

SENATE BILL REPORT

SB 5311

As Reported By Senate Committee On:
Ways & Means, February 7, 2007

Title: An act relating to a budget stabilization account.

Brief Description: Creating the budget stabilization account.

Sponsors: Senators Brown, Zarelli, Prentice, Marr, Kilmer, McAuliffe and Tom; by request of Governor Gregoire.

Brief History:

Committee Activity: Ways & Means: 1/30/07, 2/07/07 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5311 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Steve Jones (786-7440)

Background: Initiative 601, adopted by the voters in 1993, established by statute a state General Fund expenditure limit and created the Emergency Reserve Fund. The Emergency Reserve Fund receives all state General Fund revenues in excess of the state expenditure limit. Appropriations may be made from the Emergency Reserve Fund only by a two-thirds vote of the Legislature.

"General state revenues" is defined in the state Constitution as being all state revenues that are not dedicated to a particular purpose. Thus, general state revenues consist of all revenues to the state General Fund, with the exception of property tax revenues, which are dedicated to the common school system.

Summary of Bill: Legislation is adopted to implement 2007 Senate Joint Resolution 8206, amending the state Constitution to establish a Budget Stabilization Account.

The Budget Stabilization Account is established, subject to appropriation. Each fiscal year, 1 percent of general state revenues are deposited to the Budget Stabilization Account.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Budget Stabilization Account is managed and invested by the State Investment Board. Net investment earnings are retained by the account. To the extent that the balance of the Budget Stabilization Account exceeds 10 percent of general state revenues, the excess balance is automatically deposited to the Education Construction Fund (which is statutorily dedicated to K-12 and higher education construction projects).

Employment forecasts and revenue estimates for the Budget Stabilization Account are made by the Economic and Revenue Forecast Council.

Transfers to, and expenditures from, the Budget Stabilization Account do not affect the state expenditure limit.

The Emergency Reserve Fund is abolished.

EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Ways & Means): Technical corrections are made to correct statutory references to Senate Joint Resolution 8206.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony: PRO: A rainy day reserve fund will provide for the structural sustainability of state budgets over time. The current economic conditions provide a strategic opportunity for the creation of a budget reserve, which will improve the state's bond rating and save state debt service costs by lowering the interest rate paid on state bonds. Just as a family saves a portion of its income for a rainy day, the state should not spend all of its income during periods of economic growth. A downturn in the economic cycle is inevitable. Establishing the reserve fund in the state Constitution on a bipartisan basis will enforce good budgeting discipline by restricting access to the monies held in reserve. Small businesses are excited about this proposal because it will help avoid tax increases during economic downturns, when businesses are vulnerable. The criteria for legislative withdrawals from the fund should be very strict.

Persons Testifying: PRO: Senator Brown, prime sponsor; Senator Zarelli; Senator Franklin; Victor Moore, Office of Financial Management; Jason Mercier, Evergreen Freedom Foundation; Carolyn Logue, National Federation of Independent Businesses.