

ERFC Adopts Outlook for Governor's Supplemental Budget Showing It Balances Over Four Years

Briefly

The Economic and Revenue Forecast Council (ERFC) has adopted an outlook based on Gov. Inslee's 2018 supplemental operating budget proposal. The supplemental would increase 2017–19 NGFS+ spending by \$960.8 million and it would leave \$2.151 billion in total reserves in 2017–19. According to the outlook, the proposal would leave an unrestricted ending fund balance in 2019–21 of \$249 million; combined with \$1.473 billion in the rainy day fund, total reserves would be \$1.722 billion.

Gov. Inslee chose to comply with the four-year balanced budget requirement. Compliance depends on enactment of his proposed carbon pollution tax, which under the guidelines used to calculate the outlook would ordinarily not be included in the estimate. While not adopting a new rule to govern preparation of the outlook, the ERFC elected to acknowledge the governor's intent and include \$1.5 billion in projected carbon pollution tax revenue.

Gov. Inslee's proposed 2018 supplemental to the 2017–19 operating budget would increase near general fund–state plus opportunity pathways (NGFS+) spending by \$960.8 million. The unrestricted ending fund balance for 2017–19 would be \$757 million, and the budget stabilization account (BSA, or rainy day fund) would have \$1.394 billion. There would be \$2.151 billion in total reserves.

When Gov. Inslee made this proposal, he said it abided by the statutory requirement that budgets balance over four years. To do so, he proposed using reserves and funds from a new carbon pollution tax. Details on the 2019–21 biennium were scant at the time, however. The Economic and Revenue Forecast Council (ERFC) has now adopted an official outlook based on the governor's proposal. It shows that the proposal leaves an unrestricted ending fund balance of \$249 million in 2019–21, thereby balancing over the four-year period.

That positive ending balance relies on

the use of proposed carbon pollution tax revenue. The ERFC chose to include the revenues, departing from traditional methods of calculating the outlook to acknowledge the governor's intent. We discuss the issue in more detail below.

Outlook

The outlook shows the effects of Gov. Inslee's 2018 supplemental proposal in 2019–21. (For details on his proposed changes in 2017–19, see our policy brief on the proposed supplemental: "[Gov. Inslee's 2018 Supplemental Operating Budget Would Increase Spending by \\$960.8 million.](#)")

Resource Changes. Revenues are expected to increase by 9.1 percent over 2017–19, to \$48.417 billion. Additionally, under the outlook law (RCW 43.88.055), the revenue base for the second biennium is either the revenue forecast or assumed growth of 4.5 percent a year. Thus, the outlook assumes additional revenues of \$398 million. The outlook

assumes no extraordinary revenue growth for 2019–21, after three biennia of experiencing such growth.

Under the constitution, the state must transfer 1 percent of general state revenues each year to the BSA. Gov. Inslee proposes transferring that amount (\$476 million) back to the general fund–state

(GFS) in 2019–21. Additionally, Gov. Inslee would transfer \$1.522 billion to the GFS in 2019–21. That includes \$1.500 billion from the proposed carbon pollution reduction account—more on this below.

Spending Changes. Under Gov. Inslee’s proposal, NGFS+ spending would total

Table: Outlook Based on Gov. Inslee’s Proposed 2018 Supplemental Operating Budget (NGFS+, Millions of Dollars)

	2017-19			2019-21		
	<i>FY 2018</i>	<i>FY 2019</i>	<i>2017-19</i>	<i>FY 2020</i>	<i>FY 2021</i>	<i>2019-21</i>
Beginning Balance	1,149	1,465	1,149	757	509	757
Revenue						
Nov. 2017 Revenue Forecast	21,520	22,843	44,362	23,724	24,693	48,417
Additional Revenue Based on 4.5 Percent Growth				147	252	398
Budget Driven Revenue				14	14	28
Gov. Inslee’s Proposed Revenue Changes	(2)	(8)	(10)	(13)	(12)	(25)
<i>Total Revenue</i>	<i>21,518</i>	<i>22,835</i>	<i>44,352</i>	<i>23,872</i>	<i>24,947</i>	<i>48,818</i>
Other Resource Changes						
Transfer to Budget Stabilization Account (1 Percent)	(211)	(224)	(435)	(233)	(243)	(476)
Transfer to BSA (Extraordinary Revenue Growth)		(1,304)	(1,304)			
Transfer from BSA (Extraordinary Revenue Growth)		1,078	1,078			
Other Enacted Fund Transfers	119	210	328	104	96	200
Prior Period & CAFR Adjustments	20	20	41	20	20	41
Gov. Inslee’s Proposal						
Transfer from BSA (1 Percent)				233	243	476
Other Fund Transfers	0	1	1	822	700	1,522
<i>Total Other Resource Changes</i>	<i>(72)</i>	<i>(219)</i>	<i>(291)</i>	<i>946</i>	<i>816</i>	<i>1,763</i>
<i>Total Resources</i>	<i>22,594</i>	<i>24,080</i>	<i>45,210</i>	<i>25,576</i>	<i>26,272</i>	<i>51,339</i>
Spending						
Enacted Budget	20,914	22,795	43,708	24,273	25,617	49,890
Reversions	(103)	(114)	(217)	(122)	(127)	(249)
Gov. Inslee’s Proposal						
Maintenance Level Changes	82	0	82	39	84	123
Policy: K-12 Compensation		762	762	194	0	194
Policy: K-12 Apportionment Change		(604)	(604)	289	(9)	279
Policy: Other K-12	0	51	51	80	95	175
Policy: All Other	237	433	670	313	363	677
Total Policy Level Changes	237	642	879	876	449	1,325
<i>Total Spending</i>	<i>21,130</i>	<i>23,323</i>	<i>44,452</i>	<i>25,067</i>	<i>26,023</i>	<i>51,090</i>
Unrestricted Ending Fund Balance	1,465	757	757	509	249	249
Budget Stabilization Account Balance	1,638	1,383	1,638	1,394	1,431	1,394
1 Percent Transfer from GFS	211	224	435	233	243	476
Extraordinary Revenue Growth Transfer from GFS		1,304	1,304			
Extraordinary Revenue Growth Transfer to the GFS		(1,078)	(1,078)			
Other Transfers and Appropriations from BSA	(482)	(463)	(944)			
Interest Earnings	15	23	38	37	42	79
Gov. Inslee’s Proposed 1 Percent Transfer to GFS				(233)	(243)	(476)
Projected BSA Ending Fund Balance	1,383	1,394	1,394	1,431	1,473	1,473
<i>Total Reserves</i>	<i>2,848</i>	<i>2,151</i>	<i>2,151</i>	<i>1,940</i>	<i>1,722</i>	<i>1,722</i>

