

## **Citizens' Guide to Senate Joint Resolution 8206** *To Enhance the State's Constitutional Savings Account*

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### **Key Findings**

1. SJR 8206 would build on a previous constitutional savings account amendment adopted by voters in 2007 with 68% of the vote.
2. SJR 8206 was adopted by a vote of 47-0 in the Senate and 76-10 in the House.
3. The state's current constitutional savings account is projected to have a balance of around \$280 million. This equals protected reserves of less than 1% for the \$31.7 billion 2011-13 budget.
4. Assuming all of these constitutional savings account funds are spent, the state is currently projected to have a budget deficit exceeding \$1 billion in 2011-13.
5. The governor's budget transformation committee recommended the legislature "enhance the Rainy Day Fund" and "include a mechanism to ensure extraordinary and unsustainable [revenue] growth is saved, rather than spent."
6. If adopted by voters, SJR 8206 would strengthen the constitutional savings account that voters enacted in 2007, and would provide additional stability to the state's budget outlook.

### **Introduction**

This November, Washingtonians will vote on Senate Joint Resolution 8206, a proposal to enhance the state's existing constitutionally protected savings account for the state budget. The proposed constitutional amendment would build on a previous constitutional amendment adopted by voters in 2007 that created a constitutionally protected rainy-day savings account for the state budget, replacing the state's statutory emergency reserve.<sup>1</sup> The 2007 proposal passed with 68 percent of the vote.

To build on the success of the 2007 reform, in January Washington Policy Center recommended that state leaders take additional steps to ensure that once the economy begins to improve, the state secures adequate reserves to help smooth out the ups and downs of revenue collections.<sup>2</sup> The governor's Budget Transformation Committee (on which WPC served) made a similar recommendation, saying the legislature should "enhance the Rainy Day Fund" and "include a mechanism to ensure extraordinary and unsustainable [revenue] growth is saved, rather than spent."<sup>3</sup>

### **Washington's Current Constitutional Savings Account**

In 2007, voters approved a ballot measure to create a constitutional emergency reserve account. Under the 2007 reform, one percent of general state revenues are deposited into the reserve account. General state revenues (such as the sales tax) are all state revenues that are not dedicated to a particular purpose (such as the gas tax, which is dedicated to highways).

Legislators can place additional money in the reserve account at any time. There are only two exceptions that allow lawmakers to spend money from the account without a three-fifths vote in the legislature:

1. When forecasted state employment growth is less than one percent, or
2. The governor and the legislature declare a state emergency, which is defined as a catastrophic event requiring government action to protect life or public safety. The funds withdrawn from the reserve account must be spent on the declared emergency.

<sup>1</sup> "November 6, 2007 General," Washington Secretary of State, at [vote.wa.gov/Elections/WEL/Results.aspx?RaceTypeCode=M&JurisdictionTypeID=-2&ElectionID=2&ViewMode=Results](http://vote.wa.gov/Elections/WEL/Results.aspx?RaceTypeCode=M&JurisdictionTypeID=-2&ElectionID=2&ViewMode=Results)  
<sup>2</sup> "Structural reforms for a sustainable state budget," by Jason Mercier, Washington Policy Center, January 2011 at [www.washingtonpolicy.org/sites/default/files/2011BudgetRecs.pdf](http://www.washingtonpolicy.org/sites/default/files/2011BudgetRecs.pdf)  
<sup>3</sup> "Governor's Committee on Transforming Washington's Budget," at [http://governor.wa.gov/priorities/budget/committee\\_ideas.pdf](http://governor.wa.gov/priorities/budget/committee_ideas.pdf)

These are the only two circumstances that permit the legislature to spend money from the constitutional emergency reserve account with a simple majority vote. Since these requirements are constitutional, a simple majority in the legislature cannot spend money from the reserve fund for the sake of short-term political expediency.

