



BALANCING THE OPERATING BUDGET

BRIEFLY

Legislation enacted at the end of the first special session requires the legislature to enact a four-year balanced operating budget beginning in 2013–15. It also requires that regular budget outlooks be prepared.

By requiring lawmakers to consider the four-year perspective, the adopted reform forces consideration of the long-term effects of legislation.

With budget sustainability a dominant priority, reform-minded legislators insisted that the 2012 supplemental budget compromise include legislation requiring four-year balanced operating budgets. Currently, the legislature is under no constitutional or statutory obligation to enact a balanced budget, let alone one that is balanced over four years. (The governor is required by law to *propose* a balanced budget.)

Under SSB 6636 (signed by the governor May 2), beginning with the 2013–15 biennium (which starts July 1, 2013), the legislature will have to “enact a balanced omnibus operating appropriations bill that leaves, in total, a positive ending fund balance in the general fund and related funds.” Additionally, “the projected maintenance level of the omnibus appropriations bill enacted by the legislature shall not exceed the available fiscal resources for the next ensuing fiscal biennium.” The bill also requires regular budget outlooks to illustrate what the future may look like under current law.

Defining the Budget

The legislation requires a positive ending balance in the current biennium on a general fund–state (GFS) and related funds basis. “Related funds” are defined as the education legacy trust account and the opportunity pathways account. Thus, the bill requires the budget to be balanced on a near general fund–state plus opportunity pathways (NGFS+) basis. This definition of the operating budget is consistent with legislative fiscal committee staff practice in budget documents in recent years, reflecting their belief that the NGFS+ better reflects the entire budget situation than the GFS. (As background, the near general fund–state is a synthetic “account” that rolls up the GFS with the education legacy trust account.)

Maintenance Level and Available Resources

For the second biennium of the four-year period, projected maintenance level spending cannot exceed estimated resources. “Projected maintenance level” includes the estimated appropriations needed to “maintain the continuing costs of program and service levels either funded in that appropriations bill or mandated by other state or federal law, and the amount of any general fund moneys projected to be transferred to the budget stabilization account.”

Notably, for the 2013–15 and 2015–17 biennia, the “costs related to the enhanced funding under the new definition of basic education” are not to be considered as part of maintenance level. That is, the funding needed to comply with the McCleary Supreme Court decision (which is estimated to be around \$1 billion in 2013–15) will occur outside of the balanced budget requirement.

“Available fiscal resources” are defined as the beginning NGFS+ balance and estimated NGFS+ fiscal resources (adjusted for enacted legislation). Further, forecasted revenues must be either the official NGFS+ revenue forecast for the next biennium or the official NGFS+ forecast for the second fiscal year of the current biennium increased by 4.5 percent for each fiscal year of the next biennium.

Application

The four-year balanced budget requirement will not apply to appropriations bills making net NGFS+ reductions that are enacted between July 1 and February 15 of any fiscal year. Effectively, this means that early action appropriations bills, like the 2012 supplemental that was enacted in December 2011, are not required to balance.

Additionally, if money is appropriated from the budget stabilization account (BSA) during the biennium, the budget for the ensu-

ing fiscal biennium is not required to balance. (But the current biennium still must.) The state constitution allows appropriations from the BSA

- If the governor declares a state of emergency and a majority of the legislature approves;
- If the employment growth forecast is estimated to be less than 1 percent and a majority of the legislature approves; or
- At any time if three-fifths of the legislature approve.

Outlook

The Economic and Revenue Forecast Council (ERFC) prepares and approves economic and revenue forecasts. Currently the ERFC has six members: two appointed by the governor (currently the directors of the Department of Revenue and the Office of Financial Management) and one democrat and one republican from both the House of Representatives and the Senate. SSB 6636 adds a seventh position to the ERFC and specifies that it must be the state treasurer. The bill also requires the ERFC to approve a budget outlook. (The Office of Financial Management occasionally produces an outlook, in terms of GFS, but it is not required to do so.)

SSB 6636 creates a state budget outlook group, to consist of staff from the fiscal agencies and committees, which will prepare the official state budget outlook. The outlook, to be done each November, must estimate revenues to and expenditures from NGFS+. In odd-numbered years, the outlook is to cover the current biennium and the next biennium. In even-numbered years, the outlook is to cover the next two biennia. Consequently, the November 2013 outlook will cover 2013–15 and 2015–17, while the November 2014 outlook will cover 2015–17 and 2017–19.

The work group will also prepare a budget outlook based on the governor's proposed budget each January, and an outlook based on the legislature's budget (within 30 days of enactment).

For the purpose of producing the outlook, estimated expenditures must include *maintenance* items; for example:

- Continuation of current programs,
- Forecasted growth of current entitlement programs, and
- Actions required by law (even if they have not yet been implemented).

Estimated expenditures may not include *policy* items; for example:

- Legislation that has not yet been enacted by the legislature,
- Collective bargaining agreements that have not yet been approved by the legislature, and
- Changes to levels of funding for employee salaries and benefits (unless the changes are required by statute).

Lastly, costs of court rulings are excluded from maintenance level if the ruling comes within 90 days of the beginning of the current legislative session.

Discussion

A 2008 report from the National Association of State Budget Officers found that 41 states require their legislatures to pass balanced budgets. Adding Washington to that list means that there will be an additional check on the budget process, and SSB 6636 does give the legislature some flexibility in bad years. Further, requiring standardized, regular outlooks will provide a helpful sense of the trajectory that revenues and spending are taking, for both legislators and the public.

Most important, by requiring lawmakers to consider the four-year perspective, the adopted reform forces consideration of the long-term effects of legislation. With SSB 6636, the legislature has put the state on a more sustainable budget path.