S-5309.1		

SUBSTITUTE SENATE BILL 6896

State of Washington 59th Legislature 2006 Regular Session

By Senate Committee on Ways & Means (originally sponsored by Senators Prentice, Doumit, Brown, Regala, Rockefeller and Kohl-Welles)

READ FIRST TIME 02/17/06.

- AN ACT Relating to state funding stabilization; amending RCW 43.135.025 and 43.135.035; reenacting and amending RCW 43.84.092 and 43.84.092; adding new sections to chapter 41.45 RCW; making appropriations; providing an effective date; providing expiration
- 5 dates; and declaring an emergency.
- 6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:
- NEW SECTION. **Sec. 1.** A new section is added to chapter 41.45 RCW to read as follows:
- 9 The pension funding stabilization account is created in the state 10 treasury. Moneys in the account may be spent only after appropriation.
- 11 Expenditures from the account may be used only for payment of state
- 12 government employer contributions for members of the public employees'
- 13 retirement system, the teachers' retirement system, the school
- employees' retirement system, and the public safety employees' retirement system. The account may not be used to pay for any new
- 16 benefit or for any benefit increase that takes effect after July 1,
- 2005. An increase that is provided in accordance with a formula that
- 18 is in existence on July 1, 2005, is not considered a benefit increase
- 19 for this purpose. Moneys in the account shall be for the exclusive use

p. 1 SSB 6896

- 1 of the specified retirement systems and invested by the state
- 2 investment board pursuant to RCW 43.33A.170. For purposes of RCW
- 3 43.135.035, expenditures from the pension funding stabilization account
- 4 shall not be considered a state program cost shift from the state
- 5 general fund to another account.

2425

26

27

28

29

30

31

32

3334

- 6 <u>NEW SECTION.</u> **Sec. 2.** A new section is added to chapter 41.45 RCW 7 to read as follows:
- 8 (1) The state investment board has the full power to invest, 9 reinvest, manage, contract, sell, or exchange investment moneys in the 10 pension funding stabilization account. All investment and operating 11 costs associated with the investment of money shall be paid pursuant to 12 RCW 43.33A.160 and 43.84.160. With the exception of these expenses, 13 the earnings from the investment of the money shall be retained by the account.
- 15 (2) All investments made by the state investment board shall be 16 made with the exercise of that degree of judgment and care pursuant to 17 RCW 43.33A.140 and the investment policies established by the state 18 investment board.
- 19 (3) As deemed appropriate by the state investment board, moneys in 20 the account may be commingled for investment with other funds subject 21 to investment by the board.
- NEW SECTION. Sec. 3. A new section is added to chapter 41.45 RCW to read as follows:
 - (1) It is the intent of the legislature to provide for the systematic funding of the plan 1 unfunded accrued actuarial liabilities in a manner that promotes contribution rate adequacy and stability for the affected systems. The rates established in this section shall be collected in addition to the rates established pursuant to RCW 41.45.062.
 - (2) Beginning September 1, 2006, a 1.29 percent contribution is established as part of the basic state and employer contribution rate for the teachers' retirement system, to be used for the sole purpose of amortizing the unfunded accrued actuarial liability in the teachers' retirement system plan 1.
- 35 (3) Beginning September 1, 2006, a 0.87 percent contribution is 36 established as part of the basic state and employer contribution rate

for the school employees' retirement system, to be used for the sole purpose of amortizing the unfunded accrued actuarial liability in the public employees' retirement system plan 1.

