HOUSE BILL ANALYSIS
PSHB 3121

Title: An act relating to strengthening the state expenditure limit.

Brief Description: Strengthening the state expenditure limit.

Sponsors: Representatives Huff, Lisk, Pennington, Radcliff, Mastin, McMorris, Lambert, Woods, Benson, Delvin, Skinner, Bush, Wensman, Boldt, Barlean, Thomas, Parlette, Pflug, Fortunato, Cairnes, Talcott, Mulliken and Esser.

Background: Initiative 601, enacted by the voters in 1993, established a annual limitation on state General Fund expenditures. Adjustments to the limit may be made for several reasons. First, the limit increases each year by the fiscal growth factor, which is population growth added to inflation. Second, the initiative is also adjusted, or rebased, each year based on actual expenditures. In other words, if actual expenditures are less than the limit, the amount of the expenditures, rather than the limit, is used to rebase the limit. Third, the limit may require adjustment if the moneys or programs are transferred from the General Fund, or if the costs of a local government program are transferred to or from the state. In all cases, the adjustments are calculated by the Office of Financial Management (OFM), the Governor's budget agency. Each November, the OFM adjusts the expenditure limit and projects a new limit for the next two years.

I-601 requires that the expenditure limit be decreased if moneys are transferred from the state general fund to another fund or account. The OFM has ruled that certain transactions constitute money transfers and thus require reduction to the general fund expenditure limit. For example, when the Legislature transferred $29 million to the Flood Control Assistance Account in 1996, the expenditure limit was reduced.

On the other hand, some transactions have not been deemed to require a reduction of the expenditure limit. For example, when the state allowed local governments to take a credit against the state sales tax for the purpose of building baseball and football stadiums (Chapter 1, Laws of 1995 3rd spec. sess., and Chapter 220, Laws of 1997), OFM concluded that the tax credits were not "money transfers" and did not require reduction of the limit. Similarly, tax credits for rural counties were not deemed to lower the limit (Chapter 311, Laws of 1999).

Initiative 601's transfer provisions are a "one-way street." I-601 requires reduction of the state expenditure limit if moneys or programs are transferred *out* of the general fund, but it does not permit an increase of the limit if moneys or programs are transferred *into* the general fund.

Summary: A newly established Expenditure Limit Committee, rather than the OFM, is responsible for making adjustments to the state expenditure limit. The committee consists of the director of the OFM, the State Treasurer, and the chairs of the Senate Ways & Means and the House Appropriations Committee. All actions of the committee require an affirmative vote of at least three members of the committee. If at least three members cannot agree, the state treasurer makes the necessary adjustments and projections.

Transfers of money from the state general fund are specifically defined to include legislative actions that have the effect of reducing revenues from a particular source that otherwise would have been deposited in the General Fund while increasing the revenues from that source to another state or local government account. This change applies to state legislative actions taken after July 1, 2000.

The initiative's transfer language becomes a "two-way street." This permits upward as well as downward adjustments to the limit for money or program transfers. If the cost of a state program or function is shifted *to* the state General Fund, or if moneys are transferred *to* the General Fund from another fund or account, then the limit must be increased.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect July 1, 2000.