

State Revenues Are Back to Pre-Pandemic Levels

Briefly

State revenues are now expected to match the pre-pandemic Feb. 2020 revenue forecast. Revenues in 2019–21 are now forecast to be \$52.334 billion (an increase of 13.6% over 2017–19). In 2021–23, revenues are expected to grow by 8.2%, to \$56.615 billion. In 2023–25, revenues are expected to grow by 5.8%, to \$59.906 billion.

Given the new revenue forecast, the current state operating budget not only balances over four years, it leaves a substantial estimated unrestricted ending fund balance of \$2.999 billion. On top of that, the budget stabilization account (BSA, or the rainy day fund) balance is estimated to be \$2.394 billion at the end of 2021–23.

The healthy balance sheet means that legislators have an exceptionally firm foundation for the 2021–23 operating budget. Billions of dollars have also been appropriated by the federal government over the past year for COVID relief in Washington.

The state revenue system and budget has come through this emergency remarkably well, and the state does not need to increase taxes to meet its obligations. At the same time, many individuals and businesses in Washington continue to feel the negative effects of the recession. Washington can use federal aid funding to help them get through this time. Raising their taxes to fund relief would be counterproductive. As long as the state refrains from using federal relief money to begin new, ongoing programs, the eventual cessation of federal relief should not trigger a need for new revenue sources.

State revenues to funds subject to the outlook (NGFO) are now expected to match the pre-pandemic Feb. 2020 revenue forecast. The revenue forecast adopted by the Economic and Revenue Forecast Council (ERFC) on March 17, 2021 adds \$3.288 billion for the current and ensuing biennium, compared to what was expected in the Nov. 2020 forecast.

According to the ERFC, 2019–21 revenues are now forecast to be \$52.334 billion (an increase of 13.6% over 2017–19). In 2021–23, revenues are expected to grow by 8.2%, to \$56.615 billion. In 2023–25, revenues are expected to grow by 5.8%, to \$59.906 billion.

The current state operating budget was passed by the Legislature in March 2020, based on the Feb. 2020 revenue forecast. Compared to the Feb. 2020 forecast, revenues in the new forecast are down

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.)

\$355.7 million for 2019–21 but up \$297.7 million for 2021–23. (For the four-year period, revenues are down by just \$58.0 million. For the six-year period through 2023–25, revenues are now up \$4.7 million from the Feb. 2020 forecast.)

This is quite an improvement from the June forecast, when revenues through 2021–23 were expected to be down \$8.967 billion from the Feb. 2020 forecast.

With Revenues Back on Track, the Budget is Balanced (And Then Some)

Given the new revenue forecast, the current state operating budget easily balances over four years. Our estimated balance sheet (see the table below) incorporates the new revenue forecast and the estimated maintenance level changes from Gov. Inslee’s budget proposal. (The maintenance level is the cost of continuing current services, adjusted for inflation and enrollment.) Additionally, the Biden Administration has told governors that the enhanced federal Medicaid match will remain in place through at

least the end of calendar year 2021 (Cochran 2021). An estimate of how much that will save the state in 2021–23 is also included in the balance sheet.

With these adjustments, the budget not only balances over four years, it leaves a substantial estimated unrestricted ending fund balance of \$2.999 billion. On top of that, the budget stabilization account (BSA, or the rainy day fund) balance is estimated to be \$2.394 billion at the end of 2021–23. Total reserves are a remarkable \$5.392 billion.

Room to Grow

The healthy balance sheet means that legislators have an exceptionally firm foundation for the 2021–23 operating budget. Not only is there no shortfall, there is room for adopting new spending.

Indeed, the pandemic and recession have created new needs for spending that were not fully anticipated when the current budget was adopted last year. (For example, public health costs increased.) And although state revenues have recovered, the economy is still a concern. Through fiscal year (FY) 2025,

Table: Estimated NGFO Balance Sheet (Dollars in Millions)

	2019-21	2021-23
Beginning Balance	1,981	2,416
Revenue		
March 2021 Revenue Forecast	52,334	56,615
<i>Total Revenue</i>	<i>52,334</i>	<i>56,615</i>
Other Resource Changes		
Transfer to Budget Stabilization	(486)	(543)
Other Enacted Fund Transfers	195	
CAFR/Prior Period Adjustments	84	41
<i>Total Other Resource Changes</i>	<i>(207)</i>	<i>(502)</i>
<i>Total Resources</i>	<i>54,109</i>	<i>58,529</i>
Spending		
Enacted 2019-21 Appropriations	53,700	
Maintenance Level Change	(1,261)	
Maintenance Level		56,100
Enhanced Federal Medicaid Match		(279)
Actual/Assumed Reversions	(746)	(291)
<i>Total Spending</i>	<i>51,693</i>	<i>55,530</i>
Unrestricted Ending Fund Balance	2,416	2,999
Budget Stabilization Account Balance	1,618	1,808
Transfers from GFS and Interest	529	586
Appropriations from BSA	(364)	
Return of 2020 Appropriations	25	
Projected BSA Ending Fund Balance	1,808	2,394
<i>Total Reserves</i>	<i>4,223</i>	<i>5,392</i>

Sources: ERFC, OFM, WRC estimates

employment is currently forecast to be 827,000 below what was forecast in Feb. 2020. (The new employment forecast is also lower than in Nov. 2020—it is down 227,000 through FY 2025.)

