



While Acknowledging the Increasingly Negative Economic Outlook, the Legislature Increases Appropriations by 20.5 Percent

NGFO Plus WEIA

In recent years, legislative fiscal committee staffs have based budget presentations on a synthetic “account” that rolls up the general fund–state (the state’s primary budget account) with the education legacy trust account and the opportunity pathways account, because they believe that it better reflects the entire budget situation. This roll-up is called “funds subject to the outlook” or the near general fund–outlook (NGFO). (Under the four-year balanced budget requirement, a positive ending balance is required in both the current and following biennium on an NGFO basis.)

In 2019, the Legislature created the workforce education investment account (WEIA) to fund higher education programs. As these programs would typically be funded through the NGFO, it is appropriate for budget transparency purposes to roll up the WEIA with the NGFO. Under legislation enacted in 2020, the WEIA will be included in the NGFO going forward.

Briefly

Acknowledging the quickly worsening public health and economic circumstances in the last few weeks of session, the Legislature passed a 2020 supplemental operating budget that appropriates less than either of the earlier Senate-passed or House-passed proposals.

Still, it increases appropriations from funds subject to the outlook plus the workforce education investment account (NGFO+WEIA) by \$975.8 million. Revised biennial appropriations are \$53.849 billion—an increase of 20.5 percent over 2017–19. Overall, the appropriations are focused on human services and housing and homelessness programs.

Additionally, the Legislature appropriated \$200.0 million from the rainy day fund for response to the novel coronavirus outbreak. After making this appropriation, the rainy day fund balance is about \$1.979 billion in 2019–21. Total reserves are \$2.896 billion.

The budget balances over four years, leaving an unusually high unrestricted NGFO ending balance in 2021–23 of \$843 million. Notably, the Legislature also passed a bill this session that strengthens the balanced budget requirement.

With the economic outlook continually worsening, the spending level in the budget is unsustainable. It is almost certain that the budget is based on revenues that will not be collected.

The Legislature passed a 2020 supplemental operating budget that appropriates less than either of the earlier Senate-passed or House-passed proposals. Increased revenue forecasts since the original 2019–21 budget was enacted last year meant that when the Senate Ways and Means Committee and House Appropriations Committee chairs proposed their supplemental operating budgets in February, they had an estimated \$1.425 billion more to work with for the biennium, from funds subject to the outlook plus the workforce education investment account (NGFO+WEIA).

By the end of session, the state was deal-

ing with the novel coronavirus (COVID-19) outbreak, which was proving to have wide-ranging public health and economic consequences. Thus, the Legislature modestly reduced its plans for discretionary spending from the NGFO+WEIA and appropriated \$200.0 million from the rainy day fund for COVID-19 response. By reducing other spending, the four-year outlook was improved, though likely not enough to sustain spending levels during the outbreak.

The governor has not yet signed the budget or many of the underlying bills and will likely make some vetoes to save money.

NGFO Balance Sheet

Revenues. The February revenue forecast estimates that 2019–21 NGFO revenues will be \$52.339 billion (an increase of \$1.454 billion since the 2019–21 budget was enacted last year). New revenue legislation will reduce revenues by a net of \$19.0 million in 2019–21. (This figure accounts for the fact that two bills assumed in the conference report balance sheet were not passed.) (WEIA revenues, not shown in the balance sheet, decrease by \$29.6 million.)

Other Resources. The supplemental transfers \$55.1 million from the general fund–state (GFS) to other accounts. This includes \$14.3 million for the disaster

response account and \$4.5 million for the home security fund account. Additionally, it includes \$41.3 million for the WEIA, to ensure the WEIA remains solvent in 2019–21. (The four-year outlook assumes that \$20.1 million would be transferred from the WEIA back to the GFS in 2021–23.)

Spending. The supplemental increases 2019–21 NGFO appropriations by \$961.0 million. Of that, \$121.5 million is maintenance level changes (the cost of continuing current services) and \$839.5 million is new policy. (Spending from the WEIA, not shown in the balance sheet, increases by \$14.8 million—all for maintenance level changes.) After accounting for reversions (appropriations assumed not to be spent), biennial NGFO spending will be \$53.078 billion.

