

# Washington Does Not Have a Budget Shortfall

## Briefly

*The state budget situation looked dire last summer. Since then, both the revenue and spending sides of the balance sheet have improved. Revenues in 2019–21 are expected to be 10.7% higher than in 2017–19 (following several biennia of extraordinary revenue growth).*

*Enacted 2019–21 appropriations from funds subject to the outlook are 20.2% higher than 2017–19. But the cost of continuing current services in 2019–21 is expected to decrease (due to lower caseloads), and Gov. Inslee took several actions last year to reduce state spending. Additionally, the state has received billions of dollars in federal aid. Some of this can be used in place of state funding, and some is for new spending needs related to the pandemic.*

*As a result, there is not a budget shortfall for 2019–21. Further, the state is sitting on a rainy day fund with an estimated ending balance of \$1.809 billion in 2019–21 and \$2.345 billion in 2021–23.*

*Given the state's current position, new taxes would be for new spending. The Legislature should be cautious about increasing the tax burden, particularly in a time of significant economic uncertainty.*

At the beginning of the pandemic, when businesses were closed and Washington experienced record high unemployment, it seemed like the state budget would have a sizeable deficit. The June 2020 revenue forecast reflected those fears. It seemed certain that substantial spending cuts would be required to bring the enacted budget back into balance.

Instead, improving revenue forecasts since June have narrowed the budget shortfall until it is now non-existent.

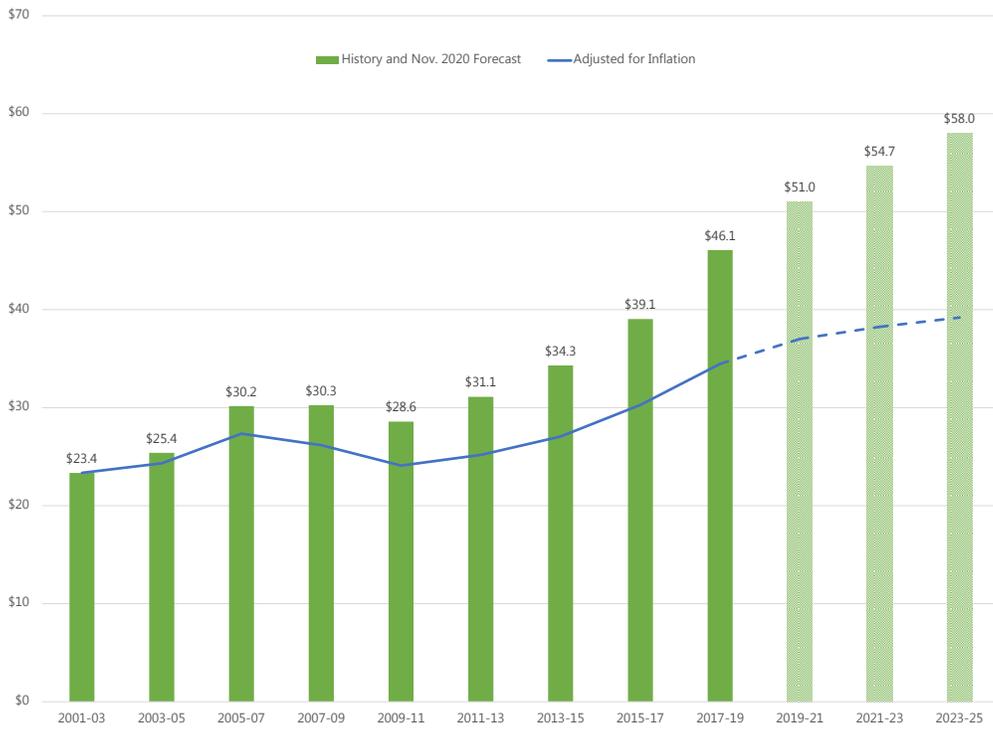
## Continued Revenue Growth Despite the Recession

State revenues in funds subject to the outlook (NGFO) have increased substantially since the Great Recession. Indeed, the state experienced extraordinary revenue growth (as defined by the state constitution) in 2013–15 (revenues increased 10.2% over the prior biennium), 2015–17 (revenues increased 13.8%), and 2017–19 (revenues increased 18.0%).

## NGFO

Legislative fiscal committee staffs base 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, the opportunity pathways account, and the workforce education investment 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.)

