

# The Importance of Constitutionally Protected Reserves: The Case of the WRPTA

## Briefly

*In 2021, the Legislature withdrew \$1.820 billion from the state's restricted budget stabilization account (BSA) even though revenues had not declined. Most of the funds went to the unrestricted Washington rescue plan transition account (WRPTA), where they were held until the WRPTA was spent down in 2023–25.*

*Total reserves are expected to decline by more than half in 2023–25. The BSA balance has grown since 2021, but it has not recovered its pre-pandemic level.*

*During the pandemic, the state took advantage of BSA rules to shift substantial funds from the protected BSA to unrestricted accounts. Once the money was in the unrestricted accounts, and once much of the economic uncertainty had passed, the Legislature spent it. (The WRPTA was emptied just three legislative sessions after it was opened.) The constitutional restrictions on the BSA do not make withdrawals impossible, but they are an effective constraint that ensures reserves will be available when they are needed. The case of the WRPTA shows that the same cannot be said of unrestricted reserve accounts.*

Rainy day funds can help states sustain programs during revenue shortfalls. When sufficiently funded, they can forestall tax increases or spending cuts in response to temporary downturns. But flush reserve accounts are naturally enticing to appropriators, who must juggle competing spending requests within budget constraints. In practice, the only way to ensure that the reserves will be available when they are truly needed is to hold them in an account that is constitutionally protected.

The recent example of the Washington rescue plan transition account (WRPTA) illustrates the point.

## Washington Has Both Restricted and Unrestricted Reserves

In Washington, total reserves for the operating budget include the unrestricted ending balance in funds subject to the outlook (NGFO), the budget stabilization account (BSA, or the rainy day fund), and, in recent years, the WRPTA.

**NGFO.** Under the state's four-year balanced budget requirement, a positive ending balance is required in the current and following biennium for "funds subject to the outlook." The funds included are the general fund–state (GFS), the education legacy trust account, the opportunity pathways account, and the workforce education investment account. Together, these accounts are also referred to as the near general fund–outlook, or NGFO.

The unrestricted NGFO ending balance is simply the amount in the NGFO accounts that is not appropriated in a biennium. (It also reflects an assumption about the level of appropriations that will not be

spent.) The ending balance rolls over and becomes the beginning NGFO balance for the next biennium.

**BSA.** The BSA was established by a constitutional amendment in 2007. Pursuant to the state constitution, 1% of general state revenues (GSR) must be transferred to the BSA each year. (“General state revenues” are defined in the constitution. Effectively, general state revenues include most state money for the general fund, adjusted to remove certain sources and add back revenues that are transferred out of the GFS.)

Not only are deposits to the BSA constitutionally required: withdrawals from the BSA are constitutionally restricted. A three-fifths vote of the Legislature is required to make a withdrawal from the BSA. However, only a simple majority is needed in a year when employment growth is forecast to be less than 1% or when the governor declares a state of emergency due to a catastrophic event (and the withdrawal is made in separate legislation limited to the emergency).

The constitutional provision requiring only a simple majority if employment growth is less than 1% is a safety valve meant to make it easier to access reserves in a recession.

**WRPTA.** In 2021, the Legislature created the WRPTA. This is a reserve account, but it is not restricted by the constitution. It may be used very broadly to respond to impacts of the pandemic (“including those related to education, human services, health care, and the economy”) and to continue activities that had been funded with federal pandemic relief funding. For 2023–25, transfers to the GFS are allowed.

## The WRPTA Changed the Composition of State Reserves

In 2021, when employment growth was expected to be less than 1%, the Legislature took advantage of the constitutional safety valve to transfer \$1.820 billion from the BSA to the GFS. At the time, \$1.820 billion was expected to be the entire balance of the BSA. Thus, with just a simple majority, the Legislature swept the state’s restricted reserves even though revenues had not declined.

