

## **Citizens Guide to SJR 8206, Budget Stabilization Account**

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### **Introduction**

This November Washingtonians will vote on Senate Joint Resolution (SJR) 8206, a proposal to create a restricted budget stabilization account. The proposed constitutional amendment reflects the bipartisan work of Republican Sen. Joseph Zarelli and Democratic Sen. Lisa Brown. If passed, SJR 8206 would create a constitutionally protected rainy-day account for the state budget, replacing the state's current statutory emergency reserve.

This policy reflects a long standing Washington Policy Center recommendation to adopt a constitutionally-protected emergency reserve fund with a meaningful spending trigger mechanism. As noted in WPC's *Policy Guide for Washington State*:

*... an emergency fund should be constitutionally protected, with a specific trigger, so it contributes to budget continuity and stability, and ensures reserves are only available when the state faces a true fiscal emergency.*

### **Summary of SJR 8206**

Proposed by Sen. Zarelli the past few years and requested by Governor Christine Gregoire this year, the principles outlined in SJR 8206 create a protected Budget Stabilization Account to help the state weather tough economic times. SJR 8206 was adopted in the Senate by a vote of 45-3 and in the House 74-23 this past legislative session. To become part of the constitution, the measure must now be approved by voters.

Here is how the Budget Stabilization Account would work. Each fiscal year, one percent of general state revenues would be deposited into the account. General state revenues are different than General Fund revenues and are specifically defined in the constitution as being all state revenues that are not dedicated to a particular purpose.

Additional money can be placed in the account at any time. The Legislature could only spend money from the account with a three-fifths vote unless the following scenarios occur:

1. Forecasted state employment growth is less than one percent; or;
2. The Governor declares an emergency set forth in a separate piece of legislation adopted by the Legislature that is limited to a catastrophic event requiring government action to protect life or public safety. The funds withdrawn are restricted to address the emergency declared.

These two circumstances are the only ones that permit the legislature to spend money from the Budget Stabilization Account with a simple-majority vote. Since these requirements would be constitutional, they could not be avoided for the sake of short-term political expediency.

Since 1960, state employment growth has been less than one percent only ten times, in 1961, 1964, 1970, 1971, 1981, 1982, 1983, 2002, 2003 and 2004.

## History of I-601's Emergency Reserve Fund

The constitutional budget stabilization account created by SJR 8206 would replace the current Emergency Reserve Fund created by the 1993 voter-approved Initiative 601 Taxpayer Protection Act. The I-601 Emergency Reserve Fund currently receives all state General Fund revenue in excess of the spending limit.

Spending from the account is currently prohibited unless approved by a two-thirds vote of the Legislature. Despite this restriction, because the Emergency Reserve Fund is statutory, not constitutional, the Legislature has waived the two-thirds vote requirement in the past so it could spend money from the account with a simple-majority vote. This resulted in the account being drained down to a zero balance in 2003.

### I-601 Emergency Reserve General Fund State Balance Sheet

*(dollars figures in millions)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Spending	\$19,084	\$20,573	\$20,850	\$22,783	\$22,451	\$23,081	\$23,246	\$25,952	\$27,298	\$29,623
Reserve	\$291	\$484	\$527	\$446	\$53	\$0	\$0	\$0	\$0	\$431*
Percent	1.5%	2.4%	2.5%	2.0%	0.2%	0%	0%	0%	0%	1.5%

*\*Projected balance for proposed Budget Stabilization Account*

Recent legislative practice of artificially increasing the spending limit (as described in Washington Policy Center's *Citizens Guide to Initiative 960, The Taxpayer Protection Act Part 2: Comparison of Initiative 601 and Initiative 960*) has prevented revenue from being deposited into the Emergency Reserve Fund, despite large revenue increases over the past few years. This is because of the law's trigger that deposits into the account are based on revenue in excess of the spending limit.

By artificially raising the spending limit, revenue that otherwise would have gone into the restricted I-601 emergency reserve remained available for spending in the unrestricted ending fund balance.

### Total Operating Budget Reserves General Fund State Balance Sheet

*(dollars figures in millions)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Spending	\$19,084	\$20,573	\$20,850	\$22,783	\$22,451	\$23,081	\$23,246	\$25,952	\$27,298	\$29,623
Reserves	\$811	\$692	\$911	\$608	\$305	\$256	\$279	\$178	\$228	\$1,516
Percent	4.2%	3.4%	4.4%	2.7%	1.4%	1.1%	1.2%	0.7%	0.8%	5.1%

## Does a Constitutional Budget Reserve Matter?

If coupled with a meaningful spending limit, a constitutional budget reserve helps provide stability to the state budget process by reducing the likelihood of tax increases or budget cuts during the downside of the business cycle (approximately every ten years). Both the American Legislative Exchange Council (ALEC) and the National Conference of State Legislatures (NCSL) recommend a budget reserve of five percent. ALEC further recommends that any revenue in excess of a five percent reserve be returned to taxpayers, in the form of tax rebates.

Bond companies such as Standard and Poor's (S&P) also look positively on states with protected budget reserves. In fact, this past January S&P managers improved Washington's credit rating when they learned the state was considering SJR 8206. S&P said, "The outlook also reflects the state's proposed move to formalize its rainy day fund (RDF) reserve, which will provide for increased financial stability in times of future economic downturns."

Despite this, SRJ 8206 is opposed by some lawmakers. Not surprisingly, those who voted against the proposed constitutional Budget Stabilization Account believe it would restrict the freedom of lawmakers to spend from the reserve when they want to. According to the con statement provided for the voter's guide:

*This proposal restricts the legislature's ability to make critical decisions by requiring a "super majority" vote for expenditures from the stabilization account. It would allow a small minority to block decisions by the majority and would apply even in critical areas such as spending for education and health care. It violates our long-standing practice of majority decision making. Exceptions are made only for a state of emergency or very low employment growth.*

## **Conclusion**

Unlike the state's current statutory Emergency Reserve Fund, the proposed Budget Stabilization Account would be protected by the constitution, ensuring that the rules for appropriations from the reserve could not be waived for political expediency.

If adopted by voters, SJR 8206 should be able to deliver on the policy goals originally envisioned with I-601's Emergency Reserve Fund, helping provide some stability to the state's budget outlook. This prospect, however, is only as strong as lawmakers' commitment to spending restraint, which would help avoid the need for spending from the Budget Stabilization Account in the first place.

*Jason Mercier is the Center for Government Reform Director at Washington Policy Center. . Nothing in this document should be taken as any attempt to aid or hinder the passage of any legislation before any legislative body. Contact Washington Policy Center at 206-937-9691 or [www.washingtonpolicy.org](http://www.washingtonpolicy.org).*