

CERTIFICATION OF ENROLLMENT

**SUBSTITUTE SENATE BILL 6078**

Chapter 72, Laws of 2005

59th Legislature  
2005 Regular Session

STATE EXPENDITURE LIMITS

EFFECTIVE DATE: 7/01/07 - Except sections 1 and 2, which become effective 4/18/05.

Passed by the Senate April 16, 2005  
YEAS 25 NAYS 16

BRAD OWEN

\_\_\_\_\_  
**President of the Senate**

Passed by the House April 15, 2005  
YEAS 50 NAYS 43

FRANK CHOPP

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**Speaker of the House of Representatives**

CERTIFICATE

I, Thomas Hoemann, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SUBSTITUTE SENATE BILL 6078** as passed by the Senate and the House of Representatives on the dates hereon set forth.

THOMAS HOEMANN

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**Secretary**

Approved April 18, 2005.

FILED

April 18, 2005 - 1:48 p.m.

CHRISTINE GREGOIRE

\_\_\_\_\_  
**Governor of the State of Washington**

**Secretary of State  
State of Washington**

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**SUBSTITUTE SENATE BILL 6078**

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AS AMENDED BY THE HOUSE

Passed Legislature - 2005 Regular Session

**State of Washington**                      **59th Legislature**                      **2005 Regular Session**

**By** Senate Committee on Ways & Means (originally sponsored by  
Senators Regala and Kohl-Welles)

READ FIRST TIME 03/08/05.

1            AN ACT Relating to state expenditure limitations; amending RCW  
2 43.135.010, 43.135.025, 43.135.035, and 43.135.045; reenacting and  
3 amending RCW 43.135.035; creating a new section; providing an effective  
4 date; and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6            NEW SECTION.    **Sec. 1.** The legislature finds that the citizens of  
7 the state benefit from a state expenditure limit that ensures that the  
8 state budget operates with stability and predictability, while  
9 encouraging the establishment of budget priorities and a periodic  
10 review of state programs and the delivery of state services. A state  
11 expenditure limit can prevent budgeting crises that can occur because  
12 of increased spending levels during periods of revenue surplus followed  
13 by drastic reductions in state services in lean years. The citizens of  
14 the state are best served by an expenditure limit that keeps pace with  
15 the growth in the state's economy yet ensures budget discipline and  
16 taxpayer protection. For these reasons, the legislature finds that  
17 modifications to the state expenditure limit, after ten years of  
18 experience following the initial implementation of Initiative Measure  
19 No. 601, will recognize the economic productivity of the state's

1 economy and better balance the needs of the citizens for essential  
2 government services with the obligation of the legislature for strict  
3 spending accountability and protection of its taxpayers.

4 **Sec. 2.** RCW 43.135.035 and 2001 c 3 s 8 and 2000 2nd sp.s. c 2 s  
5 2 are each reenacted and amended to read as follows:

6 (1) After July 1, 1995, any action or combination of actions by the  
7 legislature that raises state revenue or requires revenue-neutral tax  
8 shifts may be taken only if approved by a two-thirds vote of each  
9 house, and then only if state expenditures in any fiscal year,  
10 including the new revenue, will not exceed the state expenditure limits  
11 established under this chapter. However, for legislation enacted  
12 between the effective date of this 2005 act and June 30, 2007, any  
13 action or combination of actions by the legislature that raises state  
14 revenue or requires revenue-neutral tax shifts may be taken with the  
15 approval of a majority of members elected to each house, so long as  
16 state expenditures in any fiscal year, including the new revenue, will  
17 not exceed the state expenditure limits established under this chapter.

18 (2)(a) If the legislative action under subsection (1) of this  
19 section will result in expenditures in excess of the state expenditure  
20 limit, then the action of the legislature shall not take effect until  
21 approved by a vote of the people at a November general election. The  
22 (~~office of financial management~~) state expenditure limit committee  
23 shall adjust the state expenditure limit by the amount of additional  
24 revenue approved by the voters under this section. This adjustment  
25 shall not exceed the amount of revenue generated by the legislative  
26 action during the first full fiscal year in which it is in effect. The  
27 state expenditure limit shall be adjusted downward upon expiration or  
28 repeal of the legislative action.

