources

- Wildfires & Forest Health
- Disaster Response
- **Fish & Wildlife Operations**
- Toxics & Plastics Cleanup
- Orca Whale Protection
- State Parks Operations

Judicial

- Trial Court Language Access
- Public Defense Attorney Salaries
- Civil Legal Aid Attorney Salaries
- Civil Justice Reinvestment Plan

Other

- IT projects in multiple agencies
- Debt service
- Self Insurance Premiums
- 2020 Census
- Collective Bargaining Agreements

Operating Budget: 2020 Session Preview

Potential policy issues include...

Low Income Healthcare

- Medicaid Transformation Waiver
- Savings Restoration
- Disproportionate Share Hospital (DSH)

Long Term Care & DD

- Consumer Directed Employer
- **RHC Medicaid Compliance**
- Nursing Home Vendor Rates

Mental Health

- State Hospital Operations
- Trueblood Settlement
- Trueblood Fines
- Enhanced Discharge Placements

Children Youth & Families

- Parent Child Visitation
- Provider Professional Development
- Caseload Ratios
- Federal Funding Adjustments

K12

- Student Transportation
- Special Education
- School Safety & Well Being
- Paraeducator Prof. Development
- Staffing Enrichment
- School Nursing Services

Higher Education

- **Workforce Education Investment**
- Maintenance & Operation Costs
- WWU on the Peninsulas

Corrections & Criminal Justice

- Custody Relief
- Nursing Relief
- Health Care
- Tolling Centralization
- Contraband Management
- Juvenile Rehab Initiatives

Other Human Services

- Homelessness & Housing
- Food, Cash & Medical Assistance
- Public Health Initiatives

Natural Resources

- Maintenance of State Parks
- **Fish & Wildlife Operations**
- Emergency Fire Suppression

Judicial

- TBD

Other

- IT projects in multiple agencies
- Compensation adjustments
- **Transportation funding**

Revenue Legislation

In 2019, the legislature passed 25 bills modifying state revenues for the operating and capital budgets

(\$ in millions)

1	2	3	5	6	7	8	9	10	11
Legislation Increasing State Revenues		Account	FY 2020	FY 2021	2019-21	FY 2022	FY 2023	2021-23	4-Year
★	HB 2158 Higher Education Funding	WFEl-S	113.1	266.9	380.0	192.2	200.9	393.1	773.1
★	SB 5998 Graduated REET	GF-S/ELTA-S	70.3	173.2	243.5	175.9	178.9	354.8	598.3
★	SB 5993 Model Toxics Control Reform Act	MTCA ACCTS	72.3	100.2	172.5	100.1	101.8	201.9	374.4
★	HB 2167 Specified Financial Institutions	GF-S	36.6	96.6	133.2	100.7	104.9	205.6	338.8
★	SB 5581 Wayfair	GF-S	41.7	74.2	115.9	88.3	103.3	191.6	307.5
	SB 6016 International Investment Management	GF-S	27.7	31.7	59.4	32.2	33.9	66.1	125.5
★	SB 5997 Eliminating or Narrowing Tax Preferences	GF-S	25.4	28.4	53.8	29.1	29.8	58.9	112.8
★	HB 1873 Taxation of Vapor Products	FPHS/AHCR/GF-S	6.5	12.6	19.1	15.8	19.2	35.0	54.1
	SB 6004 Travel Agents & Tour Operators	GF-S	2.2	2.5	4.7	2.6	2.7	5.3	10.0
	HB 1652 Paint Stewardship	GF-S	0.0	0.3	0.3	0.6	0.7	1.3	1.6
	SubTotal		395.7	786.7	1,182.4	737.5	776.1	1,513.7	2,696.1
Legislation Creating Tax Preferences or Sharing State Revenues			FY 2020	FY 2021	2019-21	FY 2022	FY 2023	2021-23	4-Year
★	HB 1406 Affordable Housing Sales Tax	GF-S	-25.0	-26.0	-51.0	-26.0	-27.0	-53.0	-104.0
	HB 1839 Arena Projects	GF-S	-22.9	-17.8	-40.6	-0.2	45.0	44.8	4.2
	SB 5160 Senior Disabled/Veterans Property Tax	GF-S	-6.9	-13.3	-20.2	-13.6	-13.7	-27.3	-47.5
	HB 2168 Hospital Tax Preference	GF-S	-6.8	-7.8	-14.6	-8.1	-8.4	-16.5	-31.1
	SB 5116 Renewable Energy M&E Extension	GF-S	-4.8	-6.0	-10.8	-6.5	-7.1	-13.7	-24.5
	HB 1074 Tobacco & Vapor Products/Age	GF-S	-2.7	-6.2	-8.9	-6.1	-6.0	-12.1	-21.0
	HB 2024 Medicaid Incentive Payments	GF-S	-0.1	-0.1	-0.3	-0.1	-0.1	-0.2	-0.5
	SB 5025 Excise Exemptions for Self Help Housing	GF-S/ELTA-S	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.4
	SB 5183 Manufactured/mobile homes	GF-S	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.4
	HB 1107 Nonprofit Homeownership Development	GF-S	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
	HB 1301 Arenas/Leasehold Excise Tax	GF-S	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
	HB 1001 Service Contract Providers	GF-S	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	SB 5383 Concerning Tiny Homes	GF-S	0.0	0.0	0.1	0.0	0.0	0.1	0.2
	SB 5596 Health Science & Service Authority	GF-S	0.0	0.0	0.0	0.0	-1.1	-1.1	-1.1
	HB 1257 Energy Efficiency	GF-S	0.0	0.0	0.0	0.0	-3.2	-3.2	-3.2
	SubTotal		-69.5	-77.3	-146.8	-60.9	-21.9	-82.8	-229.6

