WASHINGTON RESEARCH COUNCIL Policy Brief

PB 07-11
September 28, 2007

(Updated 10/08/07)

# LOOKING FORWARD TO A RAINY DAY IN NOVEMBER

**BRIEFLY**

In November, Washington voters will decide whether to approve or reject SJR 8206, a constitutional amendment that would establish a "rainy day fund."

Senate Joint Resolution 8206 is one of four constitutional amendments on the ballot this November. If approved by voters, the provisions of SJR 8206 would require the legislature to set aside 1 percent of State General Fund revenues each year in a "rainy day fund," for use in the event of a recession.

Forty-five states have some type of rainy day fund. These funds are intended to help moderate the impact of the ups and downs of the business cycle on state spending. Washington currently has a rainy day fund, the emergency reserve fund, which voters established in 1993 as part of Initiative 601. Because it is established in statute rather than in the constitution, the legislature has been able to make changes over the years that have reduced the emergency reserve fund's effectiveness. SJR 8206's provisions will provide a greater and more certain degree of fiscal discipline.

## WHEN IT RAINS, IT POURS

A rainy day fund is a way to alleviate some of the strain put on government spending programs during a recession. Typically, in periods of high growth tax revenues increase, while the need for government support services is less pressing. The opposite is true during a recession; tax revenues decrease and need for government services increases.

Legislators have an incentive to increase spending in good years when tax revenues are high, this then necessitates drastic cuts in programs in economic downturns. The rainy day fund would require the legislature to set aside a portion of the revenue from good years to limit spending cuts in lean years.

## LEGISLATION

There were several proposals for state savings accounts this session but only the governor's proposal garnered the necessary super-majority support in both houses to qualify for the ballot as a constitutional amendment.

The governor's proposal, SJR 8206, would require 1 percent of State General Fund revenue be put into the account each year. If the fund ever grew beyond 10 percent of annual general state revenues, the legislature would be allowed to appropriate the excess for school construction.

In bad years money could be withdrawn from the fund with a majority vote of both houses. A bad year is defined as a year with employment growth below 1 percent. The funds would also be accessible with a simple majority vote in the legislature if the Governor declares an emergency and "immediate action is required to preserve public health, protect life, or protect public property" (Senate Bill Report). Without the one percent trigger or declaration of emergency the funds can be accessed only with a supermajority vote (60 percent) in both houses.

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If SJR 8206 is approved, the existing $295.3 million balance of the emergency reserve will be transferred to a new budget stabilization account. Over the course of the biennium an additional $135.6 million will be deposited into the account. Subsequently, 1 percent of general fund revenue would be deposited automatically each year. Annual deposits are projected to be around $150 million (OFM).

## Discussion

Not everyone was excited about the savings account. House Appropriations Committee Chairwoman Helen Sommers expressed reservations about locking up the funds and limiting the legislature's budgeting authority. Other legislators said the super-majority rules would make it too difficult to access the funds. And still others objected that allowing the funds to be accessed anytime the governor declares an emergency will lead to misuse. Ultimately all these objections were swept aside as legislative leadership felt the need to exit the session with at least one accomplishment they could point to as "fiscally responsible."

None of the concerns expressed by legislative critics is unfounded. On balance, however, we believe that a constitutional rainy day fund is good fiscal policy and will help Washington weather future economic storms.

We also believe this fund should not be the sole source of reserve funds for the state but should be used to complement a healthy reserve in the state general fund.

## References

House Appropriations Committee Staff. 2007. House Bill Report: HJR 4207.

Office of Financial Management (OFM). 2007. Policy Brief : Rainy Day Fund.

Senate Ways and Means Committee Staff. 2007. Senate Bill Report: ESSJR 8206.