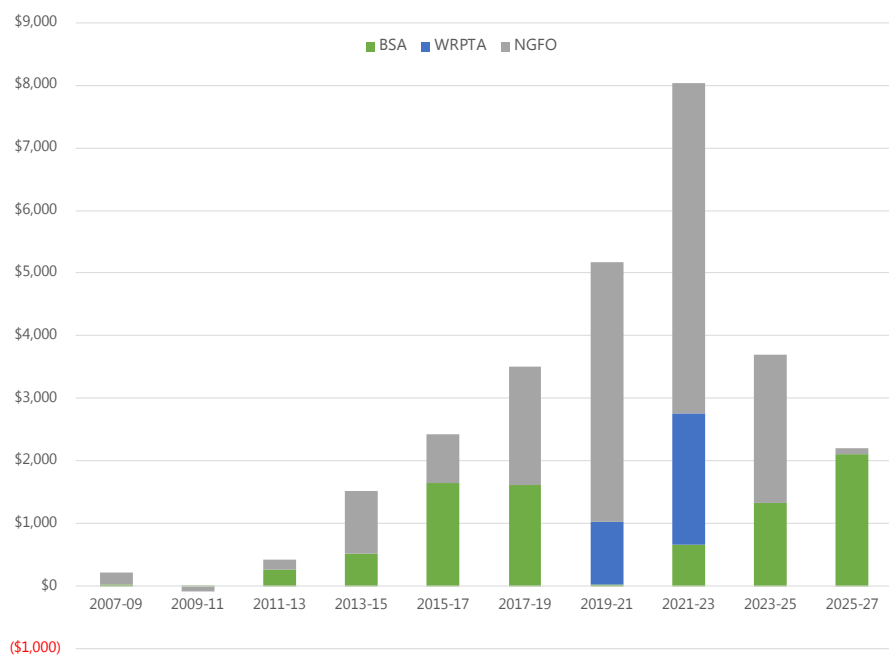
Indeed, despite the pandemic, state revenues remained strong. Nevertheless, national concerns about a potential recession persisted. Thus, although some of the BSA money was used for general spending, lawmakers wisely began adding reserves (albeit to the unrestricted WRPTA).

Table: State Reserves (Dollars in Millions)

|  | <u>2007-09</u> | <u>2009-11</u> | <u>2011-13</u> | <u>2013-15</u> | <u>2015-17</u> | <u>2017-19</u> | <u>2019-21</u> | <u>2021-23</u> | <u>2023-25</u> | <u>2025-27</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Budget Stabilization Account</b>              |                |                |                |                |                |                |                |                |                |                |
| Beginning Balance                                | \$303          | \$21           | \$1            | \$270          | \$513          | \$1,638        | \$1,618        | \$19           | \$652          | \$1,328        |
| Deposits   | \$118          | \$248          | \$269          | \$359          | \$1,316        | \$2,126        | \$585          | \$633          | \$698          | \$778          |
| Withdrawals                                      | (\$400)        | (\$268)        | \$0            | (\$115)        | (\$191)        | (\$2,145)      | (\$2,185)      | \$0            | (\$21)         | \$0            |
| <b>Ending Balance</b>                            | <b>\$21</b>    | <b>\$1</b>     | <b>\$270</b>   | <b>\$513</b>   | <b>\$1,638</b> | <b>\$1,618</b> | <b>\$19</b>    | <b>\$652</b>   | <b>\$1,328</b> | <b>\$2,106</b> |
| <b>Washington Rescue Plan Transition Account</b> |                |                |                |                |                |                |                |                |                |                |
| Beginning Balance                                |                |                |                |                |                |                | \$0            | \$1,000        | \$2,100        | \$0            |
| Deposits   |                |                |                |                |                |                | \$1,000        | \$1,100        | \$0            | \$0            |
| Withdrawals                                      |                |                |                |                |                |                | \$0            | \$0            | (\$2,100)      | \$0            |
| <b>Ending Balance</b>                            |                |                |                |                |                |                | <b>\$1,000</b> | <b>\$2,100</b> | <b>\$0</b>     | <b>\$0</b>     |
| <b>Unrestricted NGFO</b>                         | <b>\$193</b>   | <b>(\$92)</b>  | <b>\$156</b>   | <b>\$1,011</b> | <b>\$785</b>   | <b>\$1,880</b> | <b>\$4,161</b> | <b>\$5,287</b> | <b>\$2,368</b> | <b>\$100</b>   |
| <b>Total Reserves</b>                            | <b>\$214</b>   | <b>(\$91)</b>  | <b>\$426</b>   | <b>\$1,524</b> | <b>\$2,423</b> | <b>\$3,498</b> | <b>\$5,180</b> | <b>\$8,039</b> | <b>\$3,697</b> | <b>\$2,206</b> |

Note: Figures for 2023–25 and 2025–27 are from the official outlook for the enacted 2024 supplemental.

