
Appropriations Committee

PSHB 2552

Brief Description: Making 2006 supplemental operating appropriations.

Sponsors: Representative Sommers; by request of Governor Gregoire.

Brief Summary of Proposed Substitute Bill

- Makes appropriations from the General Fund to the Pension Funding Stabilization Account, the Student Achievement Fund, and the Health Services Account.
- Adopts new supplemental employer rates to reduce unfunded liability in TRS and PERS Plans 1.
- Revises state expenditure limit laws adjusting the limit upwards for the appropriations in the bill.

Hearing Date: 2/21/06

Staff: Charlie Gavigan (786-7340).

Background:

The state of Washington, through its Department of Retirement Systems, operates several retirement plans for public employees, including employees of the state, local governments, and school districts. Actuarial valuations of current pension fund assets and liabilities have determined that the current assets and projected future employer and employee contributions and investment earnings of several state-funded retirement plans will not be sufficient to meet the future retirement obligations of these plans. Over the next several fiscal biennia, these unfunded liabilities will require significant increases in the state's contributions to the retirement systems.

The Health Services Account was established by the Legislature in 1993 for the purpose of supporting the public health system and funding health services to low-income persons through such programs as the Basic Health Plan. The revenues to the account consist primarily of cigarette taxes, a portion of the state's share of the national tobacco litigation settlement, and other taxes. When these revenues have been insufficient to cover expected costs to the Health Services Account, the Legislature has made deposits from the state General Fund.

The Student Achievement Fund was established by I-728 in 2000. A portion of property tax revenues is deposited in the fund and is appropriated for distribution to school districts on a per-student basis for class size reduction, extended learning opportunities, educator professional

development, pre-kindergarten assistance, and related building improvements. In addition, the Student Achievement Fund may receive a portion of any excess balance in the Emergency Reserve Fund.

Initiative 601, enacted in 1993, established a state General Fund expenditure limit and restrictions on state fee and revenue increases. 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. (Beginning in 2007, the fiscal growth factor will be based on the 10-year average growth in state personal income, and five additional funds, including the Health Services Account, will be included within the expenditure limit.)

The state expenditure limit may be adjusted for several reasons. The limit is adjusted downward to reflect the extent to which actual General Fund expenditures in prior years are less than the maximum amount allowed under the limit. Other downward adjustments to the expenditure limit are required when state program costs or moneys are shifted out of the General Fund to other dedicated accounts. Upward adjustments to the expenditure limit occur if state program costs or moneys are transferred to the state General Fund from other accounts.

Summary of Proposed Substitute Bill:

The Pension Funding Stabilization Account is established for the purpose of making employer contributions to specified state-funded retirement plans, subject to legislative appropriation. New supplemental employer contribution rates are established for the purpose of reducing the unfunded actuarial liabilities of the Plans 1 of the Public Employees' Retirement System and the Teachers' Retirement System. For Fiscal Year 2006, \$301,401,000 is appropriated for this purpose.

For Fiscal Year 2006, \$200 million is appropriated from the state General Fund to the Health Services Account to provide fiscal stability for the account.

For Fiscal Year 2006, \$200 million is appropriated from the state General Fund to the Student Achievement Fund. It is the intent of the Legislature that these amounts be available for appropriation in the 2007-09 fiscal biennium.

The calculation of the state expenditure limit for Fiscal Year 2006 is adjusted upward to include the appropriations to the Pension Funding Stabilization Account, the Health Services Account, and the Student Achievement Fund. Expenditures from the Pension Funding Stabilization Account are not considered to be a program cost shift under Initiative 601.

Appropriation: Appropriations total \$701,401,000.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.