★ More information provided on next slide.

Revenues in rows highlighted in blue deposited primarily in non-NGF-S accounts.

Additional details regarding selected 2019 revenue legislation

Description	Summary	Comments	4-Year (\$ millions)
HB 2158 Higher Education Funding	Establishes a B&O surcharge to fund a number of investments in higher education, including college financial aid and scholarships, salary increases for community college faculty teaching in high-demand areas, a state-sponsored student loan program, as well as several other grant programs.	The revised fiscal note prepared after the legislation was enacted reduced estimated revenues by \$170M over 4 years.	\$773.1
SB 5993 Model Toxics Control Reform Act	Changed the hazardous substance tax (HST) on petroleum products to a volumetric rate of \$1.09 per 42-gallon barrel. Allocates \$50 million per biennium to the motor vehicle fund to be used exclusively for transportation stormwater purposes until transportation revenue increases by at least \$2 billion attributable to an additive transportation funding act.	About 600 taxpayers report HST; however, a small number are subject to the HST based on the sale of petroleum products. Replaced the existing Model Toxics Control Act (MTCA) accounts with operating, capital and stormwater accounts.	\$374.4
SB 5998 Graduated REET	Beginning January 1, 2020, the state REET rate is modified as follows: -1.1 percent if the selling price is equal to or less than \$500,000; -1.28 percent on the portion of the selling price that is greater than \$500,000, but equal to or less than \$1,500,000; -2.75 percent on the portion of the selling price that is greater than \$1,500,000, but equal to or less than \$3,000,000; and -3 percent on the portion of the selling price that is greater than \$3,000,000.	Roughly 43,000 parcels subject to the 3 percent rate with a little over 50% of the parcels used for residential purposes and most of the remaining parcels are commercial.	\$598.3
HB 2167 Specified Financial Institutions	Beginning on January 1, 2020, an additional B&O tax is imposed on specified financial institutions (over \$1 billion in income in prior CY). The additional tax is equal to the taxpayer's gross taxable service and other income multiplied by 1.2 percent.	The bill is estimated to impact about 20 financial institutions. A lawsuit was filed on November 5 challenging the bill's constitutionality.	\$338.8
SB 5581 Wayfair	Modifies the nexus threshold for taxing out-of-state businesses to align state law with the recent U.S. Supreme Court Decision. Limits the import tax exemption to import sales involving a parent company and wholly-owned subsidiary.	On June 21, 2018, the U. S. Supreme Court decided <i>South Dakota v. Wayfair, Inc.</i> , which overturned the longstanding physical presence nexus precedent and upheld a South Dakota law that imposed a sales tax collection obligation on sellers with gross sales over \$100,000 or at least 200 transactions in the state in the current or prior calendar year.	\$307.5
SB 5997 Eliminating or Narrowing Tax Preferences	Changes the existing nonresident sales tax exemption to a refund program for only the state portion (6.5 percent) of the retail sales tax. Creates a deferred finding program for nonpayment of license fees and taxes for vehicle, vessel, and aircraft registration.	Does not apply to boats, automobiles, and farm equipment. FN assumes about 100,000 people will make a refund claim each year.	\$112.8
HB 1873 Taxation of Vapor Products	Establishes a wholesale tax on vapor products by taxing accessible containers of liquid solution that are larger than five milliliters at 9 cents per milliliter of solution and a rate of 27 cents per milliliter of solution on all other vapor products.	On October 9, the State Board of Health passed an emergency rule banning the sale of flavored vapor products for 120 days.	\$54.1
HB 1406 Affordable Housing Sales Tax	Authorizes an additional local sales tax that is credited against the state tax for affordable and supportive housing.	Cities and counties can levy at tax at a rate of either 0.0073 percent or 0.0146 percent, depending on meeting certain conditions. As of November 1, 2019, 8 cities and 5 counties have adopted both the resolution of intent and an ordinance to impose the sales tax credit.	-\$104.0