\$51.090 billion in 2019–21. That includes a maintenance level increase of \$123 million and \$1.325 billion in policy level increases.

Note, too, that in the enacted 2017–19 operating budget, appropriations will increase by 9.0 percent from fiscal year 2018 to FY 2019. This is largely due to the ramp up of K–12 spending related to the McCleary decision (see also our policy brief, "[Legislature Passes 2017–19 Operating Budget That Increases Spending by \\$5.3 Billion](#)"). Under Gov. Inslee's proposed supplemental, that increase in appropriations from FY 2018 to FY 2019 would rise to 10.4 percent. In 2019–21, spending under the governor's proposal would grow by 7.5 percent in FY 2020 and by 3.8 percent in FY 2021.

Reserves. As adopted, the outlook shows an unrestricted ending fund balance of \$249 million in 2019–21. After the transfer back to the GFS of the 1 percent deposit, the BSA would have a balance of \$1.473 billion. Total reserves would be \$1.722 billion.

Carbon Pollution Tax Transfer Issue

In order for fund transfers or revenue redirections to be included in the outlook for the second biennium, they must have been enacted in separate legislation or the current biennial budget must include language that it is the intent of the Legislature to make the transfers. To be included under the legislative intent provision, the fund source of the transfer must have a projected positive balance and the transfer must be consistent with policy in the current biennium.

Gov. Inslee's budget proposal depends on using \$1.5 billion from his proposed carbon pollution tax to balance over four years. But, the budget outlook technical workgroup initially did not include these funds in the outlook because it determined that the transfer does not meet the criteria for inclusion (ERFC 2018a).

Although the proposed budget includes language that it is the intent of the Legislature to transfer carbon pollution tax

revenues to the GFS in 2019–21, the tax represents new policy in the second biennium—so it does not meet the consistent policy criteria. Also, the separate legislation proposed by the governor (SB 6203) that would establish the carbon pollution tax and create the carbon pollution reduction account does not allow for transfers to the GFS.

David Schumacher, the director of the Office of Financial Management, proposed a new rule that would allow transfers to be included when there is separate legislation that would result in new or additional revenue in the second biennium, if combined with legislation with intent language to transfer the new revenue in the second biennium (ERFC 2018a).

At the outlook meeting, the ERFC discussed the issue. Ultimately, they did not adopt the proposed new rule, but they did agree to include the \$1.5 billion in the outlook. Director Schumacher said, "Subsequent to those bills coming out, some people have suggested that maybe the two things should have been tied together a little more closely" (TVW 2018).

In agreeing to include the \$1.5 billion transfer, Sen. John Braun said,

Fundamentally this is about representing the governor's intent to balance over four years. We have what I would classify as an administrative or rule error. We don't want to change the rules but we do want to accurately represent his intent. We're far enough into the legislative process that it's hard to undo that error. (TVW 2018)

(Note, too, that the intent language in the governor's proposed budget bill specifies that the amount to be transferred from the carbon account is only \$1.0005 billion; this was a drafting error.)

Four-Year Balanced Budget Requirement

The four-year balanced budget requirement is one of several constraints that

have been put in place over the last decade to help legislators maintain spending at a sustainable level.

First, voters established a rainy day fund through a constitutional amendment in 2007. Second, a 2011 constitutional amendment requires three-quarters of any extraordinary revenue growth be deposited in the rainy day fund. As we noted at the time, “The benefits are twofold: By saving more money during the boom, lawmakers will be inhibited from increasing spending to an unsustainable level. Then, when revenues slow, a better-funded BSA will provide the cushion necessary to maintain critical programs” (WRC 2011).

Third, in 2012, the Legislature enacted the requirement that operating budgets balance over four years (SSB 6636). This is a statutory—not a constitutional—requirement (RCW 43.88.055). As such, there have been rumblings over the years about getting rid of it. For example, Gov. Inslee’s 2017–19 budget proposal would have suspended the requirement (WRC 2017a). As we wrote in 2012, “by requiring lawmakers to consider the four-year perspective, the adopted reform forces consideration of the long-term effects of legislation” (WRC 2012).

Comment

That Gov. Inslee intends his 2018 supplemental to balance over four years is encouraging recognition of the requirement’s importance.

References

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