

SENATE BILL REPORT

SB 5427

As Reported By Senate Committee On:
Ways & Means, January 28, 2003

Title: An act relating to the state expenditure limit.

Brief Description: Controlling state expenditures.

Sponsors: Senators Rossi, Benton, Hewitt, Zarelli, Johnson, Stevens, McCaslin, Morton, Hale, Mulliken, Parlette, Roach, Schmidt, Brandland, Sheahan, Esser and Oke.

Brief History:

Committee Activity: Ways & Means: 1/27/03, 1/28/03 [DPS, DNP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5427 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Hale, Honeyford, Johnson, Parlette, Roach, Sheahan and Zarelli, Vice Chair.

Minority Report: Do not pass.

Signed by Senators Brown, Fairley, Fraser, Kohl-Welles, Poulsen, Regala and B. Sheldon.

Staff: Steve Jones (786-7440)

Background: Initiative 601, enacted by the voters in 1993, established a state expenditure limit. Under the initiative, the annual growth in state General Fund expenditures is limited to the "fiscal growth factor" (the average rate of state population increase and inflation during the prior three fiscal years). The State Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. Membership of the committee includes the Director of Financial Management, the Attorney General (or a designee), and the chairs of the Senate Committee on Ways and Means and the House of Representatives Committee on Appropriations.

The state expenditure limit is adjusted downward annually to reflect the extent to which actual General Fund expenditures are less than the maximum amount allowed under the expenditure limit. Other downward adjustments to the spending limit are required when state program costs or moneys are shifted out of the General Fund to other dedicated accounts. Upward adjustments to the spending limit occur if state program costs or moneys are transferred to the state General Fund from other accounts. Other adjustments occur if federal or local government costs are shifted to or from the state General Fund.

The initiative established an Emergency Reserve Fund to receive all General Fund revenue in excess of the expenditure limit, up to a maximum of 5 percent of annual General Fund

revenues. When the Emergency Reserve Fund reaches the 5 percent maximum, 25 percent of the excess is deposited to the General Fund and 75 percent is deposited to the Student Achievement Fund, which was established by Initiative 728 for distribution to K-12 school districts. In addition, \$35 million from interest earnings of the Emergency Reserve Fund is transferred annually to the Multimodal Transportation Account to support transportation programs.

The various dedicated funds and accounts of the state are not subject to the state expenditure limit. Among these dedicated funds and accounts are five accounts that are used to finance a variety of state programs:

Health Services Account: Funded from federal revenues, tobacco litigation proceeds, and taxes on beer, liquor, tobacco, health insurance, and hospitals. The account is used to fund the Basic Health Plan and other public health programs.

Violence Reduction and Drug Enforcement Account: Funded from cigarette taxes, liquor taxes, beer and wine taxes, and a tax on carbonated beverages and pop syrup. The account is used to fund drug and alcohol treatment programs, juvenile rehabilitation services, and other youth programs and services.

Public Safety and Education Account: Funded primarily from court fines, fees, and forfeitures. The account is used for a variety of civil and criminal justice programs, including crime victims' compensation, traffic safety, law enforcement training, the courts, indigent legal services, and domestic violence programs.

Water Quality Account: Funded by cigarette and tobacco taxes, the account is used to finance capital construction grants for water treatment projects and operating budget appropriations for various water-related programs.

Student Achievement Fund: Created by Initiative 728, the Student Achievement Fund receives transfers from the Emergency Reserve Fund, state lottery receipts, and a portion of state property tax revenues. The Student Achievement Fund is distributed to school districts to reduce class size, extended learning opportunities, staff development, and early childhood assistance programs.

Summary of Substitute Bill: In addition to the state General Fund, the state expenditure limit is expanded to include appropriations from the Health Services Account, the Violence Reduction and Drug Enforcement Account, the Public Safety and Education Account, the Water Quality Account, and the Student Achievement Fund.

The Emergency Reserve Fund is eliminated. As a result, money in excess of the state expenditure limit will remain in the unexpended fund balances of the six accounts subject to the expenditure limit. The transfer from the Emergency Reserve Fund to the Multimodal Transportation Account is eliminated.

The membership of the State Expenditure Limit Committee is expanded to include the ranking minority members of the Senate Committee on Ways and Means and the House of Representatives Committee on Appropriations.

When the expenditure limit is adjusted downward to reflect the shift of program costs from the General Fund, the adjustment must reflect expenditure growth in the program.

The state expenditure limit is not increased for money or cost shifts into the General Fund (or the other five accounts now included in the expenditure limit) unless the program costs and the ongoing supporting revenue are both shifted.

Substitute Bill Compared to Original Bill: Expenditure growth in program costs must be reflected in expenditure limit adjustments when program costs are shifted from the General Fund.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Initiative 601 has clearly had an effect on budget spending. Recent legislative changes have eroded the effectiveness of the spending limit and has contributed to the current budget situation. The expanded membership of the State Expenditure Limit Committee will make the operation of the committee more practical and equitable. Small business owners support the fiscal responsibility endorsed by the voters in enacting Initiative 601.

Testimony Against: None.

Testified: Gary Smith, Independent Business Assoc; Carolyn Logue, National Federation of Independent Businesses; Marty Brown, Office of Financial Management; Chris Sjoblom, Washington Research Council.