

The Supplemental Operating Budget Increases Spending 3.1% and Drains the Shadow Reserve Account

Briefly

The Legislature has passed a supplemental operating budget that would increase 2023–25 appropriations from funds subject to the outlook (NGFO) by \$2.143 billion (3.1%). Including the supplemental, revised 2023–25 appropriations are 15.8% higher than actual 2021–23 spending. (The long-term average biennial growth is 9.8%.)

Since the biennial budget was adopted last year, the NGFO revenue forecast increased by \$3.150 billion through 2025–27. The supplemental budget does not increase taxes, but it does use \$798 million from the Washington rescue plan transition account (WRPTA, the shadow reserve account) for general spending. Total reserves at the end of 2023–25 would be 11.8% of revenues and other resources and total reserves at the end of the outlook period would be 7.1% of revenues and other resources. (The state treasurer recommends reserves be 10% of revenues.)

The high level of NGFO spending in the supplemental budget is counterbalanced by fairly healthy reserve levels. Although the Legislature should not be using reserves for general spending at a time when revenues are growing, it is a consolation to be finished with the WRPTA. Reserves should be held in the constitutionally protected budget stabilization account.

The Legislature has passed a supplemental operating budget that would increase 2023–25 appropriations from funds subject to the outlook (NGFO) by \$2.143 billion (3.1%). Including the supplemental, revised 2023–25 appropriations are 15.8% higher than actual 2021–23 spending. (This brief reflects the operating budget as passed by the Legislature. The governor may yet veto portions of the budget or related bills.)

Overview

Table 1 (on page 2) shows the estimated NGFO (see the box below) balance sheet for 2023–25.

Resources. Since the biennial budget was adopted last year, the NGFO revenue forecast increased by \$3.150 billion (including 2021–23, 2023–25, and 2025–27). Revenue legislation passed by the Legislature this year is estimated to reduce NGFO revenues by \$28.5 million in 2023–25 and \$67.4 million in 2025–27.

NGFO

Under the four-year balanced budget requirement, a positive ending balance is required in both the current and following biennium for “funds subject to the outlook.” This is 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. It is also called the near general fund–outlook, or NGFO.

Table 1: NGFO Balance Sheet (Dollars in Millions)

	<i>2023-25</i>
Beginning Balance	5,287
Revenue	
Feb. 2024 Revenue Forecast	67,005
Revenue Legislation	(29)
Budget Driven Revenue	(1)
<i>Total Revenue</i>	<i>66,976</i>
Other Resource Changes	
Transfer to Budget Stabilization Account	(640)
Other Enacted Fund Transfers	1,353
Transfer from Washington Rescue	798
Plan Transition Account	
Other Fund Transfers	(58)
Prior Period Adjustments	121
<i>Total Other Resource Changes</i>	<i>1,574</i>
<i>Total Resources</i>	<i>73,836</i>
Spending	
Enacted 2021-23 Appropriations	69,804
Maintenance Level Change	1,107
New Policy	1,036
Actual/Assumed Reversions	(861)
<i>Total Spending</i>	<i>71,087</i>
Unrestricted Ending Fund Balance	2,750
Budget Stabilization Account Balance	652
Transfers from GFS and Interest Earnings	698
Appropriations from BSA	(21)
Projected BSA Ending Fund Balance	1,329
WA Rescue Plan Transition Account Balance	2,100
Enacted Transfer to GFS	(1,302)
Transfer to GFS	(798)
Projected WRPTA Ending Fund Balance	-
<i>Total Reserves</i>	<i>4,078</i>

Note: Totals may not sum due to rounding.

The two major bills are:

- HB 1976, which increases incentives for early compliance with the clean buildings standard and is estimated to reduce revenues by \$13.9 million in 2023–25 and \$33.5 million in 2025–27.
- SB 6316, which adds a sales and use tax deferral for SR 520 corridor transportation projects and is estimated to reduce revenues by \$11.9 million in 2023–25 and \$22.4 million in 2025–27.

