

Legislature Has Used Rainy Day Fund Each Biennium Except 2011–13

Briefly

Since the budget stabilization account (BSA, or rainy day fund) was established in 2007, the Legislature has transferred or appropriated funds from it in each biennium except 2011–13. Since 2013–15, the state has experienced “extraordinary revenue growth,” most of which is required to be saved in the rainy day fund. Instead, the Legislature has spent almost all of it. The balance in the account is now \$1.182 billion; using these funds requires a supermajority vote (60 percent) from both chambers (with some exceptions).

Gov. Inslee’s proposed 2018 supplemental operating budget would use reserves—including (in 2019–21) the rainy day fund. Others, including the state treasurer, argue against it.

The state’s reserves have grown substantially in recent years, and the Legislature has not been shy about using the rainy day fund. “Total reserves” are made up of the unrestricted near general fund—state plus opportunity pathways (NGFS+) ending fund balance and the rainy day fund (officially known as the budget stabilization account). It is important not to conflate the two, though, because one is much easier to use than the other.

According to the Economic and Revenue Forecast Council’s Nov. 2017 outlook, the unrestricted NGFS+ ending fund balance is \$1.172 billion and the budget stabilization account (BSA) balance is \$1.182 billion. A supermajority is required to use the amount in the BSA, but the unrestricted balance will automatically roll over to become the beginning balance for 2019–21.

The Unrestricted NGFS+ Ending Fund Balance

The unrestricted NGFS+ ending fund balance is simply the result of spending less than the state collects in revenues. Any surplus at the end of a fiscal year is not segregated in a separate account.

Table 1: Reserves (Millions of Dollars)

	<u>2007-09</u>	<u>2009-11</u>	<u>2011-13</u>	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
Unrestricted NGFS+ Ending Fund Balance	193	(92)	156	1,011	785	1,172
BSA Ending Fund Balance	21	1	270	513	1,638	1,182
Total Reserves	214	(91)	426	1,524	2,423	2,354

Note: 2017-19 figures are based on the official Nov. 2017 outlook



Instead, these funds become the beginning fund balance for the next year. There are no restrictions on their use.

A report from the Pew Charitable Trusts notes that such ending balances "speak to how well a state estimates and manages its revenue and spending assumptions at the beginning of the budget year" (Pew 2017). Due to Washington's statutory four-year balanced budget requirement (RCW 43.88.055), the size of the unrestricted ending fund balance is particularly important. The more that is left in the current biennium, the easier it is to balance the second biennium.

The Rainy Day Fund is a Constitutional Requirement

In 2007, voters approved an amendment to the state constitution establishing the BSA (Article 7, section 12), effective July 1, 2008. Withdrawals may be made from the BSA by a three-fifths vote of the Legislature, but simple majorities suffice in years that the governor declares a state of emergency or when state employment growth is estimated to be less than 1 percent. Further, if the BSA balance is more than 10 percent of annual general state revenues, a simple majority may approve a transfer of the amount that exceeds 10 percent to the education construction fund.

"General state revenues" is a technical term that differs from the general fund revenues that are used in the budget process. As defined in Article VIII, section 1 of the constitution, general state revenues are "all state money received in the treasury from each and every source," with some exceptions—including, for example, moneys for retirement system funds and proceeds from the sales of bonds. Since fiscal year (FY) 2015, general state revenues have included property taxes, pursuant to a constitutional amendment adopted in 2012 (ESJR 8221).

At the end of each fiscal year 1 percent of general state revenues must be transferred to the BSA. In 2011, voters ap-

proved another constitutional amendment requiring that three-quarters of any extraordinary revenue growth also be transferred to the BSA at the end of each biennium (unless state employment growth in the previous biennium averaged less than 1 percent a year).

"Extraordinary revenue growth" (EORG) occurs when general state revenue growth in a biennium exceeds by one-third the average growth of general state revenues over the previous five biennia. Had this provision been in place earlier, there would have been an EORG deposit in the 2005–07 biennium. There have been EORG deposits in 2013–15 and 2015–17, and it is currently estimated that there will be one in 2017–19.

Historical Use of the BSA

When the BSA was established in the 2007–09 biennium, it was seeded with funds from the Emergency Reserve Fund. Since then, the Legislature has consistently made the required deposits to the BSA. It has also transferred or appropriated funds from the BSA in each biennium except 2011–13.

- **2007–09.** As the Great Recession set in, the state was dealing with a major budget shortfall, but the BSA was new and hadn't accumulated many funds. Still, the Legislature transferred \$400.0 million from the BSA to the general fund–state (GFS) for FY 2009 (Chapter 564, Laws of 2009).
- **2009–11:** Still addressing the shortfall, the Legislature transferred \$45.1 million from the BSA to the GFS for FY 2010 (Chapter 564, Laws of 2009). It then transferred another \$223.2 million from the BSA to the GFS for FY 2011, "to minimize reductions to public school programs" (Chapter 5, Laws of 2011—amending Chapter 31, Laws of 2010, 1st Special Session).
- **2013–15:** The Legislature appropriated \$77.2 million from the BSA for FY 2015 related to emergency fire costs (Chapter 3, Laws of 2015). Additionally, the Legislature directed the transfer