Chart 1: Reserve Ending Balances (Dollars in Millions)



After transferring \$1.820 billion from the BSA to the GFS, the Legislature transferred \$1.0 billion from the GFS to the newly created WRPTA for FY 2021. The 2022 supplemental transferred another \$1.1 billion from the GFS to the WRPTA for FY 2023 (for a total WRPTA balance of \$2.1 billion at the end of FY 2023).

In most biennia, the unrestricted NGFO ending balance accounts for over half of total reserves. With the sweep of the BSA in 2019–21, the composition of reserves shifted even farther from restricted to unrestricted. Unrestricted reserves (in the NGFO and WRPTA) accounted for over 90% of total reserves in both 2019–21 and 2021–23.

Then, the Legislature started spending down the WRPTA. The 2023–25 biennial budget transferred \$1.302 billion from the WRPTA to the GFS for FY 2024. In the 2024 supplemental, the Legislature finished the job, transferring the remaining \$798.0 million from the WRPTA to the GFS for FY 2025. (These transfers were made in the operating budgets, which were approved by more than three-fifths of the Senate but only a simple majority of the House.) At the same time, the pandemic-era fiscal caution receded, and the Legislature left a smaller unrestricted NGFO ending balance for 2023–25, as shown in the table on page 2.

Meanwhile, the state has continued to make the constitutionally required transfers from the GFS to the BSA. With the gradual growth of the BSA since its sweep in 2019–21 and the sweep of the WRPTA in 2023–25, the share of total reserves in unrestricted accounts dropped to 64.1% in 2023–25.

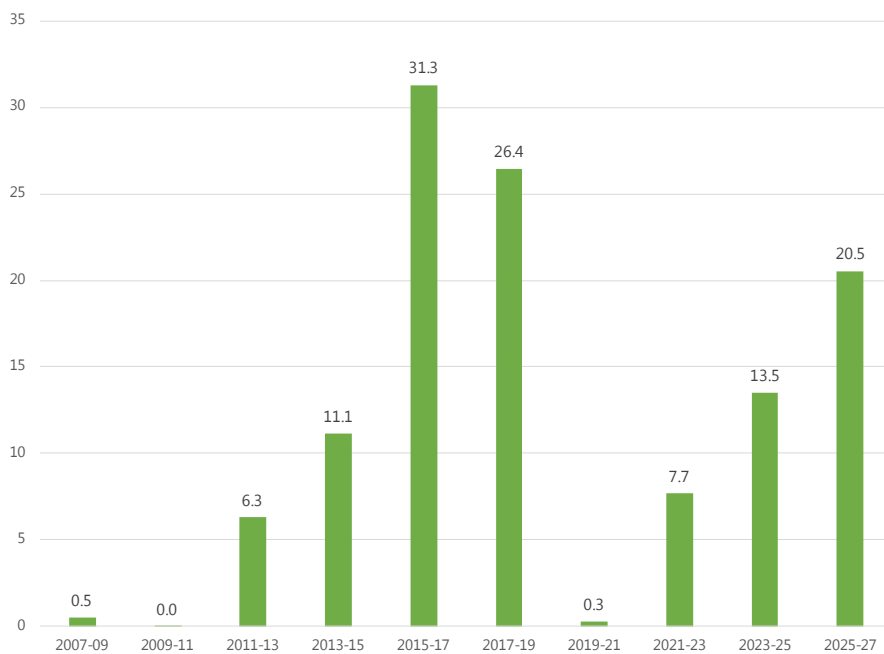
Despite the growth of the BSA, total reserves are expected to decline by more than half in 2023–25. Total reserves were \$8.039 billion in 2021–23 (25.1% of NGFO revenues and other resources). Based on the enacted 2024 supplemental budget, total reserves are estimated to drop to \$3.697 billion for 2023–25 (10.7% of NGFO revenues and other resources) and \$2.206 billion for 2025–27 (6.0% of NGFO revenues and other resources).

### The BSA Balance Is Not Back to Its Pre-Pandemic Level

Reserves held in the BSA are expected to be \$1.328 billion in 2023–25 and \$2.106 billion in 2025–27. The \$1.328 billion is less than the BSA balance in 2015–17. Adjusted for inflation, the \$2.106 billion balance in 2025–27 is also less than the 2015–17 balance.

