



**B R I E F L Y**

Several proposals to increase spending for education and for I-695 mitigation attempt to avoid or modify the I-601 spending limit. Local option tax credits and fund transfers weaken legislative oversight and accountability and may violate the spirit, if not the letter, of the initiative.

# Fiscal Proposals Threaten Spending Limit

Initiative 601 imposed a general fund expenditure limit tied to growth in population and inflation. Several proposals being considered by lawmakers would substantially undermine the limit.

Two primary lines of attack have emerged: a) raising the expenditure limit by the transfer of local-government funding responsibilities to the state, and b) adopting tax credits to pay for programs outside the general fund and outside legislative oversight. A third, making it easier to tap the emergency reserve fund, has also been discussed.

The goals to be achieved – providing more funding for education, mitigating the revenue losses forced by I-695 – are popular with many. However, the legislature should confront directly the requirements of I-601, not indulge in a creative end run around it.

These tactics weaken legislative accountability, risk frustrating the will of voters who reaffirmed their commitment to I-601 in passing Referendum 49 in 1998 (and, less explicitly in adopting Initiative 695 in 1999), and vitiate the fiscal discipline made possible by the expenditure limit.

## A. Lifting the Lid

Within the discretion of the office of financial management (OFM), the I-601 limit may be adjusted to accommodate changes in the funding of state programs. Specifically:

“If by order of any court, or legislative enactment, the costs of a federal or local government program are transferred to or from the state, the otherwise applicable state expenditure limit shall be increased or decreased, as the case may be, by the dollar amount of the costs of the program.” RCW 43.135.060 (2)

OFM interprets this as allowing the I-601 limit to be raised when the state transfers certain local government functions to the general fund. The functions under consideration are those previously funded outside the general fund by earmarked motor vehicle excise tax dollars lost with passage of Initiative 695. I-601 permits the legislature to transfer program costs from cities and counties to the state, with the costs to be determined by the legislature in consultation with OFM.

Local governments used MVET revenues in a variety of ways. The money was essentially revenue sharing. The governor’s budget bill, which would authorize the adjustment, merely states: “. . . the state shall provide a portion of the local share of any political subdivisions’ costs for transit, criminal justice, public health, and police and fire services, in support of programs and services that are the ongoing responsibility of the recipient political subdivision.”

The precedent proposed here presents a problem: Could not any state appropriation to local governments be considered a program transfer allowing the expenditure cap to be raised? To avoid such an outcome, the legislature should specify the program costs being transferred and the conditions governing the transfer.

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**B. Local Option Tax Credits**

The most serious threat to I-601, local option tax credits involve a sleight-of-hand fund transfer in which local jurisdictions raise a tax and the increase is credited against the jurisdiction’s state tax liability. In essence, the “increased” local tax is paid by the state from the general fund. This mechanism has previously been used for sports stadia and for rural assistance. At its discretion, OFM made no adjustment in the expenditure limit and the legislature failed to object.

The limit should have been lowered. The language is clear:

“If the cost of any state program or function is shifted from the state general fund on or after January 1, 1993, to another source of funding, or if moneys are transferred from the state general fund to another fund or account, the office of financial management shall lower the state expenditure limit to reflect the shift.” RCW 43.135.035 (4)

In Referendum 49, which transferred MVET revenues from the general fund to transportation accounts, voters approved a one-time exemption from the I-601 requirement to lower the cap. No such exemption has been sought for the local option tax credit, which clearly is also a fund transfer.

These local option tax credits are not like tax credits that return tax dollars to taxpayers. The money simply goes to a different account or government. Credits used to fund other governmental activities – stadia or schools – are within the meaning of the phrase “moneys ... transferred from the state general fund to another fund or account.”

It’s as if the state has created a new dedicated fund supported by an earmarked tax. The spending is taken outside the general fund. There is less accountability for the expenditure than if the money had been directly appropriated.

**C. Tapping the Emergency Reserve Fund**

Under I-601 revenues in excess of the spending limit in any fiscal year are deposited in the emergency reserve fund (ERF). Cognizant of the boom-bust cycle in state budgeting, the supporters of I-601 wanted to build a rainy day cushion as well as to limit spending. The ERF is that cushion, and I-601 protected it with strong language:

“The legislature may appropriate moneys from the emergency reserve fund only with approval of at least two-thirds of the members of each house of the legislature, and then only if the appropriation does not cause total expenditures to exceed the state expenditure limit under this chapter.” RCW 43.135.045 (2)

The ERF is rapidly approaching \$1 billion. Although no proposal for tapping the reserve is before the legislature, its size has prompted some lawmakers to consider appropriating from the ERF on a simple majority vote. They argue that the emergency reserve is outside the general fund and thereby not subject to the spending limit. Such speculation ignores the plain language of I-601. If the money can only be spent if it does not take spending over the limit, then such spending must be subject to the limit.

**Conclusion**

I-601 represented the voters’ desire to restrain government spending, increase accountability, and provide for adequate budget reserves. While lawmakers and many citizens may chafe at the constraints imposed by the limit, fiscal machinations that weaken oversight and accountability should be avoided.

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