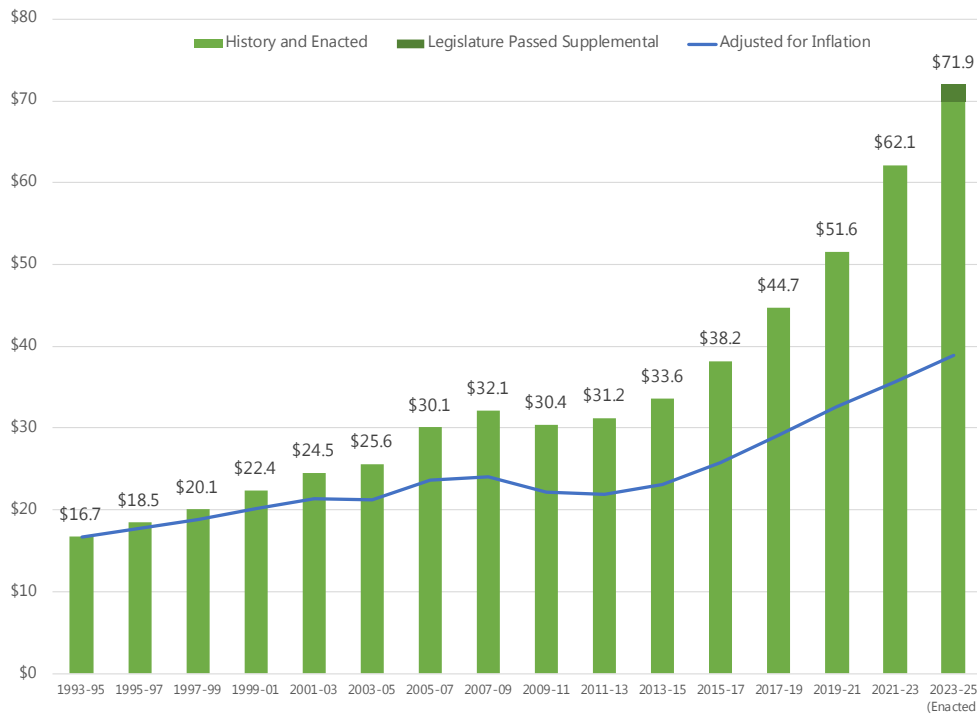
The supplemental transfers a net of \$740.0 million from other accounts to the NGFO in 2023–25. That includes \$798.0 million from the Washington rescue plan transition account (WRPTA, the shadow reserve account) to the general fund–state (GFS) and \$10.0 million from the Washington student loan account to the GFS. The budget also transfers \$22.5 million from the GFS to the disaster response account; \$19.1 million from the GFS to the wildfire response, forest restoration, and community resilience account; and \$14.0 million from the GFS to the motor vehicle account.

Spending. With the supplemental, revised 2023–25 NGFO appropriations are \$71.947 billion, an increase of \$2.143 billion over the original biennial budget. The maintenance level (the cost of continuing current services, adjusted for enrollment and inflation) increased by \$1.107 billion and spending on new policies added \$1.036 billion. (More details on the policy changes are included in the appendix.)

Reserves. The budget makes the constitutionally required transfers to the budget stabilization account (BSA, the rainy day fund). However, it appropriates \$21.1 million from the BSA for emergency fire costs. At the end of 2023–25, the BSA balance is estimated to be \$1.329 billion (3.8% of revenues and other resources). Meanwhile, the budget transfers the balance of the WRPTA to the NGFO, leaving \$0 in the account at the end of 2023–25. The unrestricted NGFO ending fund balance for 2023–25 is \$2.750 billion. Total reserves are \$4.078 billion for 2023–25 (11.8% of revenues and other resources).

Outlook. The supplemental balances over four years and leaves an unrestricted NGFO ending balance of \$510 million at the end of 2025–27. The budget assumes that the BSA balance at the end of 2025–27 will be \$2.106 billion and the WRPTA balance will remain at \$0. Total reserves at the end of the outlook would be \$2.617 billion (7.1% of revenues and other resources).

Chart 1: NGFO Spending (Dollars in Billions)