## Summary of SJR 8206

To enhance the existing constitutional savings account, this year lawmakers by a vote of 47–0 in the Senate and 76–10 in the House adopted SJR 8206 and sent it for the voters to consider in November.<sup>4</sup> For a constitutional amendment to be enacted, the proposal must receive supermajority support in the legislature and ratification by a simple majority of state voters. According to the official statement for SJR 8206:

The proposed amendment to article VII, section 12 would require additional revenue to be transferred to the budget stabilization account in any fiscal biennium in which there has been “extraordinary revenue growth,” with certain limitations. “Extraordinary revenue growth” is defined by reference to a baseline consisting of the average biennial percentage growth in general state revenues over the preceding five biennia. Any growth in general state revenue that is more than one-third greater than the baseline is defined as “extraordinary revenue growth.” In determining whether “extraordinary revenue growth” has occurred, historical general state revenues must be adjusted to reflect statutory changes to revenue dedication.

The legislature would be required to transfer three-fourths of that “extraordinary revenue growth” to the budget stabilization account, subject to two limitations. First, no transfer of “extraordinary revenue growth” is required where annual average state employment growth during the preceding fiscal biennium averaged less than one percent per fiscal year. Second, no transfer of “extraordinary revenue growth” is required unless the transfer would exceed the amount already transferred to the budget stabilization account during the fiscal biennium, under present law. The deadline for transferring the additional revenue would be the end of each fiscal biennium (June 30 in odd-numbered years).

No change would be made to the legislature’s authority to withdraw money from the budget stabilization account.<sup>5</sup>

## How SJR 8206 Would Work

According to a summary of the proposal by prime sponsor Sen. Joe Zarelli (R), there have only been two biennia since the 1970s in which the provisions of SJR 8206 would have been triggered, the 1989–91 and 2005–07 biennia.<sup>6</sup> In an interview Sen. Zarelli further explained:

Between 2006 and 2008 we saw exceptional revenue growth, where we had billions of dollars, mostly coming from construction and housing that were

<sup>4</sup> “SJR 8206: Requiring extraordinary revenue growth to be transferred to the budget stabilization account,” at [apps.leg.wa.gov/billinfo/summary.aspx?bill=8206&year=2011](https://apps.leg.wa.gov/billinfo/summary.aspx?bill=8206&year=2011)

<sup>5</sup> “Explanatory Statement for SJR 8206,” Washington Secretary of State’s Office, at [wei.secstate.wa.gov/osos/en/PreviousElections/2011/general/Pages/OVG\\_20111108.aspx?Electio nID=42&sorttype=Measures#ososTop](https://wei.secstate.wa.gov/osos/en/PreviousElections/2011/general/Pages/OVG_20111108.aspx?Electio nID=42&sorttype=Measures#ososTop)

<sup>6</sup> Put Extraordinary Revenue Growth into Rainy-Day Fund,” by Sen. Joe Zarelli at [www.senaterepublicans.wa.gov/budgetidbits/2009/011509BudgetTibit.pdf](http://www.senaterepublicans.wa.gov/budgetidbits/2009/011509BudgetTibit.pdf)

completely outside of the norm. ... If this [SJR 8206] had been in place, we would have been required to save about \$2 billion of that extraordinary revenue. It's really like saving \$4 billion because you put \$2 billion aside, and you're spending \$2 billion less. That would have harmonized our revenue and going into this recession, we probably wouldn't have had to make the level of cuts that we did.<sup>7</sup>

This means that had the extraordinary revenue growth trigger of SJR 8206 been in place prior to 2005, the state would have put into a constitutionally protected savings account an additional \$2 billion instead of spending it, resulting in a more sustainable budget, while also setting aside substantial reserves that would have been available to help the state weather the Great Recession.

