

Budget Tidbits... just the facts

By Sen. Joe Zarelli, Ranking Republican
Senate Ways & Means

Budget Brief #1: (1/15/09) **Put Extraordinary Revenue Growth into Rainy-Day Fund** *A proposal to prevent future budget crises*

"Until we learn, this budget crisis won't be the last."

-- Peter Callaghan, Columnist, Tacoma News Tribune (12/21/08)

I. Crisis Can Be a Learning Tool

This Legislature is confronted with the largest deficit in state history, nearly \$6 billion. It is a deficit whose blossom can be attributed to a worse-than-expected economy but whose roots can be traced to spending that relied on historically unprecedented revenue growth continuing. (See ["It's a Spending Problem" Budget Tidbits](#), 2/20/08)

But the deficit is what it is. And assigning blame is unproductive in addressing the immediate problem. To me, the greater policy question is whether a lesson will be learned and a mechanism put in place to prevent this from happening in the future.

II. SJR 820-*: An Opportunity to Prevent This Crisis in Future

*(*The proposed constitutional amendment has not yet been assigned a number.)*

A. The state experienced historically unprecedented revenue growth last biennium.

To understand this deficit one needs to first look back. Only two years ago legislators entered session with a record surplus stemming from a booming housing market. Taxes from real estate transactions soared and sales tax collections kept coming in higher than anticipated. Indeed, for eleven straight quarterly forecasts, legislators were greeted with revenue projections adjusted upward.

They were extraordinary times. In 2005-07, constitutional general state revenues grew, on an adjusted basis, by 21.4%, nearly triple the biennial average of the prior five biennia.

At no time on record had revenue grown so far in excess of historical averages.

But now we find ourselves with a record deficit, as that extraordinary growth was spent rather than saved.

B. Proposal requires "Extraordinary Revenue Growth" be put in Rainy-Day Fund.

The proposed constitutional amendment requires "extraordinary revenue growth" be put in the constitutional rainy-day fund, where it could be accessed by a simple majority of the Legislature only in bad economic times.

i. 133% of Historical Average Growth

"Extraordinary revenue growth" is defined as that which exceeds by one-third the average biennial percentage revenue growth over the last five biennia. For instance, if average biennial revenue growth was 10% over the last five biennia, then extraordinary revenue growth would be that above 13.3%.

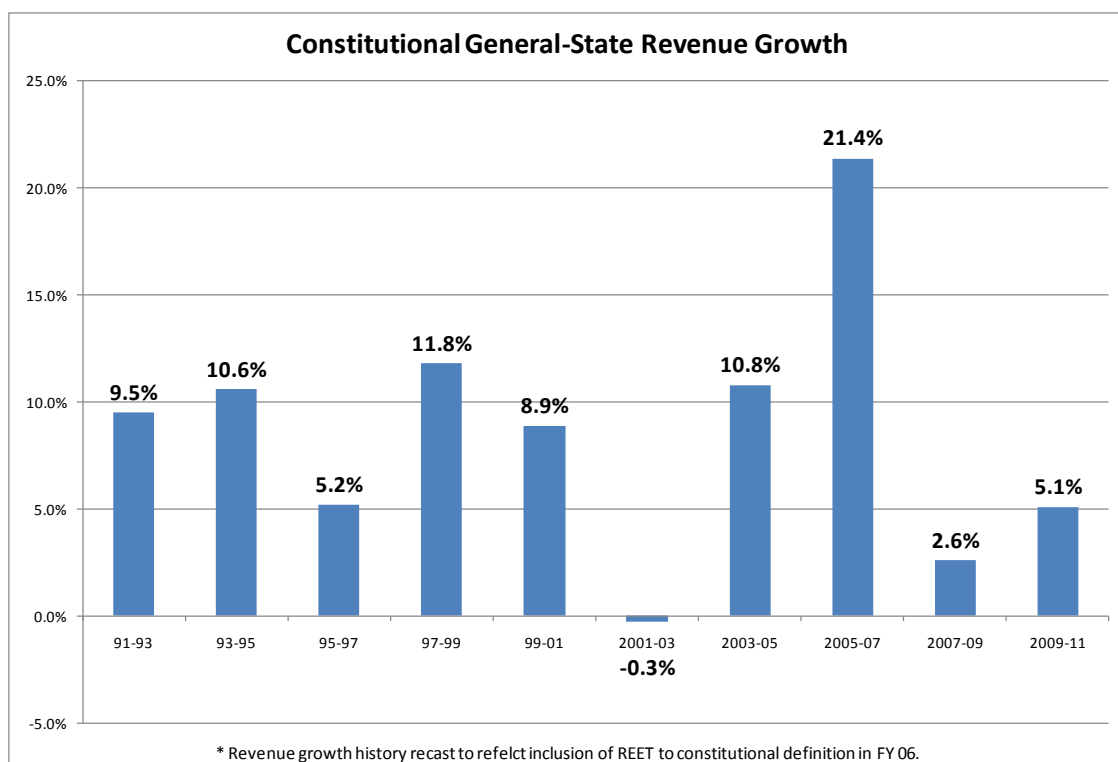
ii. Prevent Gamesmanship

The proposed amendment, like its predecessor which created the rainy-day fund ([Senate Joint Resolution 8206](#)), uses the constitutionally defined "general state revenues" as the basis for judging revenue growth. The amendment requires that if funds are brought into or taken out of the definition then the historical revenue calculations must be recast to account for that. This ensures an apples-to-apples historical comparison.

iii. Deposits only required if greater than regular Rainy-Day Fund deposits

Finally, in recognition of the already-required 1% annual deposits, the "extraordinary growth deposit" only occurs to the extent it is greater than the already scheduled deposits.

III. How It Would Have Worked in Past



Nearly \$2.4 billion deposit in FY 05-07

There are two biennia since the 1970s where revenue collections came in greater than 133% of historical average revenue growth. That was in FY 89-91 and FY 05-07.

In 1989-91, revenues came in just slightly above the 133% trigger. But the amount of "extraordinary growth" would have been less than the now required 1% annual deposits to the fund, so no "extraordinary" deposit would have been made.

In 2005-07, as the chart above indicates, revenues far exceeded any recent historical growth. The amount above the 133% trigger that would have been deposited in the rainy day fund would have been just under \$2.4 billion.

IV. Proposal Would Have Greatly Reduced Size of Current Deficit

There are dual benefits to saving extraordinary revenue growth:

One, there is more money in savings for when the economy turns bad and the money is truly needed.

Two, it serves to prevent unsustainable spending increases.

About 4/5ths of the present deficit could have been avoided if this proposal had been in place.

SJR 820- would have functionally served to reduce the present problem by \$4.8 billion. This is due to the \$2.4 billion that would have been available in the rainy-day fund, plus -- by taking the money off the table -- constraining spending by \$2.4 billion less than what it increased by.

BOTTOM LINE

Should the Legislature take steps to ensure we do not face such a budget crisis in future by passing a constitutional amendment requiring extraordinary revenue growth be placed in the rainy-day fund?