29 (b) The ballot title for any vote of the people required under this  
30 section shall be substantially as follows:

31 "Shall taxes be imposed on . . . . . in order to allow a  
32 spending increase above last year's authorized spending adjusted for  
33 inflation and population increases?"

34 (3)(a) The state expenditure limit may be exceeded upon declaration  
35 of an emergency for a period not to exceed twenty-four months by a law  
36 approved by a two-thirds vote of each house of the legislature and  
37 signed by the governor. The law shall set forth the nature of the

1 emergency, which is limited to natural disasters that require immediate  
2 government action to alleviate human suffering and provide humanitarian  
3 assistance. The state expenditure limit may be exceeded for no more  
4 than twenty-four months following the declaration of the emergency and  
5 only for the purposes contained in the emergency declaration.

6 (b) Additional taxes required for an emergency under this section  
7 may be imposed only until thirty days following the next general  
8 election, unless an extension is approved at that general election.  
9 The additional taxes shall expire upon expiration of the declaration of  
10 emergency. The legislature shall not impose additional taxes for  
11 emergency purposes under this subsection unless funds in the education  
12 construction fund have been exhausted.

13 (c) The state or any political subdivision of the state shall not  
14 impose any tax on intangible property listed in RCW 84.36.070 as that  
15 statute exists on January 1, 1993.

16 (4) If the cost of any state program or function is shifted from  
17 the state general fund on or after January 1, 1993, to another source  
18 of funding, or if moneys are transferred from the state general fund to  
19 another fund or account, the state expenditure limit committee, acting  
20 pursuant to RCW 43.135.025(5), shall lower the state expenditure limit  
21 to reflect the shift. For the purposes of this section, a transfer of  
22 money from the state general fund to another fund or account includes  
23 any state legislative action taken (~~((after July 1, 2000,))~~) that has the  
24 effect of reducing revenues from a particular source, where such  
25 revenues would otherwise be deposited into the state general fund,  
26 while increasing the revenues from that particular source to another  
27 state or local government account. This subsection does not apply to  
28 the dedication or use of lottery revenues under RCW 67.70.240(3) or  
29 property taxes under RCW 84.52.068, in support of education or  
30 education expenditures.

31 (5) If the cost of any state program or function is shifted to the  
32 state general fund on or after January 1, 2000, from another source of  
33 funding, or if moneys are transferred to the state general fund from  
34 another fund or account, the state expenditure limit committee, acting  
35 pursuant to RCW 43.135.025(5), shall increase the state expenditure  
36 limit to reflect the shift.

1       **Sec. 3.** RCW 43.135.010 and 1994 c 2 s 1 are each amended to read  
2 as follows:

3       The people of the state of Washington hereby find and declare:

4       (1) The continuing increases in our state tax burden and the  
5 corresponding growth of state government is contrary to the interest of  
6 the people of the state of Washington.

7       (2) It is necessary to limit the rate of growth of state government  
8 while assuring adequate funding of essential services, including basic  
9 education as defined by the legislature.

10       (3) The current budgetary system in the state of Washington lacks  
11 stability. The system encourages crisis budgeting and results in  
12 cutbacks during lean years and overspending during surplus years.

13       (4) It is therefore the intent of this chapter to:

14       (a) Establish a limit on state expenditures that will assure that  
15 the growth rate of state expenditures does not exceed the growth rate  
16 (~~(of inflation and state population)~~) in Washington personal income;

17       (b) Assure that local governments are provided funds adequate to  
18 render those services deemed essential by their citizens;

19       (c) Assure that the state does not impose responsibility on local  
20 governments for new programs or increased levels of service under  
21 existing programs unless the costs thereof are paid by the state;

22       (d) Provide for adjustment of the limit when costs of a program are  
23 transferred between the state and another political entity;

24       (e) Establish a procedure for exceeding this limit in emergency  
25 situations;

26       (f) Provide for voter approval of tax increases; and

27       (g) Avoid overfunding and underfunding state programs by providing  
28 stability, consistency, and long-range planning.

