Washington Research Council

POLICY brief

PB 99:24 - September 30, 1999

Surplus Won't Cover Shortfall

BRIEFLY

If I-695 passes, combined reserves and surplus revenues of $1 billion will only partially and temporarily offset the 1999-2001 revenue loss of $1.2 billion.

Three provisions of Initiative 601 will make it difficult to use the funds to mitigate I-695 impacts.

Available reserves in 2001-2003, the first full biennium affected by I-695, will suffice to replace less than one-fifth of the MVET funds.

I-695 backers have pointed to the $1 billion state surplus as a source of funding to mitigate the impact of MVET repeal. There is indeed a healthy reserve — it is about a billion dollars and 4.9% of estimated biennial spending for the 1999-01 biennium – but tapping those funds to support services affected by I-695 will be difficult.

More than half the "surplus" is in the emergency reserve fund (ERF) established by Initiative 601 and can be spent only with the approval of a supermajority of both houses of the legislature.

A 5% cash reserve is generally considered a prudent minimum. Five percent of biennial spending is about $1 billion; 5% of annual spending is about $500 million. If the legislature adopts the annual standard (Initiative 601 uses the biennial figure), that leaves just $500 million available for MVET replacement. Of course, the legislature could take reserves below $500 million. That route entails significant risk, however, and violates the intent of I-601, which was to allow reserves to build during strong economic times as a cushion against recession.

If the voters adopt I-695, the revenue loss for the 1999-2001 biennium will amount to about $1.2 billion. At a bare minimum, the legislature could maintain a reserve of $300 million, about 3% of annual spending. This would be fiscally imprudent. Nonetheless, doing so would allow legislators to spend about $700 million, comprising all of the unrestricted balance and $300 million from the ERF.

Focus on 695

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1999-2001 General Fund State Budget

(Dollars in Millions)

RESOURCES	1997-99	1999-01
Unrestricted Beginning Balance	$512.9	$466.6
September Revenue Forecast	$19,624.6	$20,512.3
Total Resources	**$20,137.5**	**$20,978.9**
SPENDING LIMIT AND APPROPRIATIONS		
Preliminary 601 Spending Limit	**$19,158.9**	**$20,651.5**
Total GFS Appropriations	**$19,157.7**	**$20,572.8**
Spending Compared to Limit	**($1.2)**	**($78.6)**
BALANCE AND RESERVES		
Emergency Reserve (incl. interest)	$533.0	$598.0
Unrestricted Ending Balance	$466.6	$406.0
Total Ending Reserves	**$999.5**	**$1,004.0**

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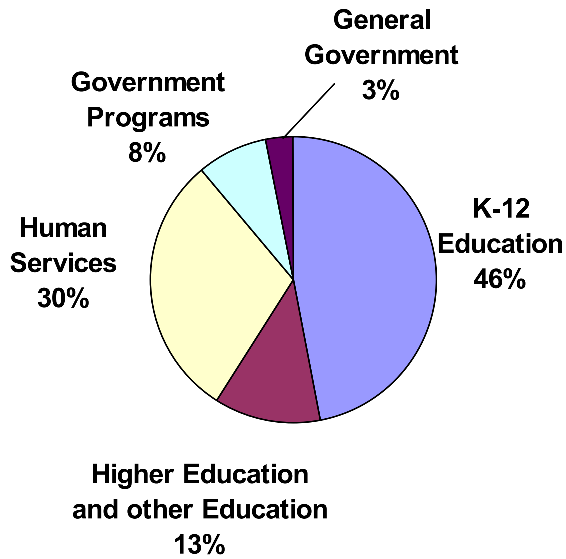
In attempting to spend the money, lawmakers will run into three I-601 related roadblocks. First, projected spending for the next biennium is already within $79 million of the I-601 expenditure limit. To exceed the limit, the legislature would have to muster a supermajority.

Second, getting to ERF would require another supermajority vote. Even if lawmakers can get the necessary two-thirds majority, the language of I-601 casts some doubt on their ability to touch the reserves at all. Specifically:

"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. " (Emphasis added)

1999-01 General Fund State Budget



That provision suggests strongly that none of the ERF is available for I-695 mitigation. Although the legislature may vote to lift the limit to tap the unobligated reserve, once they've done that, they've done all they can do. Any expenditure from the ERF would "cause total expenditures to exceed the state expenditure limit" and therefore be prohibited.

That means only $400 million can be used to offset MVET funds lost because of I-695, about one-third of the revenue shortfall in this biennium.

Third, transfers from the GFS, under I-601, will lower the spending limit. Because of this provision, last year's Referendum 49 required an amendment to I-601 to permit the transfer of MVET funds and programs. Were the legislature in the wake of I-695 to replace lost MVET money by transferring GFS funds, the spending limit would fall, further squeezing general fund programs in the future.

As the pie chart depicts, most of the state general fund is currently committed to the public schools, colleges and universities, and social service programs. The competition for increased GFS spending is intense now. A lower 601 limit, or imprudent reductions in reserves, would surely face stiff opposition.

Even disregarding the plain language of I-601 and assuming the ERF can be tapped and funds transferred, state reserves are inadequate to replace MVET over the long term. Driving the reserves to as low as $300 million this biennium would leave an unfilled gap in 1999-2001 of about $500 million, or about 40% of MVET expenditures. Conceivably, local reserves could make up part of the shortfall, but local circumstances vary widely.

Regardless, reserves are like savings accounts. They take time to build and amount to one-time money. Biennial general fund revenue growth in the future is only expected to grow $200 – $300 million faster than I-601 spending. If no addition is made to reserve funds, that would be just about enough to cover 17% of the MVET loss. And the state would be left without the resources necessary to maintain programs during an economic slowdown.

Focus on 695

contains eight Policy Briefs:

1. *Introduction & Growth of MVET*
2. *Surplus Won't Cover Shortfall*
3. *Not Much Discretion in the $45 Billion Budget*
4. *MVET Off, Property Tax On & Other Tax Consequences*
5. *Let's Vote on It*
6. *City and County Impacts Vary Widely*
7. *Transit and Transportation Would Take Major Hit*
8. *Summing It Up*

Each of these is available on-line at www.researchcouncil.org or contact the Research Council for copies by mail. To receive advance notice of our publications by e-mail send your e-mail address to wrc@researchcouncil.org