Rapid Spending Growth Since the Great Recession Continues

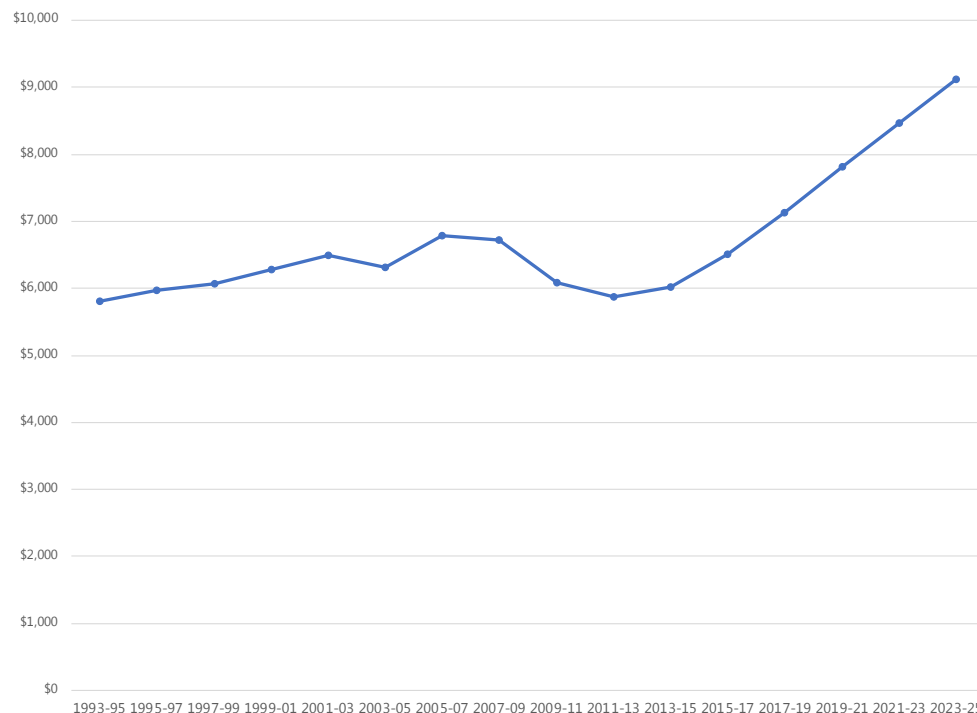
With the supplemental budget, 2023–25 NGFO appropriations are 15.8% higher than actual 2021–23 spending. For the period of 1993–95 to 2021–23, the average increase in appropriations from one biennium to the next was 9.8%. Adjusted for inflation, the growth in 2023–25 is 9.1%, compared to the long-term average of 5.6%. The supplemental itself is the

fourth-largest going back to at least 1989–91 both when adjusted for inflation and population and when considered as a percent of the revised biennial budget.

Per capita spending is \$9,117 for 2023–25. Adjusted for inflation, that’s 7.7% higher than the per capita

spending amount in 2021–23.

Chart 2: NGFO Spending Per Capita (Adjusted for Inflation)



Of the new NGFO policy items, the largest share goes to public schools. This reflects several significant funding increases made in statute this year. First, 2SSB 5882 increases statutory allocations for paraeducators and office support and other non-instructional aides. Second, ESHB 2494 increases statutory allocations for materials, supplies, and operating costs. Third, SHB 2180 increases the special education enrollment cap

from 15% to 16%.

(See the appendix for more details on the new policies.)

Although Revenues Continue to Grow, the Budget Relies on Reserves and Inflated Revenue Assumptions

As noted above, the budget drains the WRPTA, which is the shadow reserve account created during the pandemic with funds from the BSA. Even though NGFO revenues continue to grow, the Legislature has now transferred the final amount of funds from the WRPTA to the NGFO for general use.

Nevertheless, the 2023–25 budget leaves a healthy amount of reserves (which now consist of the BSA and the unrestricted NGFO ending balance). That said, the 2023–25 reserves are mostly in the unrestricted NGFO ending balance, not the constitutionally protected BSA. The original 2023–25 budget left reserves at the end of the 2025–27 of 8.1% of revenues and other resources. The supplemental drops that to 7.1%, which is below the 10% recommended by the state treasurer (OST 2024).

The level of reserves is important because the budget assumes revenues that may not pan out. First, the supplemental includes revenues from the capital gains tax. Capital gains taxes are inherently volatile; further, the state has only one year of collections history. At the same time, voters could approve I-2109 in November, which would repeal the tax entirely. If that happens, the budget would still balance in 2023–25. The unrestricted NGFO ending balance would be negative in 2025–27, but the BSA balance could cover the reduction in revenues.

Second, the budget balances over four years because it assumes that the state will collect \$1.121 billion more in NGFO revenues in 2025–27 than is expected for that biennium in the current revenue forecast. The revenue forecast estimates that NGFO revenues will grow by 3.2% in fiscal year 2026 and by 3.9% in FY 2027, but the outlook statute allows the state to assume that revenues will grow 4.5% a year in the second biennium. If the current forecast for 2025–27 turns out to be accurate, the supplemental budget would not balance over four years.

Comment

The high level of NGFO spending in the supplemental budget is counterbalanced by fairly healthy reserve levels, even as \$798 million from the WRPTA is used for general spending. Although the Legislature should not be using reserves for general spending at a time when revenues are growing, it is a consolation to be finished with the WRPTA. Reserves should be held in the constitutionally protected BSA.