Chart 1: NGFO Revenues (Dollars in Billions)

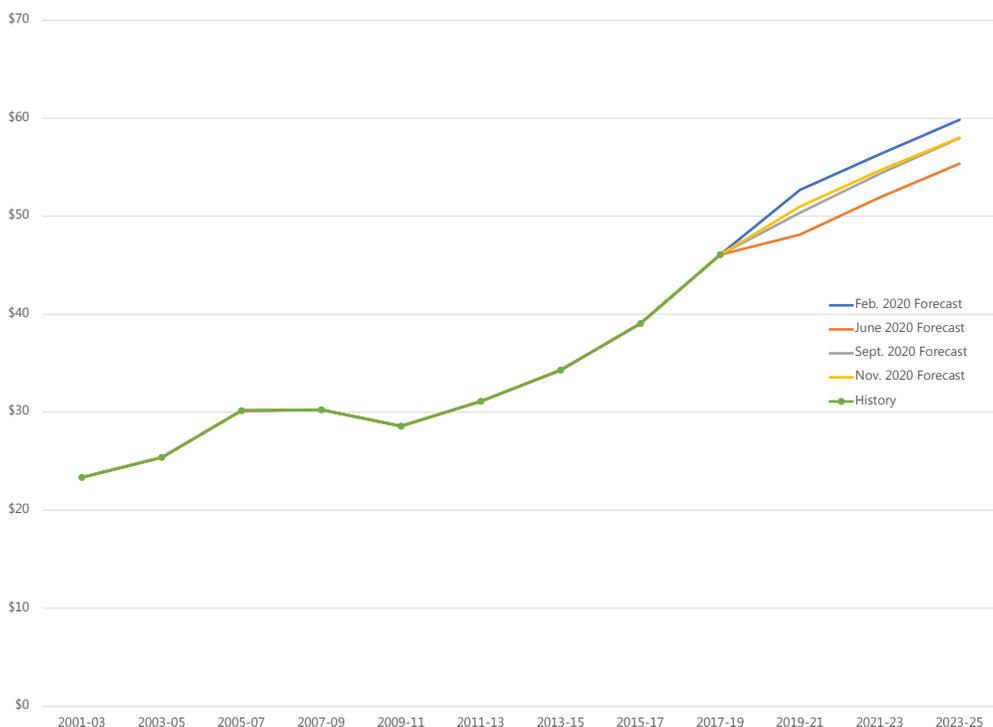


The Feb. 2020 revenue forecast expected 2019–21 revenues to increase by another 14.3%. Even the June 2020 revenue forecast, which included the lowest level of revenues due to the pandemic, still expected 2019–21 revenues to increase by 4.4% over 2017–19. The Nov. 2020 forecast estimates that 2019–21 revenues will be 10.7% higher than 2017–19. Compare this to the Great Recession, when revenues were up just 0.3% in 2007–09 and actually declined by

5.5% in 2009–11.

Since the November revenue forecast, there have been two collections reports. General fund–state revenue collections have so far come in \$323.1 million over the forecast—a good sign for the March revenue forecast.

Chart 2: NGFO Revenues by Forecast (Dollars in Billions)



We are faring better than most other states. According to Pew, Washington’s tax revenue growth from the pre-Great Recession peak through 2019 was the fourth highest in the nation (behind North Dakota, Oregon, and California) (Pew 2020).

Even in the current recession, Washington’s revenues have held up favorably. According to the Tax Policy Center, state tax revenues in Washington increased

by 5.3% from fiscal year (FY) 2019 to FY 2020—second only to Idaho (the national average was a decline of 4.3%) (Dadayan 2020). Similarly, according to a J.P. Morgan analysis, state tax revenues in Washington for calendar year (CY) 2020 increased by 2.9% over CY 2019. That’s the 13th best; the average (across 47 states) was a decline of 0.12% (DeGroot et al. 2021).

### The Current Budget is Balanced

Like revenues, spending has also increased significantly since the Great Recession. With the 2020 supplemental, enacted 2019–21 appropriations from funds subject to the outlook are 20.2% higher than 2017–19. Adjusted for inflation, enacted 2019–21 appropriations *per capita* are 20.6% above the pre-Great Recession peak.

When the Legislature enacted the 2020 supplemental to the 2019–21 operating budget in March 2020, it was based on the Feb. 2020 revenue forecast. With the Nov. 2020 forecast, the state has \$1.694 billion less for 2019–21 and \$1.651 billion less for 2021–23 than expected in Feb. 2020 (not including the higher collections since November).