Another way to compare reserve balances across time is to calculate how many days of state spending could be funded by the reserve account. By this measure, the BSA balances in 2023–25 and 2025–27

Chart 2: Days Washington Could Run on the BSA



are considerably lower than the BSA balances of 2015–17 and 2017–19. This is because BSA funds were used to increase general spending. In 2015–17, the BSA balance could have covered 31.3 days of NGFO spending. In 2025–27, the BSA balance could cover just 20.5 days of spending.

### The School Construction Funding That Could Have Been

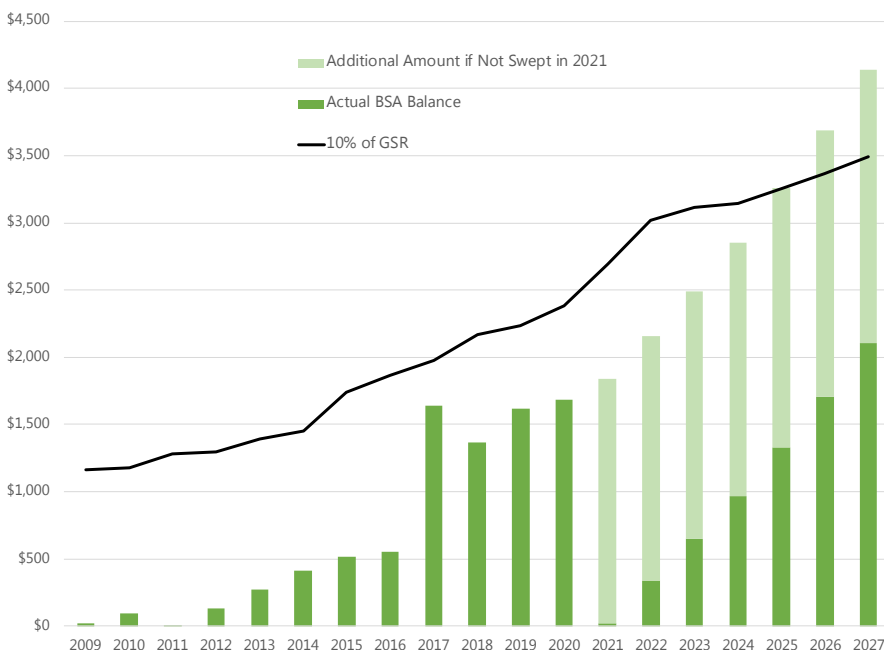
The state constitution states that when the BSA balance exceeds 10% of GSR in a fiscal year, a simple majority of the Legislature may withdraw the amount over

10% for deposit to the education construction fund. (The Legislature could choose to leave the money in the BSA.)

At the end of FY 2023, the BSA balance was \$652.4 million (2.1% of GSR). At the end of FY 2027, the BSA balance is estimated to be \$2.106 billion (6.0% of GSR).

We estimate that if the Legislature had not withdrawn the \$1.820 billion from the BSA in 2021, the BSA balance would have hit 10% of GSR in FY 2025. Assuming the Legislature would withdraw the amount over 10% each year (and assuming no withdrawals for other purposes), the total amount that could

Chart 3: Potential BSA Reserves (Dollars in Millions)



have been appropriated for school construction under this scenario would have been about \$4 million in FY 2025, \$322 million in 2026, and \$310 million in 2027. (Similarly, capital gains tax revenue that exceeds a certain threshold is dedicated to school construction. The capital gains tax generated \$347.5 million for school construction in FY 2023.)

### Comment

During the pandemic, the state took advantage of BSA rules to shift substantial funds from the protected BSA to unrestricted ac-

counts. Once the money was in the unrestricted accounts, and once much of the economic uncertainty had passed, the Legislature swiftly spent it.

If the Legislature had instead left the funds in the BSA, we would not only have sizeable savings to help get through the next recession, but we'd have a reliable source of funding for school construction in the meantime.

The constitutional restrictions on the BSA do not make withdrawals impossible, but they are an effective constraint that ensures reserves will be available when they are needed. The case of the WRPTA shows that the same cannot be said of unrestricted reserve accounts.

## References

Washington Research Council (WRC). 2019. "[Washington's Budget Sustainability Requirements Work When Followed](#)." PB 19-02. Jan. 4.

———. 2023. "[The State Should Avoid Tapping Reserves While Revenues Are Growing](#)." PB 23-01. Jan. 9.