29       **Sec. 4.** RCW 43.135.025 and 2000 2nd sp.s. c 2 s 1 are each amended  
30 to read as follows:

31       (1) The state shall not expend from the general fund and related  
32 funds during any fiscal year state moneys in excess of the state  
33 expenditure limit established under this chapter.

34       (2) Except pursuant to a declaration of emergency under RCW  
35 43.135.035 or pursuant to an appropriation under RCW 43.135.045(4)(b),  
36 the state treasurer shall not issue or redeem any check, warrant, or  
37 voucher that will result in a state general fund or related fund

1 expenditure for any fiscal year in excess of the state expenditure  
2 limit established under this chapter. A violation of this subsection  
3 constitutes a violation of RCW 43.88.290 and shall subject the state  
4 treasurer to the penalties provided in RCW 43.88.300.

5 (3) The state expenditure limit for any fiscal year shall be the  
6 previous fiscal year's state expenditure limit increased by a  
7 percentage rate that equals the fiscal growth factor.

8 (4) For purposes of computing the state expenditure limit for the  
9 fiscal year beginning July 1, ~~((1995))~~ 2007, the phrase "the previous  
10 fiscal year's state expenditure limit" means the total state  
11 expenditures from the state general fund and related funds, not  
12 including federal funds, for the fiscal year beginning July 1, ~~((1989))~~  
13 2006, plus the fiscal growth factor. ~~((This calculation is then  
14 computed for the state expenditure limit for fiscal years 1992, 1993,  
15 1994, and 1995, and as required under RCW 43.135.035(4).))~~

16 (5) A state expenditure limit committee is established for the  
17 purpose of determining and adjusting the state expenditure limit as  
18 provided in this chapter. The members of the state expenditure limit  
19 committee are the director of financial management, the attorney  
20 general or the attorney general's designee, and the chairs and ranking  
21 minority members of the senate committee on ways and means and the  
22 house of representatives committee on appropriations. All actions of  
23 the state expenditure limit committee taken pursuant to this chapter  
24 require an affirmative vote of at least ~~((three))~~ four members.

25 (6) Each November, the state expenditure limit committee shall  
26 adjust the expenditure limit for the preceding fiscal year based on  
27 actual expenditures and known changes in the fiscal growth factor and  
28 then project an expenditure limit for the next two fiscal years. If,  
29 by November 30th, the state expenditure limit committee has not adopted  
30 the expenditure limit adjustment and projected expenditure limit as  
31 provided in subsection (5) of this section, the attorney general or his  
32 or her designee shall adjust or project the expenditure limit, as  
33 necessary.

34 (7) "Fiscal growth factor" means the average ~~((of the sum of  
35 inflation and population change for each of the prior three fiscal  
36 years))~~ growth in state personal income for the prior ten fiscal years.

37 (8) ~~((("Inflation" means the percentage change in the implicit price~~

1 ~~deflator for the United States for each fiscal year as published by the~~  
2 ~~federal bureau of labor statistics.~~

3 ~~(9) "Population change" means the percentage change in state~~  
4 ~~population for each fiscal year as reported by the office of financial~~  
5 ~~management.)) "General fund" means the state general fund.~~

6 ~~(9) "Related fund" means the health services account, violence~~  
7 ~~reduction and drug enforcement account, public safety and education~~  
8 ~~account, water quality account, or student achievement fund.~~

9 **Sec. 5.** RCW 43.135.035 and 2005 c ... s 2 (section 2 of this act)  
10 are each amended to read as follows:

11 (1) After July 1, 1995, any action or combination of actions by the  
12 legislature that raises state revenue or requires revenue-neutral tax  
13 shifts may be taken only if approved by a two-thirds vote of each  
14 house, and then only if state expenditures in any fiscal year,  
15 including the new revenue, will not exceed the state expenditure limits  
16 established under this chapter. ~~((However, for legislation enacted~~  
17 ~~between the effective date of this 2005 act and June 30, 2007, any~~  
18 ~~action or combination of actions by the legislature that raises state~~  
19 ~~revenue or requires revenue neutral tax shifts may be taken with the~~  
20 ~~approval of a majority of members elected to each house, so long as~~  
21 ~~state expenditures in any fiscal year, including the new revenue, will~~  
22 ~~not exceed the state expenditure limits established under this~~  
23 ~~chapter.))~~