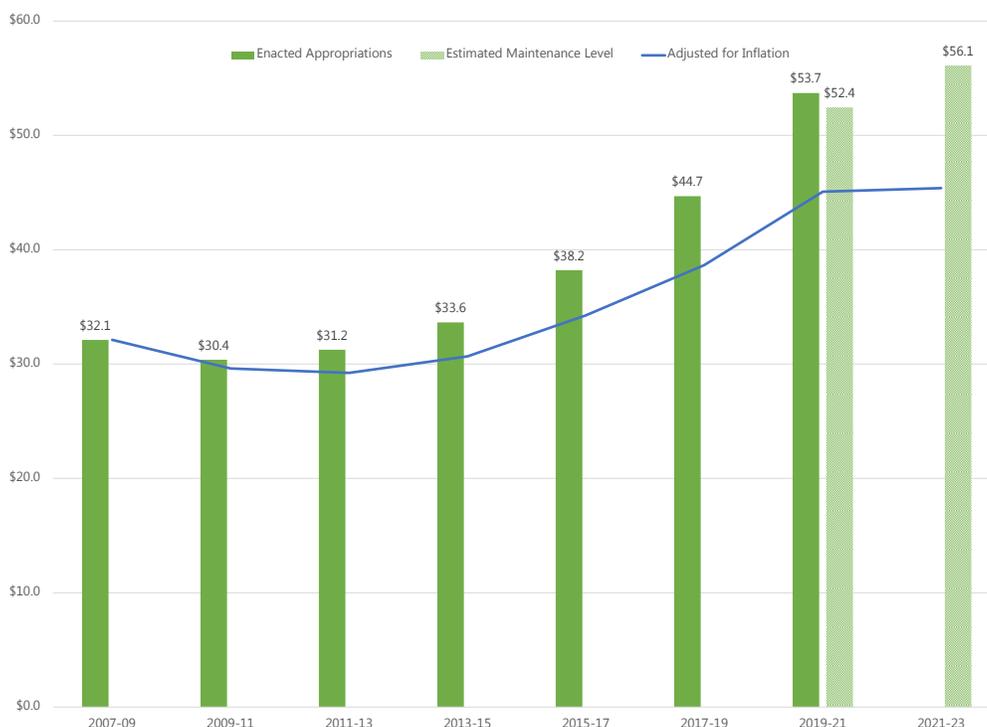
As the pandemic and related recession took hold last spring, Gov. Inslee took several actions to reduce spending. Additionally, the maintenance level (the cost of continuing current services, adjusted for enrollment and inflation) is expected to decrease in 2019–21, due to lower caseloads (especially in public schools).

The state has also received billions of dollars in federal aid. Some of this can be used in place of state funding, and some is for new spending needs related to the pandemic. According to the state’s fiscal year (FY) 2020 Comprehensive Annual Financial Report, federal grants-in-aid to Washington in FY 2020 increased by \$1.5 billion (9.2%) over 2019 (OFM 2020). That increase doesn’t include \$1.8 billion from the state’s share of the coronavirus relief fund that hadn’t been spent as of June 30, nor does it include

other federal relief funding that will be allocated in FY 2021.

Given all of this, the current budget is balanced. Even over four years, the NGFO shortfall is estimated to be just \$290 million. If the March revenue forecast doesn’t erase the shortfall completely, it could easily be covered by reserves. Indeed, total reserves—including the budget stabilization account (BSA, or the rainy day fund)—are estimated to be \$2.055 billion at the

Chart 3: NGFO Appropriations (Dollars in Billions)



end of 2021–23.

## Comment

The state budget situation looked dire last summer. But since then, the state revenue forecast and federal aid have increased and the need for state spending has decreased. There is no longer a budget shortfall for 2019–21.

Further, the state is sitting on a rainy day fund with an estimated ending balance of \$1.809 billion in 2019–21 and \$2.345 billion in 2021–23. Despite all this good fortune, many new taxes have already been proposed by Gov. Inslee and the Legislature.

Whatever the faults of Washington’s current tax structure, it has enabled the substantial revenue growth that Washington has experienced in recent years—growth that is forecast to continue still. Given the significant economic uncertainty that still exists and the improving revenue outlook, the Legislature should be cautious about increasing the tax burden.

Table: Estimated NGFO Balance Sheet (Dollars in Millions)

	2019-21	2021-23
Beginning Balance	1,981	1,348
Revenue		
Nov. 2020 Revenue Forecast	50,995	54,666
<b>Dec. 2020 Collections</b>	<b>62</b>	
<b>Jan. 2021 Collections</b>	<b>261</b>	
<i>Total Revenue</i>	<i>51,318</i>	<i>54,666</i>
Other Resource Changes		
Transfer to Budget Stabilization	(486)	(524)
Other Enacted Fund Transfers	195	
CAFR/Prior Period Adjustments	84	41
<i>Total Other Resource Changes</i>	<i>(207)</i>	<i>(483)</i>
<i>Total Resources</i>	<i>53,092</i>	<i>55,531</i>
Spending		
Enacted 2019-21 Appropriations	53,700	
<b>Maintenance Level Change</b>	<b>(1,254)</b>	
<b>Maintenance Level</b>		<b>56,112</b>
Actual/Assumed Reversions	(702)	(291)
<i>Total Spending</i>	<i>51,744</i>	<i>55,821</i>
Unrestricted Ending Fund Balance	1,348	(290)
Budget Stabilization Account Balance	1,618	1,809
Transfers from GFS and Interest	530	536
Appropriations from BSA	(200)	
Return of 2020 Appropriations	25	
<b>HB 1367 (If Enacted)</b>	<b>(164)</b>	
Projected BSA Ending Fund Balance	1,809	2,345
<i>Total Reserves</i>	<i>3,157</i>	<i>2,055</i>

Sources: ERFC, OFM

## References

- Dadayan, Lucy. 2020. [“States Saw Freefall Drop in Revenues in the Second Quarter; Partly Offset in the Third Quarter but Still Depressed from Pandemic: State Tax and Economic Review, 2020 Quarter 2.”](#) Urban Institute and Tax Policy Center. December.
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