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**Ways & Means Committee**

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**HB 2827**

**Brief Description:** Improving state budgeting and planning by requiring a balanced state operating budget for the current biennium and developing a process for balancing the budget over a two-biennium period.

**Sponsors:** Representative Hunter.

**Brief Summary of Bill**

- Requires the Legislature to publish a balance sheet demonstrating that General Fund and related funds appropriations will leave, in total, a positive ending fund balance.
- Establishes a budget outlook process in the Economic and Revenue Forecast Council to provide estimates of revenues and expenditures in ensuing biennia.
- Requires the Legislature and Governor to provide updated budget outlooks for their budget proposals.
- Directs the Economic and Revenue Forecast Council to prepare a proposed methodology for determining whether the budgets are balanced for ensuing biennia.

**Hearing Date:** 4/4/12

**Staff:** Kristen Fraser (786-7148).

**Background:**

Balanced Budget

Most states have some type of balanced budget requirement. These requirements may be constitutional or statutory or both, and they generally take one of three forms:

- requirement for the governor to propose a balanced budget to the legislature.
- requirement for the legislature to enact a balanced budget.
- prohibition on carrying a deficit from one fiscal period to another.

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*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.*

Washington does not have an express constitutional balanced budget requirement. The Budget & Accounting Act contains two statutory requirements that address balancing the budget. First, the Governor must submit a budget proposal to the Legislature that reflects existing revenue laws and forecasts. (The Governor may also submit a "Book 2" proposal that relies on proposed changes to revenue laws.)

Second, if the Governor projects a deficit in any account, he or she must make across-the-board reductions in allotments of appropriations from that account. This requirement does not apply if the Legislature has directed that the deficit be liquidated over more than one fiscal period.

#### State Forecasting

Budget-related forecasts are made by two councils. First, the Economic and Revenue Forecast Council (ERFC) provides economic and revenue forecasts four times per year. Second, the Caseload Forecast Council (CFC) provides forecasts of caseloads in state programs such as public assistance and corrections at least three times per year. Each council consists of six members, four legislators and two gubernatorial appointees. Both the ERFC and the CFC have workgroups comprising legislative and executive staff to provide technical support to the councils.

In addition, the Office of Financial Management and the legislative fiscal committees may prepare informal budget projections on an *ad hoc* basis.

#### **Summary of Bill:**

##### Balanced Budget

When the Legislature enacts a bill that makes appropriations from the General Fund or related funds, it must prepare and publish a balance sheet demonstrating that the proposed appropriations will leave the State General Fund and related funds, in total, with a positive projected ending fund balance. "Related funds" are the Opportunity Pathways Account and the Education Legacy Trust Account. This requirement does not apply to "early action" budgets--bills that either make net reductions to general or related funds appropriations, or that increase the ending fund balance, or both.

##### Budget Outlook Process

A multi-biennium budget outlook process ("Outlook") is established. The purpose of the Outlook is to inform policymakers and the public by projecting and comparing revenue and expenditure estimates for the ensuing biennium. Each January, the Economic and Revenue Forecast Council (ERFC) must prepare a multi-biennium budget Outlook. The January Outlook must include both baseline estimates and the impact of any changes proposed by the Governor as part of his or her budget submittal.

The Outlook must estimate revenues and expenditures for the general fund and for related funds, and these estimates must reflect the most recent forecasts of the ERFC and the Caseload Forecast Council. Estimates of ensuing biennium expenditures must focus on the costs of continuing current programs and complying with statutory requirements and exclude potential policy changes. The Outlook must clearly state all revenue and expenditure assumptions and must reflect the impact of legislation with a future implementation date. The ERFC must update the Outlook to reflect the enacted budget.

The ERFC must provide a proposed Outlook methodology to the Office of Financial Management and the appropriate legislative committees by December 1, 2012.

#### Legislative and Gubernatorial Updates to Outlook

When the Governor submits budget documents to the Legislature each December, the Governor must publish a gubernatorial update to the Outlook prepared by the ERFC to reflect any changes proposed by the Governor to revenues or expenditures.

When either house of the Legislature approves or reports from committee a bill that contains appropriations from the General Fund or related funds, it must publish a legislative budget outlook for the ensuing biennium to show how the bill changes the Outlook prepared by the ERFC.

#### Proposal for Balancing Budgets in Ensuing Biennia

By December 1, 2013, the ERFC must submit to the legislature a proposed methodology for determining whether a budget is balanced for both the current and the ensuing biennium. The proposal must be based on the Outlook process, and it must analyze whether and the extent to which the methodology may reliably be used for determining whether a budget is balanced in the ensuing biennium.

#### ERFC Membership and Duties

The state Treasurer is added to the ERFC membership, and an Outlook workgroup is established to assist the ERFC in preparing the Outlook.

#### JLARC Review and Expiration

By December 1, 2022, the Joint Legislative Audit and Review Committee must report to the Legislature on the Outlook process. The act expires July 1, 2023.

**Appropriation:** None.

**Fiscal Note:** Requested on April 3, 2012.

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