

---

## Capital Budget Committee

---

### HJR 4209

**Brief Description:** Requiring a balanced budget.

**Sponsors:** Representatives Scott, Young, Shea, Taylor, Haler, Kochmar, Pike, Wilson and Buys.

#### Brief Summary of Bill

- Amends the constitution to establish legislative and executive requirements for enacting a balanced operating budget and preventing budget deficits.
- Amends the constitution to prohibit the legislature from appropriating more than 95 percent of estimated state General Fund resources.
- Amends the constitution to prohibit the state from borrowing to meet temporary budget deficiencies.
- Amends the constitution to prohibit bond proceeds from being spent for other than capital purposes.

**Hearing Date:** 2/17/15

**Staff:** Meg VanSchoorl (786-7105) and Kristen Fraser (786-7148).

#### **Background:**

##### Balanced Budget and Deficit Prevention.

Washington has several statutory provisions that require deficit prevention and a balanced budget. In general, these requirements are established in statute in the state Budget & Accounting Act (B&AA), chapter 43.88 RCW. Washington does not have an express balanced budget requirement in its constitution.

##### *Governor's Budget Proposal.*

Under the B&AA, the Governor must submit an operating budget proposal to the Legislature each biennium. This proposal must be based on existing revenue laws. The Governor may, however, submit an additional budget proposal that relies on changes to revenue laws (often

---

*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.*

called a "Book 2" budget). In the Governor's proposal, whether based on existing revenues laws or changes to revenue laws, the total of beginning fund balance and estimated revenues must equal or exceed proposed expenditures.

#### *Legislative Balanced Budget Requirement.*

In 2012 Washington enacted a four-year balance requirement for the operating budget. First, the Legislature must enact a budget for the current biennium that leaves a positive ending fund balance in the State General Fund (GFS) and related funds. Second, the projected GFS and related fund maintenance costs of that budget and other legislation in the ensuing biennium may not exceed the general fund and related fund revenues that are projected for that biennium. To facilitate compliance with the four-year balance requirement, the Economic & Revenue Forecast Council prepares a four-year Budget Outlook, which includes revenue and expenditure forecasts.

#### *Budget Deficits.*

If a cash deficit is projected for any account, the B&AA directs the Governor to make across-the-board reductions to allotments of appropriations from that account. A "cash deficit" occurs when expenditures are projected to exceed revenues. The Legislature, however, may authorize the liquidation of a cash deficit over more than one fiscal period.

#### *Expenditure Limit.*

State GFS expenditures are capped by the state expenditure limit. Each fiscal year's expenditure limit is based on the prior year's expenditures, adjusted for inflation as measured by personal income growth, and further adjusted for revenue and program transfers into and out of the GFS. The State Treasurer is prohibited from making payments from the GFS that exceed the limit.

#### *Reserve Funds.*

Each year, the State Treasurer must deposit 1 percent of General State Revenues (GSR) into the constitutionally created Budget Stabilization Account (BSA). (GSR is a constitutional definition that is roughly synonymous with the statutory GFS.) In general, appropriations from the BSA require a 3/5 majority in each house of the legislature, but in the case of a catastrophic event or low employment growth, the Legislature may appropriate from the BSA with a constitutional majority vote of each house.

#### State Debt and Capital Budget Appropriations.

The state Constitution establishes a debt limit and conditions under which debt may be issued. Debt subject to the limit may not exceed the amount that would cause debt service payments to exceed a specified percentage of GSR. For purposes of the limit, debt is defined as borrowed money payable from general state revenues or backed by the full faith and credit of the state. Debt subject to the limit is issued in the form of state general obligation bonds. Debt paid from certain other revenues, such as the fuel tax, may be backed by the state's full faith and credit without being subject to the debt limit.

The state may issue short-term debt outside the debt limit to meet temporary deficiencies in the treasury. This debt may not exceed the amount needed to meet enacted appropriations, and its term may not exceed one year.

In practice, the state uses bond proceeds to fund its programs of capital construction, and it generally does not appropriate bond proceeds in the operating budget. A capital project is a

project either to construct new facilities or to make significant, long-term renewal improvements to existing facilities. Per Office of Financial Management policy, a capital project financed with general obligation bonds generally have a useful life of at least 13 years and typically requires the involvement of an architect or engineer or both. In some cases, bond proceeds are appropriated in the capital budget for other purposes related to capital projects, such as equipment purchases, facility repairs, technical assistance, feasibility studies, or project oversight.

### **Summary of Bill:**

#### Balanced Budget and Deficit Prevention.

The Constitution is amended to add balanced budget and deficit prevention requirements as a new section in Article VII.

#### *Governor's Budget Proposal.*

The Governor must submit a biennial operating budget proposal before the beginning of the legislative session in each odd-numbered year. For the GFS, the proposal may not propose expenditures that exceed 95 percent of estimated GFS resources. For other funds, the proposal may not propose expenditures that exceed estimated resources for those funds. The Governor may, however, submit an alternate operating budget proposal that relies on proposed changes to revenue laws.

#### *Legislative Balanced Budget Requirements.*

For the GFS, the Legislature may not appropriate more than 95 percent of estimated resources for any fiscal period. If there is a declaration of emergency for purposes of the Budget Stabilization Account, then the legislature may appropriate up to the amount of estimated resources. For other funds, the Legislature may not appropriate more than estimated resources for the particular fiscal period. "Estimated resources" for an account means beginning fund balance, officially estimated revenues, and other transfers, deposits, or revenues. Official revenue estimates are made by the Economic and Revenue Forecast Council or the Office of Financial Management, as provided by law.

#### *Deficit Prevention.*

If appropriations from any particular account exceed the most recent resources estimate for that account, then within 30 days of the revenue estimate projecting the deficiency the Governor must make uniform reductions of each allotment of each appropriation from that account to prevent a deficiency. Also, the state may not carry forward a deficiency from one fiscal period to another.

The Legislature is directed to enact laws to implement these balanced budget and deficit prevention requirements.

#### State Debt and Capital Budget Appropriations.

Article VIII, sec. 1 of the state Constitution is amended to revise provisions regarding state debt.

First, the authority to issue short-term debt outside the state debt limit to meet temporary treasury deficiencies is removed from the constitution.

Second, proceeds of debt issued under Art. VIII, sec. 1 may be spent only for capital purposes. "Capital purposes" means real property or real property improvements with a projected useful life of greater than 13 years.

**Appropriation:** None.

**Fiscal Note:** Not requested.