Potential revenue issues in 2020 relate to several revenue bills enacted in 2019

E2SHB 2158 – Higher Education Funding

- The final fiscal note reduced the revenue estimate by approximately \$170 million over 4 years.
- The creation of 44 separate categories of business activities subject to the B&O surcharge may provide administrative challenges for both taxpayers and the Department of Revenue.

SHB 2167 – B&O Surcharge on Specified Financial Institutions

- A legal challenge was filed in King County Superior Court on November 5 requesting the court to declare the bill invalid on the basis that it violates state and federal constitutional provisions.

E2SHB 1873 – Taxation of Vapor Products

- On September 27, 2019, the Governor, through an executive order issued to address the vapor-product health emergency, ordered the State Board of Health to use its emergency rulemaking authority to impose a ban on all flavored vapor products.

Capital Budget

With bond capacity of \$74M, the 2020 supplemental capital budget will be limited

- Investments in the Residential Habilitation Centers, including Fircrest School
 - \$6.7M in design is requested for this biennium
 - Total project costs are estimated at \$109M
- K-12 Seismic Retrofits
 - New program would be \$25M per year
- Technical Adjustments to the 2019-21 Enacted Budget

2019-21 Enacted Public Works Assistance Account Balance Sheet

Public Works Assistance Account Balance Sheet (\$ in thousands)		2019-21
Beginning Balance		\$34,792
Loan Repayments		\$213,904
Real Estate Excise Tax		\$41,523
Total Resources		\$290,219
Operating /Capital Expenditures and Transfers		
Operating		
Public Works Board Operating		\$8,207
Conservation Commission		\$8,456
Capital		
Reappropriations (includes Aviation Revitalization Loans)		\$16,000
Public Works Board (assumes spend over 2 biennia; 50% burn rate)		\$95,000
		(\$47,500)
CERB Broadband		\$3,450
Transfers		
Transfer to NGFS		\$160,000
DWSRF 20% State Match		\$11,000
Water Pollution Control		\$12,000
Broadband Account		\$21,550
Total Operating/Capital Expenditures and Transfers		\$288,163
Ending Balance		\$2,056

Appendixes

Appendix A: Debt capacity for the 2020 supplemental budget is approximately \$74 million

2019-21 Debt Authorization and Appropriation; includes Alternative Finance Projects
(Dollars in Thousands)

	Debt Limit Bonds	Other Bond Authority
2017-19 Remaining Bond Authority	61,299	
2019-21 Capital Budget		
Bond Authorization		
Tax Exempt Bonds	3,024,292	40,000
State Taxable Building Account	176,634	-
Total Bond Authorization	3,200,926	40,000
Transfers from Bonds	(9,000)	
2019-21 Appropriations		
Tax Exempt Bonds	3,006,577	40,000
State Taxable Building Account	176,634	-
Total 2019-21 Appropriations	3,183,211	40,000
2019-21 Remaining Bond Authority	70,014	
Duplicated Projects	4,208	
Bond Authority for the 2020 Supplemental Capital Budget	74,222	

Appendix B: 2019-21 Capital Budget Major Investments

(Dollars in Millions)

	Bonds	Total
K-12 Construction	922	1,085
Higher Education	602	1,024
Grant Programs	271	271
Water	191	193
Housing	176	176
Parks, Recreation and Conservation	173	238
Salmon	171	226
Behavioral Health - Institutions	139	139
Behavioral Health - Community	118	118
Energy	65	65
All other	396	1,332
Total	3,223	4,866

Appendix C: Until the last two biennia debt service and debt capacity have been roughly comparable; increased revenue in the 2017-19 biennium increased debt capacity

(dollars in millions)