Reserves. The budget leaves an unrestricted ending fund balance of \$917 million. It appropriates \$200 million from the budget stabilization account (BSA, or the rainy day fund), leaving about \$1.979 billion in the BSA. Together, total reserves are about \$2.896 billion.

Revenue Details

New revenue legislation will reduce NGFO+WEIA revenues by \$48.6 million in 2019–21 and increase revenues by \$180.0 million in 2021–23. This includes the impacts of ESSB 6492, which the governor signed into law in February. The bill revamps the workforce education investment business and occupation (B&O) tax surcharge that was originally enacted in 2019 (WRC 2020). It is estimated to reduce WEIA revenues by \$29.6 million in 2019–21 and increase them by \$234.3 million in 2021–23.

The supplemental budget conference report assumed passage of two bills (HB 2804 and SB 6331) that ultimately did not pass. Accounting for that, new bills are estimated to reduce NGFO revenues by \$19.0 million in 2019–21 and by \$54.3 million in 2021–23. These include:

- EHB 1948 provides mitigation payments (until Jan. 1, 2026) for certain

Table 1: NGFO Balance Sheet (Dollars in Millions)

	<i>2019-21</i>
Beginning Balance	1,981
Revenue	
Feb. 2020 Revenue Forecast	52,339
Passed Legislature	
Revenue Legislation	(19)
Budget Driven Revenue	(4)
Revenue Forecast Technical Adjustment	9
<i>Total Revenue</i>	<i>52,326</i>
Other Resource Changes	
Transfer to Budget Stabilization Account	(505)
Other Enacted Fund Transfers	209
Prior Period Adjustments	39
Passed Legislature	
Fund Transfers	(55)
<i>Total Other Resource Changes</i>	<i>(312)</i>
<i>Total Resources</i>	<i>53,995</i>
Spending	
Enacted 2019-21 Appropriations	52,499
Actual/Assumed Reversions	(382)
Passed Legislature	
Maintenance Level Changes	121
Policy Changes	839
<i>Total Spending</i>	<i>53,078</i>
Unrestricted Ending Fund Balance	917
Budget Stabilization Account Balance	1,618
Transfers from GFS and Interest Earnings	560
Passed Legislature	
Appropriations from BSA	(200)
Projected BSA Ending Fund Balance	1,979
<i>Total Reserves</i>	<i>2,896</i>

Note: Details may not sum due to rounding.

cities that lost sales tax revenues due to the streamlined sales and use tax agreement adopted in 2007. (Previous mitigation payments expired Oct. 1, 2019.) According to the fiscal note, Auburn, Fife, Issaquah, Kent, Sumner, Tukwila, and Woodinville qualify for the new payments. The bill is estimated to reduce revenues by \$6.7 million in 2019–21 and \$13.1 million in 2021–23.

- SHB 2803 allows the governor to enter into tax compacts with tribes so that tribes receive tax collections from transactions between non-tribal members on tribal land. The bill is estimated to reduce revenues by \$4.1 million in 2019–21 and by \$8.5 million in 2021–23. (The revenue loss is estimated to jump to \$43.1 million in 2023–25.)
- HB 2943 allows health or social welfare organizations to exclude payments received for government-funded mental health or substance use disorder treatment services from B&O tax. Similarly, behavioral health administrative services organizations may exclude payments received from the state for distribution to such health or social welfare organizations from B&O tax. The bill is estimated to reduce revenues by \$4.1 million in 2019–21 and by \$9.0 million in 2021–23.
- ESSB 5147 exempts feminine hygiene products from state sales and use taxes. It is estimated to reduce revenues by \$4.1 million in 2019–21 and by \$9.4 million in 2021–23.
- ESSB 5323 prohibits retailers from providing customers single-use plastic bags and other bags that don't meet recycled content requirements. Retailers must impose a specified charge per recycled-content paper bag or reusable plastic film bag. The charges must be kept by the retailers, and they are subject to the retail sales tax. The bill will increase revenues by \$3.8 million in 2019–21 and \$7.4 million in 2021–23.

Finally, note that the Legislature passed

ESB 6690, which increases the manufacturing, wholesaling, and retailing B&O tax rate for aerospace from 0.2904 percent to 0.484 percent (and to 0.471 percent for tooling) effective April 1, 2020. This is meant to address a World Trade Organization (WTO) ruling that the current tax rate violates WTO rules. The new tax rate could be reduced to 0.357 percent after March 31, 2021, if an agreement is reached with the European Union that resolves the WTO dispute and allows for the rate reduction. The bill is estimated to increase state revenues by \$107.0 million in 2019–21 and by \$229.0 million in 2021–23. However, these revenues are not assumed in the supplemental.