### **Does a Constitutional Budget Reserve Matter?**

If coupled with a meaningful spending limit (as recommend by WPC), a constitutional savings account provides stability to the state budget by reducing the likelihood of tax increases or budget cuts during the downside of the business cycle (approximately every ten years).<sup>8</sup> Bond companies, such as Standard and Poor's, also look positively on states with constitutionally protected savings accounts. In fact, this past July Standard and Poor's managers highlighted that one of Washington's financial strengths is:

Although the state does not have a minimum reserve policy, the state constitution requires the state to set aside 1% of most unrestricted state revenues in each fiscal year into a budget stabilization fund [savings account], a form of "rainy-day" fund.<sup>9</sup>

The Standard and Poor's report goes on to note:

A potential constitutional amendment which, if approved by voters in November 2011, would add rigor to the state's legal requirement to add funding to its budget reserve by placing "extraordinary" revenue growth in the reserve (defined as revenue growth that exceeds by one-third the average rate of growth during the past five biennia).<sup>10</sup>

The added financial stability a constitutional savings account provides explains why State Treasurer Jim McIntire (D) and legislative budget writers Sen. Joe Zarelli (R) and Rep. Ross Hunter (D) support SJR 8206. They believe the measure would help ensure future budgets are not based on unsustainable revenue increases, and instead are based on more prudent revenue expectations.<sup>11</sup>

SJR 8206 has wide bipartisan support, but is opposed by some lawmakers. Lawmakers who voted against the proposed enhanced constitutional savings account say it would restrict the freedom of lawmakers to spend extraordinary revenue growth. They also say the state's existing constitutional reserve has plenty of money in it, and is adequate to bring stability to state budgeting.<sup>12</sup>

<sup>7</sup> "This week's Q&A: Sen. Joe Zarelli on the Rainy Day Fund expansion," by Niki Reading, The Capitol Record, August 29, 2011 [www.tvw.org/capitolrecord/index.php/2011/08/this-weeks-qa-sen-joe-zarelli-on-the-rainy-day-fund-plus/](http://www.tvw.org/capitolrecord/index.php/2011/08/this-weeks-qa-sen-joe-zarelli-on-the-rainy-day-fund-plus/)

<sup>8</sup> "Policy Guide for Washington State (3<sup>rd</sup> Edition)," Washington Policy Center, 2008

<sup>9</sup> "Washington; Appropriations; General Obligation; Liquidity Facility," Standard and Poor's, July 5, 2011 at [www.tre.wa.gov/documents/SnPBonds\\_Jul11.pdf](http://www.tre.wa.gov/documents/SnPBonds_Jul11.pdf)

<sup>10</sup> Ibid.

<sup>11</sup> "Voters' Guide for SJR 8206," Washington Secretary of State's Office, at [wei.secstate.wa.gov/osos/en/PreviousElections/2011/general/Pages/OVG\\_20111108.aspx?ElectionID=42&sorttype=Measures#ososTop](http://wei.secstate.wa.gov/osos/en/PreviousElections/2011/general/Pages/OVG_20111108.aspx?ElectionID=42&sorttype=Measures#ososTop)

<sup>12</sup> Ibid.

The state's constitutional savings account is currently projected to have a balance of around \$280 million. This equals protected reserves of less than one percent for the \$31.7 billion 2011–13 budget. Assuming all of these constitutional savings account funds are spent, the state is currently projected to have a budget deficit exceeding \$1 billion in 2011–13.<sup>13</sup>

## Conclusion

If adopted by voters, SJR 8206 would strengthen the constitutional savings account that voters enacted in 2007, and would provide additional stability to the state's budget outlook. This prospect, however, is only as strong as lawmakers' commitment to spending restraint once the economy recovers. A stronger constitutional savings account, as proposed by SJR 8206, would help stabilize the state's long-term fiscal position by smoothing out future swings in revenue, but limiting the growth of spending is also required to avoid the need to spend money from the constitutional savings account in the first place.

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<sup>13</sup> "2009-11 with Enacted Supplementals and 2011-13 Enacted Budget Balance Sheet," accessed on September 20, 2011, at [www.ofm.wa.gov/budget/info/currentbalance.pdf](http://www.ofm.wa.gov/budget/info/currentbalance.pdf)