SENATE BILL REPORT
SJR 8204

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

Brief Description: Amending the Constitution to provide for a revenue stabilization fund.

Sponsors: Senators Rossi, Fairley, Deccio, Swecker, Benton, Zarelli, Horn, Hewitt, Parlette, Esser, Honeyford, Reardon, Rasmussen, Morton, T. Sheldon, Sheahan, Mulliken, West, McCaslin, Shin 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. 8204 be substituted therefor, and the substitute bill do pass.
Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Fairley, Hale, Honeyford, Johnson, Parlette, Poulsen, Roach, Sheahan and Zarelli, Vice Chair.

Minority Report: Do not pass.
Signed by Senators Brown, Fraser, Kohl-Welles, Regala and B. Sheldon.

Staff: Steve Jones (786-7440)

Background: Forty-seven states have established budget stabilization funds (popularly known as "rainy day funds") under which deposits are made to a state budget reserve fund when state finances are healthy, and withdrawals from the fund are authorized when state finances turn downward.

The Washington Legislature first established a Budget Stabilization Account by statute in 1981. In 1993, Initiative 601 established a state expenditure limit and replaced the Budget Stabilization Account with the Emergency Reserve Fund.

Under current law, the Emergency Reserve Fund receives all state General Fund revenue in excess of the state expenditure limit, up to 5 percent of annual General Fund revenues. Moneys in the Emergency Reserve Fund may be expended with a two-thirds vote of each house of the Legislature, although this supermajority requirement has been suspended during the 2001-'03 fiscal biennium. In addition to these legislative appropriations, $35 million is transferred annually from the Emergency Reserve Fund to the Multimodal Transportation Account.

If the Emergency Reserve Fund exceeds 5 percent of annual state General Fund revenue, 75 percent of the excess is transferred to the Student Achievement Fund established by Initiative 728. The remainder of the excess is transferred to the state General Fund.

Summary of Substitute Bill: The state Constitution is amended to establish a Debt Service Reserve Fund to help pay debt service commitments on state general obligation bonds. Each fiscal year, 1 percent of general state revenues is transferred to the Debt Service Reserve Fund. Moneys can be appropriated from the fund by a three-fifths vote of each house of the Legislature.

If forecasted state employment growth is less than 1 percent, then the Legislature by majority vote can appropriate moneys from the Debt Service Reserve Fund. When the balance in the fund exceeds 10 percent of estimated general state revenues, the Legislature may appropriate that portion of the fund by a majority vote.

Substitute Bill Compared to Original Bill: The reserve fund is dedicated to paying debt service on state bonds. Deposits to the reserve fund are automatic and are not tied to forecasted growth in revenue. Transfers from the reserve fund are not automatic, but are contingent on legislative appropriation. If forecasted state employment growth is less than 1 percent, reserve fund appropriations can be made by a simple majority vote; in other instances, a three-fifths vote is required.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect on July 1, 2005.

Testimony For: The Governor supports the concept of a debt reserve fund, with an automatic transfer of 1 percent of state revenue, but no automatic transfer back to the General Fund. Growth in state employment is a good trigger for expenditures from the reserve fund. This measure will help "even out" state revenue in order to avoid budget cuts, such as state park closures. The state Constitution is the best place for a reserve fund.

Testimony Against: None.

Testified: PRO: Marty brown, Office of Financial Management; Jim King, Citizens for Parks & Recreation; Gary Smith, Independent Business Assoc.