

SENATE BILL REPORT

SSB 6078

As Passed Senate, March 15, 2005

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: Ways & Means:3/7/05 [DPS, DNP] 3/7/05.
Passed Senate: 3/15/05, 25-21.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6078 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Fairley, Kohl-Welles, Pridemore, Rasmussen, Regala, Rockefeller and Thibaudeau.

Minority Report: Do not pass.

Signed by Senators Zarelli, Ranking Minority Member; Brandland, Parlette, Pflug, Roach and Schoesler.

Staff: Steve Jones (786-7440)

Background: Initiative 601, enacted in 1993, established a state General Fund expenditure limit and restrictions on state fee and revenue increases.

Under the initiative, a two-thirds vote of the Legislature is required for any action of the Legislature that raises state revenue. The annual growth in state General Fund expenditures is limited to the "fiscal growth factor" (the average rate of state population increase and inflation during the prior three fiscal years). The State Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. The State Expenditure Limit Committee consists of the Director of Financial Management, a designee of the Attorney General, and the chairs of the Senate Ways & Means Committee and the Appropriations Committee of the House of Representatives.

The state expenditure limit is adjusted downward to reflect the extent to which actual General Fund expenditures in prior years are less than the maximum amount allowed under the expenditure limit. Other downward adjustments to the spending limit are required when state program costs or moneys are shifted out of the General Fund to other dedicated accounts. Upward adjustments to the spending limit occur if state program costs or moneys are transferred to the state General Fund from other accounts. Other adjustments occur if federal or local government costs are shifted to or from the state General Fund.

Summary of Bill: Effective immediately, the Legislature may enact legislation increasing state revenue by a majority vote.

Effective for the 2007-'09 biennium and thereafter, the state expenditure limit will apply to the state General Fund and five additional funds: Health Services Account; Violence Reduction & Drug Enforcement Account; Public Safety & Education Account; Water Quality Account; and Student Achievement Fund. The State Expenditure Limit Committee will include the ranking minority members of the Senate Ways & Means Committee and the Appropriations Committee of the House of Representatives. The fiscal growth factor will be based on 90 percent of state personal income growth, and the expenditure limit will not be recalculated based on actual expenditures in the prior fiscal year. Transferring money to the General Fund will not increase the state expenditure limit, and the shift of program costs to the General Fund will not raise the limit unless the necessary revenues are also transferred.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: The membership of the State Expenditure Limit Committee is modified.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Testimony For: It is time to thoughtfully review the effectiveness and the impact of the state expenditure limit. Initiative 601 needs to be restored to its original intent. The limit has been seriously diluted and has been amended many times. For example, the "two-way street" provisions have become a major superhighway that has allowed the expenditure limit to be modified and manipulated. Bringing additional funds within the state expenditure limit will increase the effectiveness of the limit because these other funds are used in ways that are very similar to the state General Fund. Personal income, which better reflects the state's economic growth, will allow the expenditure limit to keep pace with the critical needs of essential state services, such as the state correctional system.

Testimony Against: None.

Who Testified: PRO: Senator Regala, prime sponsor.

House Amendment: The House amendment allows revenue increases with a simple majority vote until June 30, 2007, after which date a two-thirds vote will be required. Beginning July 1, 2007, the fiscal growth factor will be based on a ten-year average of state personal income growth (instead of 90 percent of personal income growth). The amendment does not change provisions of the bill including additional funds within the state expenditure limit, but the expenditure limit will be recalculated based on actual expenditures in the prior fiscal year. When revenue exceeds the state expenditure limit, money is transferred from the General Fund to the Emergency Reserve Fund in proportion to the General Fund share of the excess revenue. The amendment eliminates the requirement that interest earnings of the Emergency Reserve Fund be transferred to the multimodal transportation account. Other provisions of the Senate bill are not changed.

Passed House: 50-43.