

SENATE BILL REPORT

SB 5000

As of January 31, 2007

Title: An act relating to a rainy day reserve fund.

Brief Description: Implementing a proposed constitutional amendment creating a rainy day reserve fund.

Sponsors: Senators Zarelli, Benton, Parlette, Holmquist, Stevens, Swecker, Pflug, Delvin, McCaslin, Brandland, Schoesler, Honeyford, Hewitt, Roach and Sheldon.

Brief History:

Committee Activity: Ways & Means: 1/30/07.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Steve Jones (786-7440)

Background: Initiative 601, adopted by the voters in 1993, established by statute a State General Fund expenditure limit and created the Emergency Reserve Fund. The Emergency Reserve Fund receives all state General Fund revenues in excess of the state expenditure limit. Appropriations may be made from the Emergency Reserve Fund only by a two-thirds vote of the Legislature.

"General state revenues" is defined in the State Constitution as being all state revenues that are not dedicated to a particular purpose. Thus, general state revenues consist of all revenues to the State General Fund, with the exception of property tax revenues, which are dedicated to the common school system.

Summary of Bill: Legislation is adopted to implement 2007 Senate Joint Resolution 8200, amending the state Constitution to establish a Rainy Day Reserve Fund.

The fund is managed and invested by the State Investment Board. Net investment earnings of the Rainy Day Reserve Fund are deposited to the Education Legacy Trust Account, which was established by the 2005 Legislature to fund enhancements to K-12 and higher education.

To the extent that the balance of the Rainy Day Reserve Fund exceeds ten percent of general state revenues, withdrawals may be made with a simple majority vote of the Legislature. If unfunded liabilities exist in any state retirement systems, the withdrawals from the Rainy Day Reserve Fund must be used to fund the liabilities.

The Economic and Revenue Forecast Council performs the state employment and revenue forecasts required for the Rainy Day Reserve Fund.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Emergency Reserve Fund is abolished.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on June 1, 2008, if Senate Joint Resolution 8200 is ratified by the voters.

Staff Summary of Public Testimony: PRO: A rainy day reserve fund will provide for the structural sustainability of state budgets over time. The current economic conditions provide a strategic opportunity for the creation of a budget reserve, which will improve the state's bond rating and save state debt service costs by lowering the interest rate paid on state bonds. Just as a family saves a portion of its income for a rainy day, the state should not spend all of its income during periods of economic growth. A downturn in the economic cycle is inevitable. Establishing the reserve fund in the State Constitution on a bipartisan basis will enforce good budgeting discipline by restricting access to the monies held in reserve. Small businesses are excited about this proposal because it will help avoid tax increases during economic downturns, when businesses are vulnerable. The criteria for legislative withdrawals from the fund should be very strict.

Persons Testifying: PRO: Senator Joseph Zarelli, prime sponsor; Senator Lisa Brown; Senator Rosa Franklin; Victor Moore, Office of Financial Management; Jason Mercier, Evergreen Freedom Foundation; Carolyn Logue, National Federation of Independent Businesses.