

SENATE BILL REPORT

SJR 8226

AS REPORTED BY COMMITTEE ON WAYS & MEANS, JANUARY 20, 1992

**Brief Description:** Amending the Constitution to create an emergency reserve fund.

**SPONSORS:** Senators McDonald, Bluechel, Sutherland, Stratton, Craswell, Rasmussen, McCaslin, McMullen, Hayner, Conner, Bailey, Owen, Amondson, Madsen, Newhouse, Anderson, Sellar, Johnson, Metcalf, Roach, Oke, Thorsness, Patterson, Erwin, L. Smith and Bauer.

**SENATE COMMITTEE ON WAYS & MEANS**

**Majority Report:** Do pass.

Signed by Senators McDonald, Chairman; Craswell, Vice Chairman; Bailey, Bluechel, Cantu, Hayner, Johnson, Matson, Metcalf, Newhouse, L. Smith, and West.

**Minority Report:** Do not pass.

Signed by Senators Bauer, Gaspard, M. Kreidler, Murray, Niemi, Rinehart, Talmadge, and Wojahn.

**Staff:** Steve Jones (786-7715)

**Hearing Dates:** February 21, 1991; February 25, 1991; January 16, 1992; January 20, 1992

**BACKGROUND:**

"Emergency reserve funds" are contingency funds set aside during times of strong economic growth to be spent during periods of weak economic growth. The state's revenue from taxes, like the overall economy, does not grow at a constant rate but is subject to cycles. To reduce vulnerability to economic fluctuations and help stabilize rates of state tax revenue and expenditures, many states have created emergency reserve funds.

Washington State created, by statute, a budget stabilization account in 1981. Funds are deposited in the budget stabilization account only by appropriation and if: (a) there is an ending fund balance at the end of the biennium; or (b) the annual growth rate of state personal income, after adjusting for inflation, exceeds 3 percent. Legislative appropriations to the budget stabilization account have been \$60 million in 1989 and \$200 million in 1990.

**SUMMARY:**

The State Constitution is amended to establish an emergency reserve fund. Beginning in fiscal year 1994, the State Treasurer is directed to transfer into the fund, without

appropriation, a specified percentage of general fund-state revenues. The specified amount is 0.5 percent in fiscal year 1994, 1.0 percent in fiscal year 1995, and 1.5 percent in fiscal year 1996 and each year thereafter. Any balance in the emergency reserve fund in excess of 5.0 percent of general fund-state revenues, as well as any earnings of the fund, are transferred from the fund and dedicated to common school construction and higher education capital facilities, subject to appropriation.

Withdrawals from the emergency reserve fund require a declaration of emergency by the Governor and the approval of two-thirds of the members of each house of the Legislature.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** available

**TESTIMONY FOR:**

The creating of an emergency reserve fund in the State Constitution is the best protection against economic fluctuations, short-term cash deficits, and major casualty losses, as well as providing needed funds for education construction. A mandatory reserve fund, requiring a supermajority vote for withdrawals, is a necessary structural change to put discipline into the state spending process. The existing statutory budget stabilization account is inadequate because it can be easily circumvented.

**TESTIMONY AGAINST:** None

**TESTIFIED:** John Carlson, Washington Institute on Public Policy; Walt Howe, Washington Roundtable; Tom Dooley, Assoc. of Washington Business; Dick Davis, Washington Research Council; Nancy Bratton, Greater Seattle Chamber of Commerce; Gary Smith, Independent Business Assoc.