



Washington state's
chamber of commerce

Association of Washington Business

Don C. Brunell
President

January 25, 2007

House Appropriations Committee
Washington State House of Representatives
PO Box 40600
Olympia WA 98504

Dear Chairman Sommers and Members of the Committee:

On behalf of the 6,200 members of the Association of Washington Business representing more than 600,000 employees in our state, thank you for the opportunity to comment on proposed "rainy day fund" legislation.

Budget stability has long been a major concern of AWB, as it has been of yours. Washington's cyclical economy regularly produces times of great revenue growth, followed inevitably by the downturn. Often spending commitments made during the good times prove to be unsustainable when the economy softens and revenue growth slows. We have been through the cycle several times in the last twenty years. I well remember the 1993 legislative session, when business taxes were sharply increased to offset a projected budget shortfall. And we all remember the tough budget decisions made just a few years ago following the recession that began in 2001.

Several steps may be taken to moderate the effects of what has often been a budget roller coaster. For example, the Priorities of Government budget process should help control spending growth by operating within budget limits and recognizing the long-term effects of spending decisions. A reasonable state spending limit similarly smoothes out the peaks and valleys by making it more difficult to increase sharply spending during the periods of robust revenue growth, lessening the need for tax increases or spending reductions during the lean years. And, finally, relevant to your discussion today, a constitutionally-protected reserve fund provides the necessary revenue cushion that will allow the state to maintain essential spending when tax collections flag or to meet critical needs during a crisis or fiscal emergency.

You have several alternatives before you. Rather than address them specifically, I want to share with you the elements that AWB believes must be a part of any effective rainy day fund proposal.

We keep Washington working

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First, we think it must be placed in the Constitution. We know that large reserves are temptations, both for lawmakers and citizens through the initiative process. Only a Constitutionally-protected reserve will be safe from the inevitable attempts to spend the surplus. Revenues in excess of the cap may, in our view, be fairly used for a variety of purposes, including debt retirement and school construction.

Second, we believe the reserve must build to a maximum of five percent of the prior fiscal year's estimated revenues. Higher caps, while certainly more fiscally conservative, increase the likelihood that efforts will be made to weaken the protection over time in order to tap the fund.

Third, we believe it must be made difficult to spend money from the fund. Absent a specific triggering economic condition event or a declaration of emergency, we would support a three-fifths requirement. Either a slowdown in employment growth to below one percent or revenues failing to grow at a real rate of one percent would be an acceptable justification for allowing the fund to be tapped by a majority vote. A declaration of emergency by the governor would also justify the majority vote. We do, however, think that the voter-approved definition of emergency included in Initiative 601 – "natural disasters that require immediate government action to alleviate human suffering and provide humanitarian assistance" – has merit in defining the conditions.

We share your commitment to budget stability and believe a Constitutionally-protected rainy day fund will serve the state well in the coming years.

Sincerely,



Don C. Brunell
President