Spending Details

The supplemental budget increases NGFO+WEIA appropriations by \$975.8 million. Revised biennial appropriations are \$53.849 billion—an increase of 20.5 percent over 2017–19. The spending details below are new policy changes only, in terms of the NGFO+WEIA, unless otherwise noted.

COVID-19. The Legislature passed (and the governor has signed) EHB 2965, which appropriates \$175.0 million from the BSA to the disaster response account for COVID-19 response. (The bill appropriates another \$25.0 million for this purpose from the general fund–federal.) According to the governor's office, these funds "will be used to slow the outbreak, test for the virus and help with treatment for more severe cases of respiratory illness" (Governor 2020).

Additionally, EHB 2965 appropriates \$25.0 million from the BSA to a new COVID-19 unemployment account. Normally, when individuals receive unemployment benefits, the benefits are paid from the unemployment insurance trust fund account and charged to their former employers. The employers' unemployment insurance taxes are then increased (this is called experience rating). Under EHB 2965, when certain employees are not able to work because of

COVID-19, their benefits may be reimbursed by the new COVID-19 unemployment account, rather than being charged to the employer's experience rating account.

Note that the \$200 million from the BSA is on top of the \$975.8 million appropriated from the NGFO+WEIA.

Housing and Homelessness. The budget appropriates about \$158 million for housing and homelessness programs. First, the budget appropriates \$60.0 million from the GFS to the home security fund account, to be used for grants to local governments to increase shelter capacity. Second, the budget appropriates \$55.0 million from the GFS to the housing trust fund, to be used for capital projects and preservation and maintenance of affordable housing. Other appropriations include \$15.4 million for the housing and essential needs program and \$15.0 million for supportive housing.

Human Services. Appropriations for human services increase by \$415.4 million.

In the Department of Children, Youth, and Families (DCYF), the budget appropriates \$31.9 million to increase Working Connections Child Care (WCCC) rates,

\$15.5 million to adjust assumed WCCC caseload savings, and \$8.6 million to reduce WCCC copays and increase eligibility. A federal waiver had allowed flexible use of federal dollars for Washington's family assessment response pathway (an alternative approach for child protective services). The waiver expired last year, so the budget increases appropriations by \$33.7 million to backfill the expired federal funding and cover prior spending that had exceeded a federal cap.

The budget appropriates \$9.1 million to increase the Early Childhood Education and Assistance Program (ECEAP) rate across the board and enhance the ECEAP rate for special needs children. It increases spending for juvenile rehabilitation by \$8.0 million. Finally, it transfers the Early Support for Infants and Toddlers program from the Office of Superintendent of Public Instruction to DCYF, increasing DCYF appropriations by \$85.6 million (and correspondingly reducing public schools appropriations).

In the Department of Social and Health Services (DSHS), the budget appropriates \$38.4 million for state hospital operations, \$18.8 million to increase nursing home rates, and \$9.5 million to restore

Table 2: NGFO+WEIA and All Funds Appropriations as Passed by the Legislature (Dollars in Thousands)

	Original 2019-21 Appropriations		2020 Supplemental		Revised 2019-21 Appropriations	
	<u>NGFO+WEIA</u>	<u>All Funds</u>	<u>NGFO+WEIA</u>	<u>All Funds</u>	<u>NGFO+WEIA</u>	<u>All Funds</u>
Legislative	190,001	220,755	4,402	4,435	194,403	225,190
Judicial	332,748	418,511	9,463	9,480	342,211	427,991
Governmental Operations	689,950	4,606,909	80,320	336,025	770,270	4,942,934
DSHS	6,393,519	13,806,755	79,227	74,961	6,472,746	13,881,716
HCA	5,779,026	21,245,905	283,519	1,136,225	6,062,545	22,382,130
Other Human Services	4,336,537	8,601,510	264,766	359,199	4,601,303	8,960,709
Natural Resources	438,313	2,137,583	66,476	74,804	504,789	2,212,387
Transportation	120,869	259,256	5,349	10,147	126,218	269,403
Public Schools	27,245,910	29,287,911	-4,852	10,981	27,241,058	29,298,892
Higher Education	4,038,399	15,447,416	35,336	-19,979	4,073,735	15,427,437
Other Education	68,794	141,960	950	1,768	69,744	143,728
Other Appropriations	3,239,218	3,531,493	150,845	374,417	3,390,063	3,905,910
Total	52,873,284	99,705,964	975,801	2,372,463	53,849,085	102,078,427

