

FINAL BILL REPORT

ESSB 6896

C 56 L 06

Synopsis as Enacted

Brief Description: Funding state budgetary reserves including an adjustment to the state expenditure limit.

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

Senate Committee on Ways & Means

Background: The state of Washington, through its Department of Retirement Systems, operates several retirement plans for public employees, including employees of the state, local governments, and school districts. Actuarial valuations of current pension fund assets and liabilities have determined that the current assets and projected future employer and employee contributions and investment earnings of several state-funded retirement systems will not be sufficient to meet the future retirement obligations of these systems. Over the next several fiscal biennia, these unfunded liabilities will require significant increases in the state's contributions to the retirement systems.

The Health Services Account was established by the Legislature in 1993 for the purpose of supporting the public health system and funding health services to low-income persons through such programs as the Basic Health Plan. The revenues to the account consist primarily of cigarette taxes, a portion of the state's share of the national tobacco litigation settlement, and other taxes. When these revenues have been insufficient to cover expected costs to the Health Services Account, the Legislature has made deposits from the state General Fund.

The Student Achievement Fund was created by the voters in 2000 by Initiative No. 728 for the purpose of funding enhancements in the K-12 school system, including reduced class sizes, professional development for educators, and early learning opportunities. The revenues to the account consist of a portion of various state taxes, including property taxes, cigarette taxes, and estate taxes.

Initiative 601, enacted in 1993, established a state General Fund expenditure limit and restrictions on state fee and revenue increases. Under the initiative, 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. (Beginning in 2007, the fiscal growth factor will be based on the 10-year average growth in state personal income, and five additional funds, including the Health Services Account, will be included within the expenditure limit.) 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 monies are shifted out of the General Fund to other dedicated accounts. Upward adjustments to the spending limit occur if state program costs or monies are transferred to the state General Fund from other accounts.

Initiative 601 also requires a two-third vote of each house of the Legislature to increase state revenues, such as a tax increase. The 2005 Legislature suspended this requirement until June 30, 2007.

Summary: The Legislature intends to provide for the fiscal stability of the Health Services Account, the Student Achievement Fund, and the state's retirement systems by making appropriations for these purposes.

The Pension Funding Stabilization Account is established for the purpose of making employer contributions to specified state-funded retirement systems, subject to legislative appropriation. Monies in the account will be invested by the State Investment Board, with the investment earnings retained in the account. New supplemental employer contribution rates are established for the purpose of reducing the unfunded actuarial liabilities of plan 1 of the Public Employees' Retirement System and the Teachers' Retirement System. For Fiscal Year 2006, three hundred fifty million dollars is appropriated for this purpose.

For Fiscal Year 2006, two hundred million dollars is appropriated from the state General Fund to the Health Services Account to provide fiscal stability for the account.

For Fiscal Year 2006, two hundred seventy-five million dollars is appropriated from the state General Fund to the Student Achievement Fund to provide fiscal stability for the fund.

The state expenditure limit for Fiscal Year 2006 is declared to be the expenditure limit as adopted at the November 2005 meeting of the Expenditure Limit Committee and adjusted upward to include the appropriations to the Pension Funding Stabilization Account, the Health Services Account, and the Student Achievement Fund. Expenditures from the Pension Funding Stabilization Account are not considered to be a program cost shift under Initiative 601.

The authority of the Legislature to increase state revenues without a two-thirds vote is terminated on June 30, 2006.

Votes on Final Passage:

Senate	25	22
House	51	47

Effective: March 15, 2006
July 1, 2006 (Section 10)