Washington Research Council

Policy Brief

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# SJR 8206: A Prudent Savings Measure

**Briefly**

*This proposed constitutional amendment would save any extraordinary revenue growth in the Budget Stabilization Account. It would help the state control spending and maintain a healthy reserve fund.*

*This is the right time to put in place a mechanism that will help stabilize the state budget.*

Four years ago, Washington voters adopted Senate Joint Resolution (SJR) 8206, establishing in the constitution a budget stabilization account (BSA). This year, another proposed constitutional amendment, again numbered SJR 8206, strengthens that measure by requiring "extraordinary revenue growth" to be transferred to the BSA.

While we're unlikely to see extraordinary revenue growth soon, this is the right time to put in place a mechanism that will help stabilize the state budget. The benefits are twofold: By saving more money during the boom, lawmakers will be inhibited from increasing spending to an unsustainable level. Then, when revenues slow, a better-funded BSA will provide the cushion necessary to maintain critical programs.

### BSA Background

The BSA, or rainy day fund, adopted in 2007 assures that each year 1 percent of general state revenues for that year is transferred to the BSA. General state revenues are defined in the constitution as including

> . . . all state money received in the treasury from each and every source whatsoever except: (1) Fees and revenues derived from the ownership or operation of any undertaking, facility, or project; (2) Moneys received as gifts, grants, donations, aid, or assistance or otherwise from the United States or any department, bureau, or corporation thereof, or any person, firm, or corporation, public or private, when the terms and conditions of such gift, grant, donation, aid, or assistance require the application and disbursement of such moneys otherwise than for the general purposes of the state of Washington; (3) Moneys to be paid into and received from retirement system funds, and performance bonds and deposits; (4) Moneys to be paid into and received from trust funds including but not limited to moneys received from taxes levied for specific purposes and the several permanent and irreducible funds of the state and the moneys derived therefrom but excluding bond redemption funds; (5) Proceeds received from the sale of bonds or other evidences of indebtedness.

That's essentially "all revenues to the state General Fund, with the exception of property tax revenues, which are dedicated to the common school system," as the Senate bill report on the current SJR 8206 notes.

BSA funds may be withdrawn if approved by a simple majority of the legislature "if the governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safety" or "if the employment growth forecast for any fiscal year is estimated to be less than 1 percent." Funds may also be withdrawn at any time with the approval of a three-fifths supermajority of the legislature. Additionally, when the balance of the BSA exceeds 10 percent of general state revenues, the legislature may, by simple majority vote, appropriate funds to the education construction fund.

The BSA shows up originally in the June 2007 general fund–state (GFS) balance sheet, seeded with $226.5 million from the Emergency Reserve Fund, along with a transfer from GFS in the amount of $134.3 million, for a total balance of $360.8 million. By March 2009, the balance in the BSA was $430.9 million.

As revenue growth slowed, the fund was tapped repeatedly. In 2009, lawmakers passed ESHB 1244, making the first transfers from the BSA back to the GFS: $400 million in the 2007–09 biennium (for FY 2009) and $45.1 million in 2009–11 (for FY 2010). The June 2009 balance sheet showed BSA ending balances of $23.5 million for 2007–09 and $247.7 million for 2009–11. In

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2010, the legislature transferred $229 million from the BSA to GFS for FY 2011 (in addition to the $45.1 million already transferred for the 2009–11 biennium). The June 2010 balance sheet consequently showed a BSA ending balance of $5.8 million.

There's not much cushion left. In the supplemental budget bill passed last session, the $229 million transfer from the BSA to GFS for FY 2011 was changed to $223.2 million "or as much of that amount as is available." The September 2011 balance sheet shows a 2009–11 BSA ending balance of $600,000. The 2011–13 enacted budget does not make a transfer from the BSA to the GFS, and the projected 2011–13 BSA ending balance is $280.4 million.

## SJR 8206

The SJR 8206 on the ballot this year amends the BSA section of the constitution (article VII, section 12). Under the resolution, at the end of each biennium, three-quarters of any extraordinary revenue growth would be transferred to the BSA, unless the revenue growth occurs "in a fiscal biennium following a fiscal biennium in which annual average state employment growth averaged less than 1 percent per fiscal year."

"Extraordinary revenue growth" is defined as the "amount by which the growth in general state revenues for that fiscal biennium exceeds by one-third the average biennial percentage growth in general state revenues over the prior five fiscal biennia." The transfer of these revenues to the BSA would be made only if they exceed the 1 percent already transferred to the BSA under current law.

As defined, situations in which this transfer would have applied in the past would have been limited. The 2005–07 biennium, though, experienced what would have qualified as extraordinary revenue growth. About $1.5 billion could have been deposited into the BSA had this amendment been in place. Instead, those extraordinary funds were used to expand state spending. In fact, near general fund–state plus opportunity pathways (NGFS+) spending increased 17.9 percent in 2005–07. Comparatively, it increased 4.5 percent in 2003–05 and 8.0 percent in 2007–09.

## Discussion

The BSA is a relatively new savings tool for the state. Established in 2007, reserves did not have much time to accumulate in amounts adequate for the recent revenue losses. Even so, the system worked: the legislature was able to make use of the limited savings in the BSA as revenues plummeted. Should voters approve SJR 8206, any future extraordinary revenue growth would also be deposited in the BSA, to be ready for use in future downturns.

As our Thrive Washington paper, "Nine Steps to Budget Sustainability in Washington State," outlined, "a constitutional requirement that a share of exceptional revenue growth be placed in the Budget Stabilization Account would provide an additional reserve safeguard. Two benefits would accrue from this policy: spending would be controlled at a sustainable level and the reserve funds would grow more rapidly."

Chart: NGFS+ operating spending (dollars in billions)