nursing home discharge reductions. Across DSHS and the Health Care Authority (HCA), the budget saves \$66.0 million by assuming that the federal government will continue to delay a scheduled reduction in funding for disproportionate share hospitals.

In the HCA, the budget provides \$34.1 million to resolve past unreconciled amounts for rural health centers, \$32.6 million to restore savings that will not be realized from program integrity recoveries from managed care plans, and \$9.9 million to increase primary care rates. It saves \$38.8 million due to updated estimates of marijuana tax revenue, which is used in lieu of the GFS for low-income health and community health centers.

In the Department of Labor and Industries, \$15.0 million is provided for aerospace workforce development grants. Funding for the Department of Health is increased by \$8.4 million to replace lost

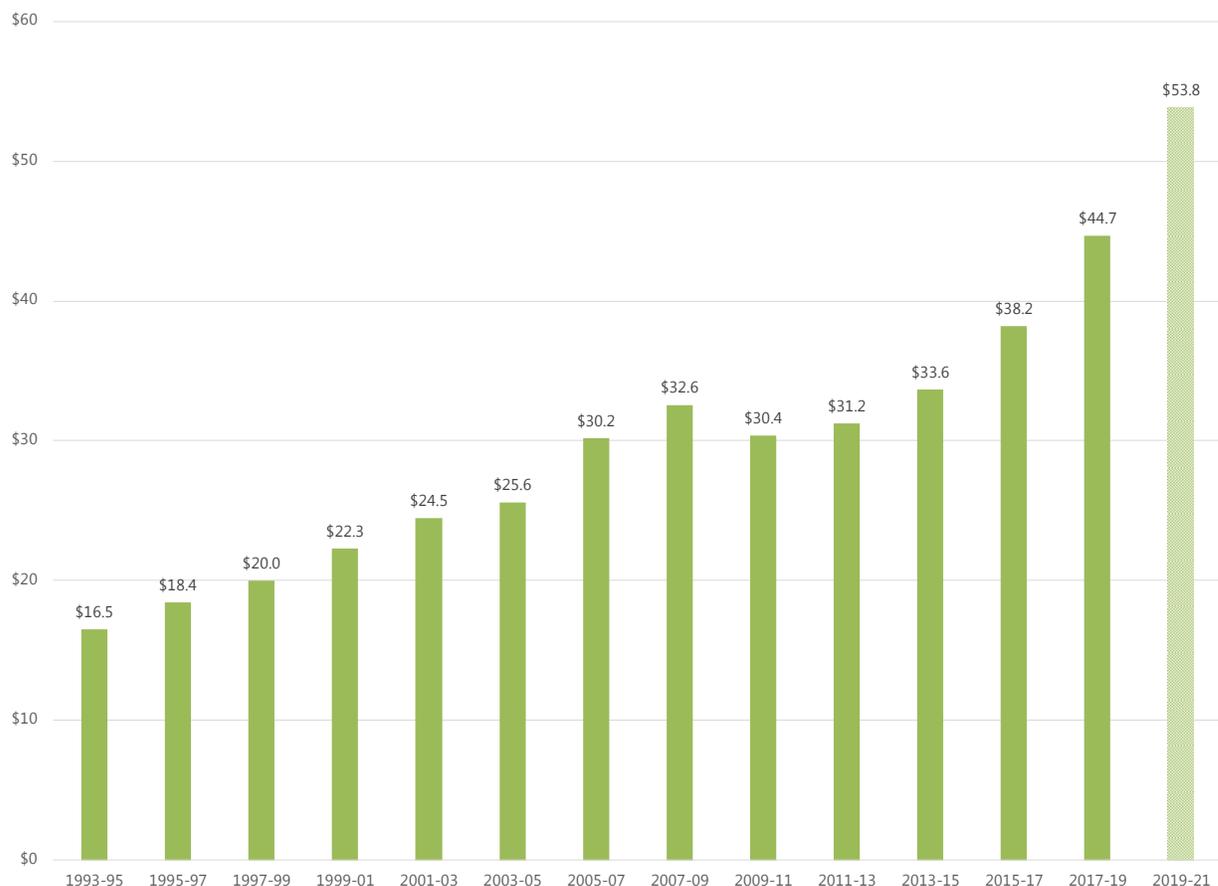
federal funding for family planning. In the Department of Corrections, \$16.9 million is provided to increase staffing.