24 (2)(a) If the legislative action under subsection (1) of this  
25 section will result in expenditures in excess of the state expenditure  
26 limit, then the action of the legislature shall not take effect until  
27 approved by a vote of the people at a November general election. The  
28 state expenditure limit committee shall adjust the state expenditure  
29 limit by the amount of additional revenue approved by the voters under  
30 this section. This adjustment shall not exceed the amount of revenue  
31 generated by the legislative action during the first full fiscal year  
32 in which it is in effect. The state expenditure limit shall be  
33 adjusted downward upon expiration or repeal of the legislative action.

34 (b) The ballot title for any vote of the people required under this  
35 section shall be substantially as follows:

36 "Shall taxes be imposed on . . . . . in order to allow a

1 spending increase above last year's authorized spending adjusted for  
2 (~~inflation and population increases~~) personal income growth?"

3 (3)(a) The state expenditure limit may be exceeded upon declaration  
4 of an emergency for a period not to exceed twenty-four months by a law  
5 approved by a two-thirds vote of each house of the legislature and  
6 signed by the governor. The law shall set forth the nature of the  
7 emergency, which is limited to natural disasters that require immediate  
8 government action to alleviate human suffering and provide humanitarian  
9 assistance. The state expenditure limit may be exceeded for no more  
10 than twenty-four months following the declaration of the emergency and  
11 only for the purposes contained in the emergency declaration.

12 (b) Additional taxes required for an emergency under this section  
13 may be imposed only until thirty days following the next general  
14 election, unless an extension is approved at that general election.  
15 The additional taxes shall expire upon expiration of the declaration of  
16 emergency. The legislature shall not impose additional taxes for  
17 emergency purposes under this subsection unless funds in the education  
18 construction fund have been exhausted.

19 (c) The state or any political subdivision of the state shall not  
20 impose any tax on intangible property listed in RCW 84.36.070 as that  
21 statute exists on January 1, 1993.

22 (4) If the cost of any state program or function is shifted from  
23 the state general fund (~~on or after January 1, 1993,~~) or a related  
24 fund to another source of funding, or if moneys are transferred from  
25 the state general fund or a related fund to another fund or account,  
26 the state expenditure limit committee, acting pursuant to RCW  
27 43.135.025(5), shall lower the state expenditure limit to reflect the  
28 shift. For the purposes of this section, a transfer of money from the  
29 state general fund or a related fund to another fund or account  
30 includes any state legislative action taken that has the effect of  
31 reducing revenues from a particular source, where such revenues would  
32 otherwise be deposited into the state general fund or a related fund,  
33 while increasing the revenues from that particular source to another  
34 state or local government account. This subsection does not apply to  
35 the dedication or use of lottery revenues under RCW 67.70.240(3) or  
36 property taxes under RCW 84.52.068, in support of education or  
37 education expenditures.

1 (5) If the cost of any state program or function (~~(is)~~) and the  
2 ongoing revenue necessary to fund the program or function are shifted  
3 to the state general fund or a related fund on or after January 1,  
4 (~~(2000, from another source of funding, or if moneys are transferred to~~  
5 ~~the state general fund from another fund or account)) 2007, the state  
6 expenditure limit committee, acting pursuant to RCW 43.135.025(5),  
7 shall increase the state expenditure limit to reflect the shift.~~

8 **Sec. 6.** RCW 43.135.045 and 2003 1st sp.s. c 25 s 920 are each  
9 amended to read as follows:

10 (1) The emergency reserve fund is established in the state  
11 treasury. During each fiscal year, the state treasurer shall (~~(deposit~~  
12 ~~in the emergency reserve fund all general fund state revenues in~~  
13 ~~excess of the state expenditure limit for that fiscal year. Deposits))  
14 transfer an amount from the state general fund to the emergency reserve  
15 fund. The amount transferred shall equal the amount by which total  
16 state revenue for the general fund and related funds exceeds the state  
17 expenditure limit, multiplied by the percentage that general fund  
18 expenditures are of total expenditures from the general fund and  
19 related funds. Transfers shall be made at the end of each fiscal  
20 quarter based on projections of state revenues, expenditures, and the  
21 state expenditure limit. The treasurer shall make transfers between  
22 these accounts as necessary to reconcile actual annual revenues and the  
23 expenditure limit for fiscal year 2000 and thereafter.~~

24 (2) The legislature may appropriate moneys from the emergency  
25 reserve fund only with approval of at least two-thirds of the members  
26 of each house of the legislature, and then only if the appropriation  
27 does not cause total expenditures to exceed the state expenditure limit  
28 under this chapter.

