

FINAL BILL REPORT

EHB 3169

C 2 L 00 E2

Synopsis as Enacted

Brief Description: Strengthening the state expenditure limit and providing for timely deposits to the education construction fund.

Sponsors: Representatives Barlean, Doumit, Huff, H. Sommers, D. Schmidt, Ruderman, Hankins, Edmonds, Alexander, Kenney, Schindler, Miloscia, Tokuda, Quall, Lantz, Linville, Fortunato, Boldt, Fisher, Edwards, Constantine, Romero, Scott, Keiser, Schual-Berke, McIntire, Kastama, Hatfield, Carlson, McDonald, Kessler, Ogden, Dunshee, Cooper, Wood, Regala, O'Brien, Stensen, Anderson, Wolfe, Morris, Veloria, Benson, Hurst, Rockefeller, Sullivan, Woods, Lisk, Parlette, Campbell, Talcott, Ballasiotes and Thomas.

House Committee on Appropriations

Background:

Initiative 601, enacted by the voters in 1993, established a 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, the OFM concluded that the tax credits were not "money transfers" and did not require reduction of the limit.

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.

The initiative also established the Emergency Reserve Fund, into which are deposited all State General Fund revenues that exceed the state expenditure limit. On a quarterly basis during each fiscal year, the State Treasurer deposits state revenues into the Emergency Reserve Fund based on the current state revenue projections.

If the amount in the Emergency Reserve Fund exceeds 5 percent of biennial general fund revenues, the excess amount is deposited in the Education Construction Fund, from which the Legislature may appropriate moneys for construction projects of the K-12 school system and higher education institutions. Moneys in the Education Construction Fund may be used for other purposes with a two-thirds vote of each house of the Legislature and voter approval.

Following the end of the fiscal year, if actual revenues are subsequently determined to differ from the projected revenues, the State Treasurer is not authorized to adjust deposits the amount in the Emergency Reserve Fund or the Education Construction Fund.

Summary of Bill:

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 Attorney General, 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 Attorney General 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.

The State Treasurer must make transfers between the State General Fund, the Emergency Reserve Fund, and the Education Construction Fund as necessary to reconcile actual state revenues and the state expenditure limit. This applies to deposits made in fiscal year 2000 and thereafter.

The Emergency Reserve Fund balance is limited to 5 percent of annual (instead of biennial) State General Fund revenues, which lowers the threshold at which moneys are deposited into the Education Construction Fund.

Votes on Final Passage:

First Special Session

House 95 3

Second Special Session

House 88 9

Senate 27 18

Effective: July 1, 2000