

HOUSE BILL REPORT

SSB 6078

As Reported by House Committee On:
Appropriations

Title: An act relating to state expenditure limitations.

Brief Description: Controlling state expenditures.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Regala and Kohl-Welles).

Brief History:

Committee Activity:

Appropriations: 4/2/05 [DPA].

**Brief Summary of Substitute Bill
(As Amended by House Committee)**

Authorizes the Legislature to take actions that raise state revenues with a majority rather than a two-thirds vote from the time the bill is enacted until June 30, 2007.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended. Signed by 15 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Cody, Conway, Darneille, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, McDermott, McIntire, Miloscia and Schual-Berke.

Minority Report: Do not pass. Signed by 13 members: Representatives Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Bailey, Buri, Clements, Haigh, Hinkle, Linville, Pearson, Priest, Talcott and Walsh.

Staff: Dave Johnson (786-7154).

Background:

Initiative 601, enacted in 1993, established an expenditure limit for the State General Fund and placed restrictions on state fees and taxes.

Under the initiative, a two-thirds vote of the Legislature is required for any action of the Legislature that raises state revenue or for an action that constitutes a revenue neutral tax shift.

The expenditure limit applies only to the State General Fund. The annual growth in state general fund expenditures is limited to the "fiscal growth factor" plus any adjustments as set forth in statute. The fiscal growth factor is defined as the average rate of state population increase and inflation, as measured by the implicit price deflator, during the prior three fiscal years.

The expenditure limit is adjusted downward annually to reflect the extent to which actual general fund expenditures in the prior year are less than the maximum amount allowed under the expenditure limit. This is sometimes referred to as rebasing. Other downward adjustments to the spending limit are required when program costs or moneys are shifted out of the State General Fund to other dedicated accounts.

Upward adjustments to the spending limit occur if program costs or moneys are transferred into the State General Fund from other accounts. Other adjustments (both upward and downward) occur if federal or local government costs are shifted to or from the State General Fund.

The Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. The Expenditure Limit Committee consists of the Director of Financial Management, a designee of the Attorney General, and the chairs of the Senate Ways & Means and the House Appropriations Committees.

Summary of Amended Bill:

The existing supermajority legislative vote requirement for bills that raise state revenue or constitute revenue neutral tax shifts is revised. Between the effective date of this act and June 30, 2007, a two-thirds vote of both houses is not required for legislative actions that raise state revenue or constitute a revenue neutral tax shift if state expenditures do not exceed the state expenditure limit. Instead, a majority vote is required for those actions.

Amended Bill Compared to Substitute Bill:

The amended bill removes the two-thirds vote requirement only for action taken between the acts and effective date of June 30, 2007. The amended bill removes the changes to calculation of the expenditure limit, calculation of the fiscal growth factor, the application of the limit to additional funds, and the changes to the membership of the Expenditure Limit Committee.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: The original intent of Initiative 601 was to control spending while still ensuring the funding of essential state services. The spending limit should be a transparent thing. Changes made by both Republican and Democrat budget writers have clouded the transparency of the limit. This would strengthen the limit by avoiding all of the transfers and by expanding the funds covered under the limit. All of these changes will help make the limit more transparent. Personal income is a more accurate reflection of the population and inflationary pressures that we face in writing a budget. Pegging the limit to more realistic measures and correcting some of these flaws makes all of the sense in the world.

Testimony Against: Initiative 601 has been watered down but it still has some strength. The initiative has kept budget growth lower than it otherwise would have been and helped smooth out the boom and bust cycles. The current method of calculating the fiscal growth factor and two thirds vote requirements are important and should remain. Small businesses insist that the Legislature have very significant debate and compromise in a bipartisan fashion before enacting tax increases. The emergency clause should be removed. When combined with the change to personal income, it is very important to include rebasing as wage growth has sometimes exceeded what business are actually bringing into their businesses.

Persons Testifying: (In support) Senator Regala, prime sponsor; and Len McComb, Washington State Hospital Association.

(Opposed) Tom McBride, Association of Washington Business; and Carolyn Logue, National Federation of Independent Businesses.

Persons Signed In To Testify But Not Testifying: None.