29 (3) The emergency reserve fund balance shall not exceed five  
30 percent of annual general fund--state revenues as projected by the  
31 official state revenue forecast. Any balance in excess of five percent  
32 shall be transferred on a quarterly basis by the state treasurer as  
33 follows: Seventy-five percent to the student achievement fund hereby  
34 created in the state treasury and twenty-five percent to the general  
35 fund balance. The treasurer shall make transfers between these  
36 accounts as necessary to reconcile actual annual revenues for fiscal  
37 year 2000 and thereafter. When per-student state funding for the

1 maintenance and operation of K-12 education meets a level of no less  
2 than ninety percent of the national average of total funding from all  
3 sources per student as determined by the most recent published data  
4 from the national center for education statistics of the United States  
5 department of education, as calculated by the office of financial  
6 management, further deposits to the student achievement fund shall be  
7 required only to the extent necessary to maintain the ninety-percent  
8 level. Remaining funds are part of the general fund balance and these  
9 funds are subject to the expenditure limits of this chapter.

10 (4) The education construction fund is hereby created in the state  
11 treasury.

12 (a) Funds may be appropriated from the education construction fund  
13 exclusively for common school construction or higher education  
14 construction.

15 (b) Funds may be appropriated for any other purpose only if  
16 approved by a two-thirds vote of each house of the legislature and if  
17 approved by a vote of the people at the next general election. An  
18 appropriation approved by the people under this subsection shall result  
19 in an adjustment to the state expenditure limit only for the fiscal  
20 period for which the appropriation is made and shall not affect any  
21 subsequent fiscal period.

22 (5) Funds from the student achievement fund shall be appropriated  
23 to the superintendent of public instruction strictly for distribution  
24 to school districts to meet the provisions set out in the student  
25 achievement act. Allocations shall be made on an equal per full-time  
26 equivalent student basis to each school district.

27 ~~((6) Earnings of the emergency reserve fund under RCW  
28 43.84.092(4)(a) shall be transferred quarterly to the multimodal  
29 transportation account, except for those earnings that are in excess of  
30 thirty five million dollars each fiscal year. Within thirty days  
31 following any fiscal year in which earnings transferred to the  
32 multimodal transportation account under this subsection did not total  
33 thirty five million dollars, the state treasurer shall transfer from  
34 the emergency reserve fund an amount necessary to bring the total  
35 deposited in the multimodal transportation account under this  
36 subsection to thirty five million dollars. The revenues to the  
37 multimodal transportation account reflected in this subsection provide  
38 ongoing support for the transportation programs of the state. However,~~

1 ~~it is the intent of the legislature that any new long-term financial~~  
2 ~~support that may be subsequently provided for transportation programs~~  
3 ~~will be used to replace and supplant the revenues reflected in this~~  
4 ~~subsection, thereby allowing those revenues to be returned to the~~  
5 ~~purposes to which they were previously dedicated. No transfers from~~  
6 ~~the emergency reserve fund to the multimodal fund shall be made during~~  
7 ~~the 2003-05 fiscal biennium.))~~

8 NEW SECTION. **Sec. 7.** (1) Sections 1 and 2 of this act are  
9 necessary for the immediate preservation of the public peace, health,  
10 or safety, or support of the state government and its existing public  
11 institutions, and take effect immediately.

12 (2) Sections 3 through 6 of this act take effect July 1, 2007.

Passed by the Senate April 16, 2005.

Passed by the House April 15, 2005.

Approved by the Governor April 18, 2005.

Filed in Office of Secretary of State April 18, 2005.