Reference

Office of the State Treasurer (OST). 2024. "[Debt and Credit Analysis.](#)"

Appendix

Table A1: Appropriations (Dollars in Thousands)

	Original 2023-25		2024 Supplemental		Revised 2023-25	
	NGFO	All Funds	NGFO	All Funds	NGFO	All Funds
Legislative	283,694	312,229	2,504	3,044	286,198	315,273
Judicial	587,839	798,582	17,430	36,084	605,269	834,666
Dept. of Commerce	1,201,961	2,871,761	(60,668)	362,023	1,141,293	3,233,784
Other Governmental Operations	1,269,740	6,849,334	(26,680)	1,000,134	1,243,060	7,849,468
DSHS	10,133,195	20,752,032	601,209	767,359	10,734,404	21,519,391
HCA	7,506,525	29,831,400	616,603	2,397,415	8,123,128	32,228,815
DCYF	3,575,364	4,841,547	244,287	420,652	3,819,651	5,262,199
Dept. of Corrections	2,968,788	2,989,783	(151,392)	122,658	2,817,396	3,112,441
Other Human Services	678,648	4,352,208	98,434	210,267	777,082	4,562,475
Natural Resources	987,842	3,408,904	90,640	282,387	1,078,482	3,691,291
Transportation	164,876	315,510	6,572	53,481	171,448	368,991
Public Schools	30,675,982	33,857,637	526,386	1,194,600	31,202,368	35,052,237
Higher Education	5,824,812	18,220,018	214,392	215,594	6,039,204	18,435,612
Other Education	102,817	177,438	5,661	7,814	108,478	185,252
Special Appropriations	3,842,271	4,031,558	(42,476)	247,657	3,799,795	4,279,215
Total	69,804,354	133,609,941	2,142,902	7,321,169	71,947,256	140,931,110

 Table A2: Total NGFO Policy Changes in the 2024 Supplemental, Plus Major Items
 (Dollars in Thousands)

Legislative	291
Judicial	15,428
Dept. of Commerce	(61,109)
Emergency housing and shelter	55,500
Local housing programs	25,000
Local homeless services	31,000
Use NGFO instead of federal COVID relief	22,078
Transfer solar programs to the capital budget	(114,000)
Transfer electric vehicle charging programs to the capital budget	(138,000)
Other Governmental Operations	46,365
Electronic health records funds	13,036
Department of Social and Health Services (DSHS)	229,578
Olympic Heritage Behavioral Health (operation of 72 beds)	134,964
Increase contracted nursing staff at state psychiatric hospitals	31,161
Add forensic beds at the state hospitals	29,826
Expand support services for refugees	25,250
Maple Lane phase 1 federal funding backfill	15,558
Lake Burien residential treatment facility (support youth with complex needs)	12,318
Summer EBT (increase food benefits for children during the summer)	12,230
Senior nutrition program	12,000
Program underspends	(18,836)
Disproportionate share hospital program reduction delay (related to federal changes)	(72,814)

Table A2 continued: Total NGFO Policy Changes in the 2024 Supplemental, Plus Major Items (Dollars in Thousands)

	<u>2023-25</u>
Health Care Authority (HCA)	223,929
Savings from enhanced federal Medicaid match	(40,634)
Funding adjusted to align with expenditures on long-term civil commitment beds	(22,838)
Cannabis revenue distributions	41,022
Restoring savings not realized from Medicaid program integrity activities	107,000
Increase rates for community long-term involuntary treatment providers	14,327
Increase rates for Program for Assertive Community Treatment teams	11,828
Health care for uninsured adults	28,153
Dept. of Children, Youth, and Families (DCYF)	65,727
Contracted security guards for Echo Glen	17,934
Child welfare information system	10,000
ECEAP rate increase	8,271
Dept. of Corrections	(225,326)
Larch Camp closure	(24,404)
Use Larch savings for other corrections facilities	19,642
Use federal COVID relief dollars in lieu of the NGFO	(262,300)
Other Human Services	96,656
Use NGFO instead of federal COVID relief dollars	18,700
Public health cloud technology	15,953
Natural Resources	80,398
Fire suppression	27,734
Emergency food assistance	10,000
Transportation	7,712
Public Schools	300,215
Increase prototypical school allocations for paraeducators, office supports, and aides	71,780
Increase allocations for materials, supplies, and operating costs	43,611
Increase special education enrollment cap to 16%	19,632
Community Eligibility Provision (federal lunch program) reimbursements	45,000
Pupil transportation correction	76,891
Higher Education	117,643
UW Hospital support	60,000
UW Behavioral Health Teaching Facility support	20,000
Other Education	3,595
Other Appropriations	134,417
Employee compensation	34,222
Central services	63,485
State health care affordability account	15,000
Total	1,035,519