

SENATE BILL REPORT

SB 5881

As Reported by Senate Committee On:
Ways & Means, March 10, 2014

Title: An act relating to revenue.

Brief Description: Relating to revenue.

Sponsors: Senator Hill.

Brief History:

Committee Activity: Ways & Means: 3/10/14 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5881 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Bailey, Becker, Braun, Dammeier, Hewitt, Padden, Parlette, Rivers and Schoesler.

Minority Report: Do not pass.

Signed by Senators Hargrove, Ranking Member; Ranker, Assistant Ranking Member on the Operating Budget; Conway, Hasegawa and Kohl-Welles.

Minority Report: That it be referred without recommendation.

Signed by Senators Keiser, Assistant Ranking Member on the Capital Budget; Billig and Frockt.

Staff: Steve Jones (786-7440)

Background: In 1993 the voters of the state established, by initiative, an expenditure limit for the state general fund. In its current form, the state general fund expenditure limit for any fiscal year is the prior year's expenditure limit, increased by a fiscal growth factor consisting of the average growth in state personal income for the prior ten fiscal years.

Under legislation enacted in 2012, the Legislature must enact a budget bill that leaves a positive ending fund balance in the state general fund and related funds. In addition, the projected maintenance level for the budget in the ensuing biennium may not exceed available fiscal resources. Available fiscal resources are the existing fund balances plus the greater of (1) the official revenue forecast for the ensuing biennium, or (2) an assumed revenue increase

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of 4.5 percent for each year of the ensuing biennium. The projected maintenance level is the continuing cost of existing programs and services, monies transferred into the Budget Stabilization Account, and excluding, for the 2013-15 and 2015-17 biennia, the cost of complying with the constitutional requirement to fund basic education under the *McCleary* ruling of the state Supreme Court.

Related funds means the Washington Opportunity Pathways Account – state financial aid programs for higher education; and the Education Legacy Trust Account – enhancements to education programs.

Neither the state expenditure limit nor the balanced budget requirement establish any prioritization of state expenditures for any particular programs or functions.

The Economic and Revenue Forecast Council was established in 1984 to prepare an official state revenue forecast for use in budget preparation by the Governor and the Legislature. The council consists of two persons appointed by the Governor and four persons representing the four political caucuses of the Senate and House of Representatives.

The Budget Stabilization Account, also known as the Rainy Day Fund, was created in the state Constitution in 2007. One percent of general state revenues are deposited into the account each fiscal year. Monies may be withdrawn from the account and appropriated by the Legislature under three circumstances: (1) if the Governor declares an emergency resulting from a catastrophic event; (2) if annual state employment growth is forecast to be less than 1 percent; or (3) the appropriation is made by a 60 percent vote of each house of the Legislature.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Recommended Substitute): From July 1, 2015, through June 30, 2025, two-thirds of any expenditures of new revenue to the state general fund and related funds must be made for state education programs, including K-12 education, early learning programs, and higher education. New revenue includes the existing fund balances and is adjusted for any transfers or diversions to or from the state general fund and related funds, but excludes constitutional transfers to the Budget Stabilization Account.

The calculations necessary to determine compliance with this requirement will be performed by the Economic and Revenue Forecast Council.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect if ratified by the voters at the next general election.

Staff Summary of Public Testimony: PRO: The state has not been appropriately prioritizing its expenditures. The state has been spending disproportionately on non-

education programs, despite the mandate of the state Constitution. This represents a cost shift to property tax payers in local school districts, and to students paying higher tuition for college. This bill enforces some discipline to meet these constitutional mandates. The full spectrum of education programs needs to be made a higher priority, including early learning, K–12, and higher education. Higher education funding has declined over the past 30 years. The state is not as strong in education as it used to be, and we have lost ground in terms of quality, access, and affordability. Consistent financing of education needs to be a long-term commitment. Health and human services program also support education by making kids ready to learn. Additional revenue will likely be necessary to meet these needs. Unlike social service programs, higher education does not get caseload adjustments in the state budget. Without increased state support, tuition increases are inevitable. By prioritizing education, we will improve student outcomes.

CON: This bill takes the wrong approach and will force deep and devastating cuts to programs that help kids learn. An arbitrary funding ratio is not the solution. Instead, the Legislature should examine tax preferences and the state tax structure. State tax revenue has not kept up with the needs of the state. Homeless students need social programs that support their education. Homeless and hungry students cannot wait for education programs to lift them out of poverty. Hungry children are not ready to learn.

Persons Testifying: PRO: Senator Hill, prime sponsor; Chris Mulick, WA State University; Margaret Shepherd, University of WA; Lucas Barash-David, Associated Students of University of WA; Dawn McCravey, WA St. School Directors Assn.; Jane Broom Davidson, Microsoft; Dave Powell, Stand for Children.

CON: Kim Justice, WA Budget & Policy Center; Alex Hur, Statewide Poverty Action Network; Lani Todd, Service Employees International Union 925; Mary Clogston, American Assn. of Retired Persons of WA.

OTHER: Neil Strege, WA Roundtable.