4 5

6 7

8

- (4) Beginning January 1, 2007, a 1.77 percent contribution is established as part of the basic state and employer contribution rate for the public employees' retirement system and the public safety employees' retirement system, to be used for the sole purpose of amortizing the unfunded accrued actuarial liability in the public employees' retirement system plan 1.
- 10 (5) The contribution rates in this section shall be collected 11 through June 30, 2007, for the public employees' retirement system and 12 the public safety employees' retirement system and August 31, 2007, for 13 the teachers' retirement system and the school employees' retirement 14 system.
- NEW SECTION. Sec. 4. The sum of three hundred fifty million dollars is appropriated for the fiscal year ending June 30, 2006, from the general fund to the pension funding stabilization account for the purposes of section 1 of this act.
- NEW SECTION. Sec. 5. The sum of one hundred fifty million dollars is appropriated for the fiscal year ending June 30, 2006, from the general fund to the health services account for the purposes of providing fiscal stability for the account.
- NEW SECTION. Sec. 6. The sum of one hundred million dollars is appropriated for the fiscal year ending June 30, 2006, from the general fund to the common school construction account for the purposes of providing fiscal stability for the account.
- 27 **Sec. 7.** RCW 43.135.025 and 2000 2nd sp.s. c 2 s 1 are each amended to read as follows:
- 29 (1) The state shall not expend from the general fund during any 30 fiscal year state moneys in excess of the state expenditure limit 31 established under this chapter.
- 32 (2) Except pursuant to a declaration of emergency under RCW 33 43.135.035 or pursuant to an appropriation under RCW 43.135.045(4)(b), 34 the state treasurer shall not issue or redeem any check, warrant, or

p. 3 SSB 6896

voucher that will result in a state general fund expenditure for any fiscal year in excess of the state expenditure limit established under this chapter. A violation of this subsection constitutes a violation of RCW 43.88.290 and shall subject the state treasurer to the penalties provided in RCW 43.88.300.

1 2

- (3) The state expenditure limit for any fiscal year shall be the previous fiscal year's state expenditure limit increased by a percentage rate that equals the fiscal growth factor.
- (4) For purposes of computing the state expenditure limit for the fiscal year beginning July 1, 1995, the phrase "the previous fiscal year's state expenditure limit" means the total state expenditures from the state general fund, not including federal funds, for the fiscal year beginning July 1, 1989, plus the fiscal growth factor. This calculation is then computed for the state expenditure limit for fiscal years 1992, 1993, 1994, and 1995, and as required under RCW 43.135.035(4).
- (5) A state expenditure limit committee is established for the purpose of determining and adjusting the state expenditure limit as provided in this chapter. The members of the state expenditure limit committee are the director of financial management, the attorney general or the attorney general's designee, and the chairs of the senate committee on ways and means and the house of representatives committee on appropriations. All actions of the state expenditure limit committee taken pursuant to this chapter require an affirmative vote of at least three members.
- (6) Each November, the state expenditure limit committee shall adjust the expenditure limit for the preceding fiscal year based on actual expenditures and known changes in the fiscal growth factor and then project an expenditure limit for the next two fiscal years. In calculating the expenditure limit for fiscal year 2006, the calculation shall be adjusted to include the fiscal year 2006 state general fund appropriations to the pension funding stabilization account, the health services account, and the common school construction account in chapter . . . Laws of 2006 (this act). If, by November 30th, the state expenditure limit committee has not adopted the expenditure limit adjustment and projected expenditure limit as provided in subsection (5) of this section, the attorney general or his or her designee shall adjust or project the expenditure limit, as necessary.

1 (7) "Fiscal growth factor" means the average of the sum of 2 inflation and population change for each of the prior three fiscal 3 years.

- (8) "Inflation" means the percentage change in the implicit price deflator for the United States for each fiscal year as published by the federal bureau of labor statistics.
- (9) "Population change" means the percentage change in state population for each fiscal year as reported by the office of financial management.
- **Sec. 8.** RCW 43.135.035 and 2005 c 72 s 2 are each amended to read 11 as follows:
 - (1) After July 1, 1995, any action or combination of actions by the legislature that raises state revenue or requires revenue-neutral tax shifts may be taken only if approved by a two-thirds vote of each house, and then only if state expenditures in any fiscal year, including the new revenue, will not exceed the state expenditure limits established under this chapter. However, for legislation enacted between the effective date of this 2005 act and June 30, 2007, any action or combination of actions by the legislature that raises state revenue or requires revenue-neutral tax shifts may be taken with the approval of a majority of members elected to each house, so long as state expenditures in any fiscal year, including the new revenue, will not exceed the state expenditure limits established under this chapter.
 - (2)(a) If the legislative action under subsection (1) of this section will result in expenditures in excess of the state expenditure limit, then the action of the legislature shall not take effect until approved by a vote of the people at a November general election. The state expenditure limit committee shall adjust the state expenditure limit by the amount of additional revenue approved by the voters under this section. This adjustment shall not exceed the amount of revenue generated by the legislative action during the first full fiscal year in which it is in effect. The state expenditure limit shall be adjusted downward upon expiration or repeal of the legislative action.
 - (b) The ballot title for any vote of the people required under this section shall be substantially as follows:
- 36 "Shall taxes be imposed on in order to allow a