Public Schools. Appropriations increase by a net of \$28.6 million. The budget provides \$45.8 million in one-time funding for local effort assistance, \$31.8 million for counselors in high poverty elementary schools, \$14.4 million for paraeducator training, \$4.0 million in one-time funding for certain small school districts, and \$1.9 million for special education safety net awards.

For pupil transportation, the budget provides \$29.5 million to backfill fiscal year 2019 over-expenditures, \$21.5 million in one-time hold harmless funding, and \$11.8 million to increase transportation base funding. Additionally, the Office of Financial Management (OFM) must report on the pupil transportation funding system.

The budget saves \$71.1 million after ad-

Chart: NGFO+WEIA Spending (Dollars in Billions)



justing School Employees' Benefits Board rates based on new data from open enrollment.

Other. The budget appropriates \$16.5 million for foundational public health. In the Department of Natural Resources (DNR), the budget increases spending by \$25.0 million for FY 2020 fire suppression costs. DNR must give the Legislature monthly updates of fire suppression costs, and it must conduct a zero-based budget and performance review of its resource protection program (focused on the wildfire program budget). The budget appropriates \$15.0 million for a 3 percent benefit increase for retirees of the Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1.

Finally, the budget appropriates \$50.0 million from the GFS to a new climate resiliency account. The use of the funds is not specified: OFM is directed create a funding list that prioritizes "actions and investments that mitigate the effects of climate change and strengthen the resiliency of communities and the natural environment." The list is due to the Legislature by Nov. 1, 2020. It is not clear whether the funding will be spent in the 2021 supplemental or in future biennia.

Reserves and Outlook

After making appropriations from the BSA, the supplemental leaves a BSA balance of about \$1.694 billion in FY 2020 and \$1.979 billion in FY 2021. This is the highest the BSA balance has ever been in absolute terms, but it is not the highest the balance has been as a percent of general state revenues. (The state constitution provides that when the BSA balance exceeds 10 percent of general state revenues, the Legislature may appropriate the amount over 10 percent to the education construction fund by simple majority.) The FY 2020 and FY 2021 figures represent 6.8 percent and 7.7 percent, respectively, of general state revenues. (In FY 2017, the BSA balance reached 8.3 percent of general state revenues.)

As passed by the Legislature, the budget balances over four years. Indeed, it leaves an unrestricted NGFO ending balance in 2021–23 of \$843 million—by far the highest since the four-year balanced budget requirement was enacted. Including the BSA balance, total reserves in 2021–23 are projected at \$3.441 billion.

Notably, the Legislature also passed (and the governor signed) a bill that strengthens the balanced budget requirement. SSB 6660 adds the WEIA to the funds subject to the outlook and requires the governor's budget proposals to balance over four years (effective July 1, 2020).

Comment

With the supplemental, appropriations are 20.5 percent higher in 2019–21 than in 2017–19. Even in a booming economy, we would consider such a high increase to be unsustainable. With the economic outlook collapsing over the past few weeks, the spending increase looks remarkably unsustainable. It is almost certain that the budget is based on revenues that will not be collected.

That said, legislators left a higher level of reserves than they originally intended (despite appropriating funds from the BSA). They essentially banked \$50.0 million in the climate resiliency fund that could easily be repurposed if needed. And they did not rely on revenues from the repeal of aerospace tax preferences. That will help when the revenue impacts of the COVID-19 crisis are realized starting with the June revenue forecast. It's likely not enough and substantial cuts may be necessary.

References

- Washington Research Council (WRC). 2020. "[Preemptively Overhauling the Workforce Education Investment Surcharge.](#)" PB 20–02. Feb. 4.
- Washington State Governor's Office (Governor). 2020. "[Legislative session ends on time, provides funds for homelessness, transportation.](#)" March 12.