Table 2: Budget Stabilization Account (Millions of Dollars)

	<u>2007-09</u>	<u>2009-11</u>	<u>2011-13</u>	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
Beginning Balance	303	21	1	270	513	1,638
1% transfer	115	247	269	319	383	432
EORG transfer				38	925	1,096
Interest Earnings	3	0	0	2	7	38
<i>Deposit Subtotal</i>	<i>118</i>	<i>248</i>	<i>269</i>	<i>359</i>	<i>1,316</i>	<i>1,566</i>
Transfers from BSA	(400)	(268)		(38)		(1,078)
Appropriations from BSA (Net of Reversions)				(77)	(191)	(944)
<i>Withdrawal Subtotal</i>	<i>(400)</i>	<i>(268)</i>	<i>0</i>	<i>(115)</i>	<i>(191)</i>	<i>(2,022)</i>
Ending Fund Balance	21	1	270	513	1,638	1,182

of EORG deposits back to the GFS (up to specified amounts) for 2013–15, 2015–17, and 2017–19 (Chapter 2, Laws of 2015, 3rd Special Session). The 2013–15 EORG transfer back to the GFS was \$37.9 million.

- **2015–17:** The Legislature appropriated \$189.5 million from the BSA for FY 2016 related to emergency fire costs (Chapter 34, Laws of 2016, 1st Special Session). For FY 2017, the Legislature appropriated \$38.1 million from the BSA related to fire costs (Chapter 29, Laws of 2017, 3rd Special Session). The Legislature repealed the scheduled EORG transfer back to the GFS for this biennium, keeping it in the BSA (Chapter 29, Laws of 2017, 3rd Special Session).
- **2017–19:** The Legislature transferred \$925.2 million from the BSA to the pension funding stabilization account and \$19.0 million to the disaster response account (Chapter 29, Laws of 2017, 3rd Special Session). (Half the amount transferred to the pension funding stabilization account was appropriated to fund public employee retirement costs for the biennium, in lieu of the NGFS+, and the Legislature intends to use the other half for the same purpose in 2019–21.) Additionally, the Legislature increased the upper limit on the amount of EORG that can

be transferred back to the GFS in this biennium to \$1.078 billion (Chapter 29, Laws of 2017, 3rd Special Session—amending Chapter 2, Laws of 2015, 3rd Special Session).

To summarize, the BSA has been used in response to the Great Recession and to pay for wildfire costs, but it has also been used to cover ongoing pension spending.

Additionally, EORG deposits to the BSA have totaled \$2.059 billion, but the Legislature has transferred most of that back out of the BSA. (Although the Legislature didn't end up transferring it directly back to the GFS in 2015–17, an amount equal to the 2015–17 EORG deposit was transferred in 2017–19 to the pension funding stabilization account to save NGFS+ dollars, as noted above.) Effectively, the EORG has helped the Legislature fund the ramp up of public schools spending that has been required by the state Supreme Court's McCleary decision.

The Reserves in Context

Despite the regular withdrawals, there is currently \$1.182 billion in the BSA, which is 2.7 percent of NGFS+ spending. Including the unrestricted NGFS+ ending fund balance, total reserves are estimated to be 5.4 percent of NGFS+ spending in 2017–19 (based on the Nov. 2017 outlook).



Table 3: Reserves as a Percent of NGFS+ Spending

	<u>BSA</u>	<u>Total Reserves</u>
2007-09	0.1%	0.7%
2009-11	0.0%	-0.3%
2011-13	0.9%	1.4%
2013-15	1.5%	4.5%
2015-17	4.3%	6.3%
2017-19	2.7%	5.4%

Before the Great Recession, the rule of thumb was that states should have about 5 percent of their budget in reserves. Now, analysts believe that the right level of reserves may be different for each state and would be better linked to things like the state's revenue volatility and economy (Pew 2017). States with volatile revenue streams need to keep more in reserve than those with more reliable revenues. According to the Tax Policy Center, Washington's revenue structure is among the 20 least volatile nationally (Rueben and Randall 2017).

Comment

Standard & Poor's, in rating Washington's credit in Nov. 2017, wrote, "we believe Washington's current reserves position the state well for future cyclical or an unexpected downturn" (S&P 2017). Meanwhile, the Tri-City Herald reports that state Treasurer Duane Davidson is against using reserves this year:

Heading into the 2018 legislative session, Davidson said the reserves should be growing, not declining at a time when the economy and tax are both expanding.

"This is when we should be adding to the fund balance." (Culverwell 2017)

The state currently has \$1.182 billion in the BSA. That figure would be much higher, but instead of saving the EORG the state has experienced since 2013-15, the Legislature has spent almost all of it. During this time, of course, the Legisla-

ture has been responding to the McCleary decision, which has required substantial new spending. In 2017, the Legislature adopted a new state property tax to fund the spending increase going forward.

Maintaining adequate reserves is an important part of responsible budgeting. In economic downturns, reserves can help states avoid service cuts and tax increases. Revenues, much less extraordinary revenues, will not keep increasing forever. That said, there are valid reasons to use reserve funds. The Legislature will consider whether circumstances warrant doing so this session.

References

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