p. 5 SSB 6896

spending increase above last year's authorized spending adjusted for inflation and population increases?"

1 2

3

4 5

6

7

8

9

11

12

13

1415

16

17

18

19 20

21

22

23

2425

26

27

28

2930

31

32

3334

35

36

37

38

- (3)(a) The state expenditure limit may be exceeded upon declaration of an emergency for a period not to exceed twenty-four months by a law approved by a two-thirds vote of each house of the legislature and signed by the governor. The law shall set forth the nature of the emergency, which is limited to natural disasters that require immediate government action to alleviate human suffering and provide humanitarian assistance. The state expenditure limit may be exceeded for no more than twenty-four months following the declaration of the emergency and only for the purposes contained in the emergency declaration.
- (b) Additional taxes required for an emergency under this section may be imposed only until thirty days following the next general election, unless an extension is approved at that general election. The additional taxes shall expire upon expiration of the declaration of emergency. The legislature shall not impose additional taxes for emergency purposes under this subsection unless funds in the education construction fund have been exhausted.
- (c) The state or any political subdivision of the state shall not impose any tax on intangible property listed in RCW 84.36.070 as that statute exists on January 1, 1993.
- (4) If the cost of any state program or function is shifted from the state general fund on or after January 1, 1993, to another source of funding, or if moneys are transferred from the state general fund to another fund or account, the state expenditure limit committee, acting pursuant to RCW 43.135.025(5), shall lower the state expenditure limit to reflect the shift. For purposes of this section, expenditures from the pension funding stabilization account shall not be considered a state program cost shift from the state general fund to another account. For the purposes of this section, a transfer of money from the state general fund to another fund or account includes any state legislative action taken that has the effect of reducing revenues from a particular source, where such revenues would otherwise be deposited into the state general fund, while increasing the revenues from that particular source to another state or local government account. subsection does not apply to the dedication or use of lottery revenues under RCW 67.70.240(3) or property taxes under RCW 84.52.068, in support of education or education expenditures.

(5) If the cost of any state program or function is shifted to the state general fund on or after January 1, 2000, from another source of funding, or if moneys are transferred to the state general fund from another fund or account, the state expenditure limit committee, acting pursuant to RCW 43.135.025(5), shall increase the state expenditure limit to reflect the shift.

1 2

3

4

5

6

7

8

9

10 11

12

13

14

15 16

17

18

19 20

21

2223

24

25

26

27

28

29

3031

3233

34

35

36

- Sec. 9. RCW 43.84.092 and 2005 c 514 s 1105, 2005 c 353 s 3, 2005
 c 339 s 22, 2005 c 314 s 109, 2005 c 312 s 7, and 2005 c 94 s 1 are
 each reenacted and amended to read as follows:
 - (1) All earnings of investments of surplus balances in the state treasury shall be deposited to the treasury income account, which account is hereby established in the state treasury.
 - (2) The treasury income account shall be utilized to pay or receive funds associated with federal programs as required by the federal cash management improvement act of 1990. The treasury income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for refunds or allocations of interest earnings required by the cash management improvement act. Refunds of interest to the federal treasury required under the cash management improvement act fall under RCW 43.88.180 and shall not require appropriation. office of financial management shall determine the amounts due to or from the federal government pursuant to the cash management improvement act. The office of financial management may direct transfers of funds between accounts as deemed necessary to implement the provisions of the cash management improvement act, and this subsection. Refunds or allocations shall occur prior to the distributions of earnings set forth in subsection (4) of this section.
 - (3) Except for the provisions of RCW 43.84.160, the treasury income account may be utilized for the payment of purchased banking services on behalf of treasury funds including, but not limited to, depository, safekeeping, and disbursement functions for the state treasury and affected state agencies. The treasury income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for payments to financial institutions. Payments shall occur prior to distribution of earnings set forth in subsection (4) of this section.
 - (4) Monthly, the state treasurer shall distribute the earnings

p. 7 SSB 6896

credited to the treasury income account. The state treasurer shall credit the general fund with all the earnings credited to the treasury income account except:

1 2

3

4 5

6 7

8

9

10

11 12

13

14

15

16 17

18

19

2021

22

2324

25

2627

28

29

30

3132

33

3435

36

37

38

The following accounts and funds shall receive their proportionate share of earnings based upon each account's and fund's average daily balance for the period: The capitol building construction account, the Cedar River channel construction and operation account, the Central Washington University capital projects the charitable, educational, penal and institutions account, the common school construction fund, the county criminal justice assistance account, the county sales and use tax equalization account, the data processing building construction account, the deferred compensation administrative account, the deferred compensation principal account, the department of retirement systems expense account, the developmental disabilities community trust account, the drinking water assistance account, the drinking water assistance administrative account, the drinking water assistance repayment account, the Eastern Washington University capital projects account, the education construction fund, the education legacy trust account, the election account, the emergency reserve fund, The Evergreen State College capital projects account, the federal forest revolving account, the freight mobility investment account, the health services account, the public health services account, the health system capacity account, the personal health services account, the state higher education construction account, the higher education construction account, the highway infrastructure account, the highoccupancy toll lanes operations account, the industrial insurance premium refund account, the judges' retirement account, the judicial retirement administrative account, the judicial retirement principal account, the local leasehold excise tax account, the local real estate excise tax account, the local sales and use tax account, the medical aid account, the mobile home park relocation fund, the multimodal transportation account, the municipal criminal justice assistance account, the municipal sales and use tax equalization account, the natural resources deposit account, the oyster reserve land account, the pension funding stabilization account, the perpetual surveillance and maintenance account, the public employees' retirement system plan 1 account, the public employees' retirement system combined plan 2 and

plan 3 account, the public facilities construction loan revolving 1 2 account beginning July 1, 2004, the public health supplemental account, the Puyallup tribal settlement account, the real estate appraiser 3 commission account, the regional transportation investment district 4 account, the resource management cost account, the rural Washington 5 loan fund, the site closure account, the small city pavement and 6 sidewalk account, the special wildlife account, the state employees' 7 insurance account, the state employees' insurance reserve account, the 8 9 state investment board expense account, the state investment board 10 commingled trust fund accounts, the supplemental pension account, the Tacoma Narrows toll bridge account, the teachers' retirement system 11 12 plan 1 account, the teachers' retirement system combined plan 2 and 13 plan 3 account, the tobacco prevention and control account, the tobacco 14 settlement account, the transportation infrastructure account, the transportation partnership account, the tuition recovery trust fund, 15 the University of Washington bond retirement fund, the University of 16 17 Washington building account, the volunteer fire fighters' and reserve officers' relief and pension principal fund, the volunteer fire 18 fighters' and reserve officers' administrative fund, the Washington 19 fruit express account, the Washington judicial retirement system 20 account, the Washington law enforcement officers' and fire fighters' 21 22 system plan 1 retirement account, the Washington law enforcement officers' and fire fighters' system plan 2 retirement account, the 23 24 Washington school employees' retirement system combined plan 2 and 3 25 account, the Washington state health insurance pool account, the Washington state patrol retirement account, the Washington State 26 27 University building account, the Washington State University bond retirement fund, the water pollution control revolving fund, and the 28 Western Washington University capital projects account. 29 derived from investing balances of the agricultural permanent fund, the 30 31 normal school permanent fund, the permanent common school fund, the 32 scientific permanent fund, and the state university permanent fund shall be allocated to their respective beneficiary accounts. 33 earnings to be distributed under this subsection (4)(a) shall first be 34 35 reduced by the allocation to the state treasurer's service fund 36 pursuant to RCW 43.08.190.

