

SENATE BILL REPORT

SB 6896

As Reported By Senate Committee On:
Ways & Means, February 16, 2006

Title: An act relating to state funding stabilization.

Brief Description: Providing for state funding stabilization.

Sponsors: Senators Prentice, Doumit, Brown and Regala.

Brief History:

Committee Activity: Ways & Means: 2/15/06, 2/16/06 [DPS, DNP, w/oRec]

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6896 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Fairley, Kohl-Welles, Pridemore, Rasmussen, Regala, Rockefeller and Thibaudeau.

Minority Report: Do not pass.

Signed by Senators Zarelli, Ranking Minority Member; Brandland, Parlette and Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senator Roach.

Staff: Steve Jones (786-7440)

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 systems will not be sufficient to meet the future retirement obligations of these systems. 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 Common School Construction Account is established in the state Constitution for the purpose of financing the construction of K-12 school facilities. The revenues to the account consist primarily of the proceeds from the sale of timber on dedicated state school lands, revenues from other state lands, and investment earnings. When these revenues have been insufficient to cover expected school construction costs, the Legislature has made appropriations from the state General 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 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 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.

Summary of Substitute Bill: The Legislature intends to provide for the fiscal stability of the Health Services Account, the Common School Construction Account, and the state's retirement systems by making appropriations for these purposes.

The Pension Funding Stabilization Account is established for the purpose of making employer contributions to specified state-funded retirement systems, subject to legislative appropriation. Moneys in the account will be invested by the State Investment Board, with the investment earnings retained in the account. New supplemental employer contribution rates are established for the purpose of reducing the unfunded actuarial liabilities of plan 1 of the Public Employees' Retirement System and the Teachers' Retirement System. For Fiscal Year 2006, three hundred fifty million dollars is appropriated for this purpose.

For Fiscal Year 2006, one hundred fifty million dollars is appropriated from the state General Fund to the Health Services Account to provide fiscal stability for the account.

For Fiscal Year 2006, one hundred million dollars is appropriated from the state General Fund to the Common School Construction Account to provide fiscal stability for the account.

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 Common School Construction Account. Expenditures from the Pension Funding Stabilization Account are not considered to be a program cost shift under Initiative 601.

Substitute Bill Compared to Original Bill: The bill as referred to committee was not considered.

Appropriation: Yes (see bill summary)

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect immediately.