

SENATE BILL REPORT

SJR 8206

As Reported By Senate Committee On:
Ways & Means, February 7, 2007

Brief Description: Creating the budget stabilization account in the state Constitution.

Sponsors: Senators Brown, Zarelli, Eide, Hewitt, Haugen, Franklin, Kilmer, Kauffman, Marr, Rasmussen, Berkey, Sheldon, Keiser, Tom, McAuliffe, Parlette and Rockefeller; by request of Governor Gregoire.

Brief History:

Committee Activity: Ways & Means: 1/30/07, 2/07/07 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Joint Resolution No. 8206 be substituted therefor, and the substitute joint resolution do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Steve Jones (786-7440)

Background: Initiative 601, adopted by the voters in 1993, established by statute a state General Fund expenditure limit and created the Emergency Reserve Fund. The Emergency Reserve Fund receives all state General Fund revenues in excess of the state expenditure limit. Appropriations may be made from the Emergency Reserve Fund only by a two-thirds vote of the Legislature.

"General state revenues" is defined in the state Constitution as being all state revenues that are not dedicated to a particular purpose. Thus, general state revenues consist of all revenues to the state General Fund, with the exception of property tax revenues, which are dedicated to the common school system.

Summary of Bill: The state Constitution is amended to establish a Budget Stabilization Account. Each fiscal year, one percent of general state revenues are deposited to the Budget Stabilization Account.

Moneys may be appropriated from the Budget Stabilization Account by a majority vote of each house of the Legislature if: (1) forecasted state employment growth for any fiscal year is less than 1 percent; (2) the Governor declares an emergency and that immediate action is

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required to preserve public health, protect life, or protect public property; or (3) the Governor proclaims a state of emergency as authorized by statute.

Other withdrawals from the Budget Stabilization Account may be made only by a three-fifths vote of the Legislature.

Investment earnings are retained by the account. To the extent that the balance of the Budget Stabilization Account exceeds ten percent of general state revenues, the excess balance is deposited to the Education Construction Fund (which is statutorily dedicated to K-12 and higher education construction projects).

Employment forecasts and revenue estimates for the Budget Stabilization Account are made by the Economic and Revenue Forecast Council.

The Legislature may enact legislation to implement the Constitutional amendment.

EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Ways & Means): Monies may be appropriated from the Budget Stabilization Account by a majority vote of each house of the Legislature if: (1) forecasted state employment growth for any fiscal year is less than 1 percent; or (2) the Governor declares an emergency resulting from a catastrophic event that requires immediate government action to protect life or public safety.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2008.

Staff Summary of Public Testimony: PRO: A rainy day reserve fund will provide for the structural sustainability of state budgets over time. The current economic conditions provide a strategic opportunity for the creation of a budget reserve, which will improve the state's bond rating and save state debt service costs by lowering the interest rate paid on state bonds. Just as a family saves a portion of its income for a rainy day, the state should not spend all of its income during periods of economic growth. A downturn in the economic cycle is inevitable. Establishing the reserve fund in the state Constitution on a bipartisan basis will enforce good budgeting discipline by restricting access to the monies held in reserve. Small businesses are excited about this proposal because it will help avoid tax increases during economic downturns, when businesses are vulnerable. The criteria for legislative withdrawals from the fund should be very strict.

Persons Testifying: PRO: Senator Brown, prime sponsor; Senator Zarelli; Senator Franklin; Victor Moore, Office of Financial Management; Jason Mercier, Evergreen Freedom Foundation; Carolyn Logue, National Federation of Independent Businesses.