(b) The following accounts and funds shall receive eighty percent of their proportionate share of earnings based upon each account's or

37

38

p. 9 SSB 6896

fund's average daily balance for the period: The aeronautics account, 1 rescue account, the county arterial 2 aircraft search and preservation account, the department of licensing services account, the 3 essential rail assistance account, the ferry bond retirement fund, the 4 grade crossing protective fund, the high capacity transportation 5 account, the highway bond retirement fund, the highway safety account, 6 7 the motor vehicle fund, the motorcycle safety education account, the pilotage account, the public transportation systems account, the Puget 8 Sound capital construction account, the Puget Sound ferry operations 9 10 account, the recreational vehicle account, the rural arterial trust account, the safety and education account, the special category C 11 account, the state patrol highway account, the transportation 2003 12 13 account (nickel account), the transportation equipment fund, the transportation fund, the transportation improvement account, the 14 transportation improvement board bond retirement account, and the urban 15 16 arterial trust account.

- (5) In conformance with Article II, section 37 of the state Constitution, no treasury accounts or funds shall be allocated earnings without the specific affirmative directive of this section.
- 20 Sec. 10. RCW 43.84.092 and 2005 c 514 s 1106, 2005 c 353 s 4, 2005 c 339 s 23, 2005 c 314 s 110, 2005 c 312 s 8, and 2005 c 94 s 2 are each reenacted and amended to read as follows:
 - (1) All earnings of investments of surplus balances in the state treasury shall be deposited to the treasury income account, which account is hereby established in the state treasury.
 - (2) The treasury income account shall be utilized to pay or receive funds associated with federal programs as required by the federal cash management improvement act of 1990. The treasury income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for refunds or allocations of interest earnings required by the cash management improvement act. Refunds of interest to the federal treasury required under the cash management improvement act fall under RCW 43.88.180 and shall not require appropriation. The office of financial management shall determine the amounts due to or from the federal government pursuant to the cash management improvement act. The office of financial management may direct transfers of funds between accounts as deemed necessary to implement the provisions of the

SSB 6896 p. 10

17

18

19

23

24

2526

27

28

29

3031

32

33

34

3536

37

cash management improvement act, and this subsection. Refunds or allocations shall occur prior to the distributions of earnings set forth in subsection (4) of this section.

1 2

3

4

5

6 7

8

9

11

1213

14

15

16

17

18

19

2021

22

2324

25

26

27

28

29

3031

32

3334

35

36

37

38

- (3) Except for the provisions of RCW 43.84.160, the treasury income account may be utilized for the payment of purchased banking services on behalf of treasury funds including, but not limited to, depository, safekeeping, and disbursement functions for the state treasury and affected state agencies. The treasury income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for payments to financial institutions. Payments shall occur prior to distribution of earnings set forth in subsection (4) of this section.
- (4) Monthly, the state treasurer shall distribute the earnings credited to the treasury income account. The state treasurer shall credit the general fund with all the earnings credited to the treasury income account except:
- The following accounts and funds shall receive their proportionate share of earnings based upon each account's and fund's average daily balance for the period: The capitol building construction account, the Cedar River channel construction and operation account, the Central Washington University capital projects account, the charitable, educational, penal and reformatory institutions account, the common school construction fund, the county criminal justice assistance account, the county sales and use tax equalization account, the data processing building construction account, the deferred compensation administrative account, the deferred compensation principal account, the department of retirement systems expense account, the developmental disabilities community trust account, the drinking water assistance account, the drinking water assistance administrative account, the drinking water assistance repayment account, the Eastern Washington University capital projects account, the education construction fund, the education legacy trust account, the election account, the emergency reserve fund, The Evergreen State College capital projects account, the federal forest revolving account, the freight mobility investment account, the health services account, the public health services account, the health system capacity account, the personal health services account, the state higher education construction account, the higher education construction account, the highway infrastructure account, the high-

p. 11 SSB 6896

occupancy toll lanes operations account, the industrial insurance 1 2 premium refund account, the judges' retirement account, the judicial retirement administrative account, the judicial retirement principal 3 account, the local leasehold excise tax account, the local real estate 4 5 excise tax account, the local sales and use tax account, the medical aid account, the mobile home park relocation fund, the multimodal 6 7 transportation account, the municipal criminal justice assistance account, the municipal sales and use tax equalization account, the 8 natural resources deposit account, the oyster reserve land account, the 9 10 pension funding stabilization account, the perpetual surveillance and maintenance account, the public employees' retirement system plan 1 11 12 account, the public employees' retirement system combined plan 2 and 13 plan 3 account, the public facilities construction loan revolving 14 account beginning July 1, 2004, the public health supplemental account, the public works assistance account, the Puyallup tribal settlement 15 account, the real estate appraiser commission account, the regional 16 17 transportation investment district account, the resource management cost account, the rural Washington loan fund, the site closure account, 18 the small city pavement and sidewalk account, the special wildlife 19 20 account, the state employees' insurance account, the state employees' 21 insurance reserve account, the state investment board expense account, 22 the state investment board commingled trust fund accounts, the supplemental pension account, the Tacoma Narrows toll bridge account, 23 24 teachers' retirement system plan 1 account, the teachers' 25 retirement system combined plan 2 and plan 3 account, the tobacco prevention and control account, the tobacco settlement account, the 26 27 transportation infrastructure account, the transportation partnership account, the tuition recovery trust fund, the University of Washington 28 bond retirement fund, the University of Washington building account, 29 the volunteer fire fighters' and reserve officers' relief and pension 30 principal fund, the volunteer fire fighters' and reserve officers' 31 32 administrative fund, the Washington fruit express account, the Washington judicial retirement system account, the Washington law 33 enforcement officers' and fire fighters' system plan 1 retirement 34 account, the Washington law enforcement officers' and fire fighters' 35 system plan 2 retirement account, the Washington public safety 36 37 employees' plan 2 retirement account, the Washington school employees' 38 retirement system combined plan 2 and 3 account, the Washington state

health insurance pool account, the Washington state patrol retirement 1 2 account, the Washington State University building account, the Washington State University bond retirement fund, the water pollution 3 control revolving fund, and the Western Washington University capital 4 5 projects account. Earnings derived from investing balances of the agricultural permanent fund, the normal school permanent fund, the 6 7 permanent common school fund, the scientific permanent fund, and the state university permanent fund shall be allocated to their respective 8 beneficiary accounts. All earnings to be distributed under this 9 10 subsection (4)(a) shall first be reduced by the allocation to the state treasurer's service fund pursuant to RCW 43.08.190. 11

12

13

14

15

16 17

18

19 20

21

22

2324

25

2627

2829

- (b) The following accounts and funds shall receive eighty percent of their proportionate share of earnings based upon each account's or fund's average daily balance for the period: The aeronautics account, aircraft search and rescue account, the county arterial preservation account, the department of licensing services account, the essential rail assistance account, the ferry bond retirement fund, the grade crossing protective fund, the high capacity transportation account, the highway bond retirement fund, the highway safety account, the motor vehicle fund, the motorcycle safety education account, the pilotage account, the public transportation systems account, the Puget Sound capital construction account, the Puget Sound ferry operations account, the recreational vehicle account, the rural arterial trust account, the safety and education account, the special category C account, the state patrol highway account, the transportation 2003 account (nickel account), the transportation equipment fund, the transportation fund, the transportation improvement account, the transportation improvement board bond retirement account, and the urban arterial trust account.
- 30 (5) In conformance with Article II, section 37 of the state 31 Constitution, no treasury accounts or funds shall be allocated earnings 32 without the specific affirmative directive of this section.
- 33 <u>NEW SECTION.</u> **Sec. 11.** Section 9 of this act expires July 1, 2006.
- NEW SECTION. Sec. 12. Sections 7 and 8 of this act expire July 1, 2007.

p. 13 SSB 6896

NEW SECTION. Sec. 13. This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately, except section 10 of this act, which takes effect July 1, 2006.

--- END ---