On the other hand, the federal government has appropriated billions of dollars over the past year for COVID relief in Washington. We estimate that more than \$24 billion in federal COVID relief has flowed (or will flow) through Washington’s state and local governments (Makings 2021). (This is an incomplete, early estimate, and it’s not clear how much federal funding will be available for appropriation by the state in each fiscal year.)

The \$24 billion includes funding for schools and rental assistance, for example, as well as the Coronavirus Relief Fund and the State Fiscal Recovery Fund. These funds offer more general relief for states. For example, the State Fiscal Recovery Fund (part of the recently passed American Rescue Plan) includes \$4.253 billion for the state of Washington to use to respond to the public health emergency “or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality.” It may also be used to backfill revenue losses and for “necessary investments in water, sewer, or broadband infrastructure.”

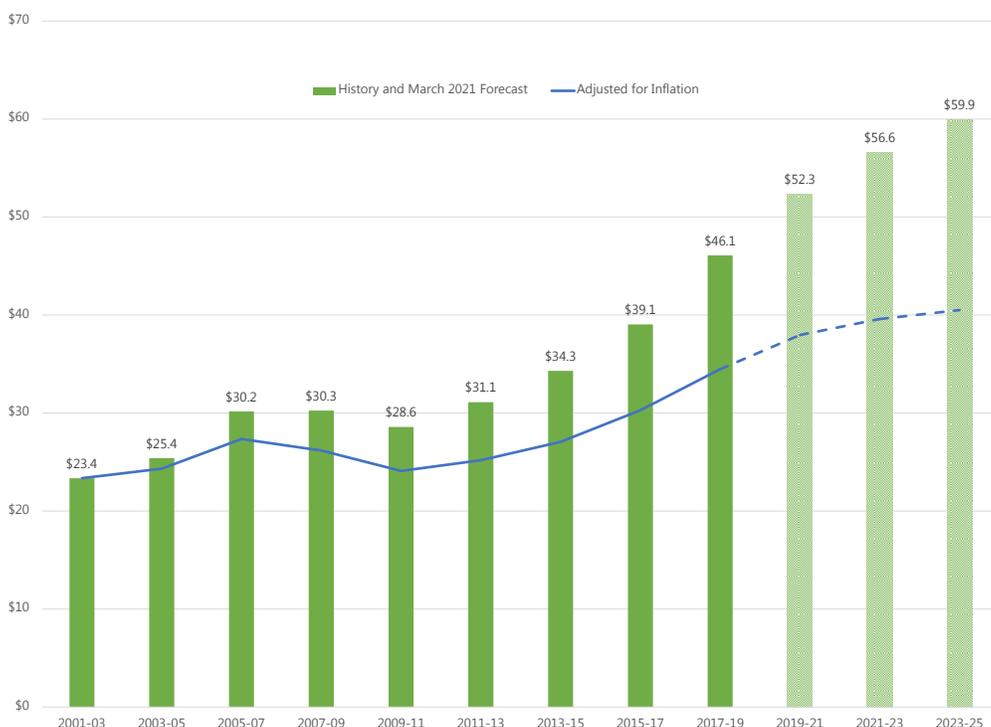
Given the robust federal relief, it’s not clear how much *state* spending is required to address the health and economic costs of the pandemic and recession.

Will Washington Need New Revenues in Place for When the Federal Aid Runs Out?

In the Great Recession, state revenues declined by 5.5% from 2007–09 to 2009–11. Federal stimulus dollars backfilled state funds in 2009–11, but the revenue decline was so significant that spending was still reduced in 2011–13 (WRC 2020).

By contrast, 2019–21 revenues are now expected to increase by 13.6% over 2017–19 and 2021–23 revenues are expected to increase by 8.2%. (Even the ugly June revenue forecast still expected revenues to grow in each biennium.) Washington’s current tax structure is expected to generate the revenues to sustain current and new spending into the future. Moreover, real revenues (adjusted for inflation) per capita have in-

Chart 1: NGFO Revenues (Dollars in Billions)



creased substantially since the Great Recession.

This time around, it doesn't appear that there will be a budgetary need for any major spending cuts at all (unless the Legislature chooses to cut spending as a policy matter).

Comment

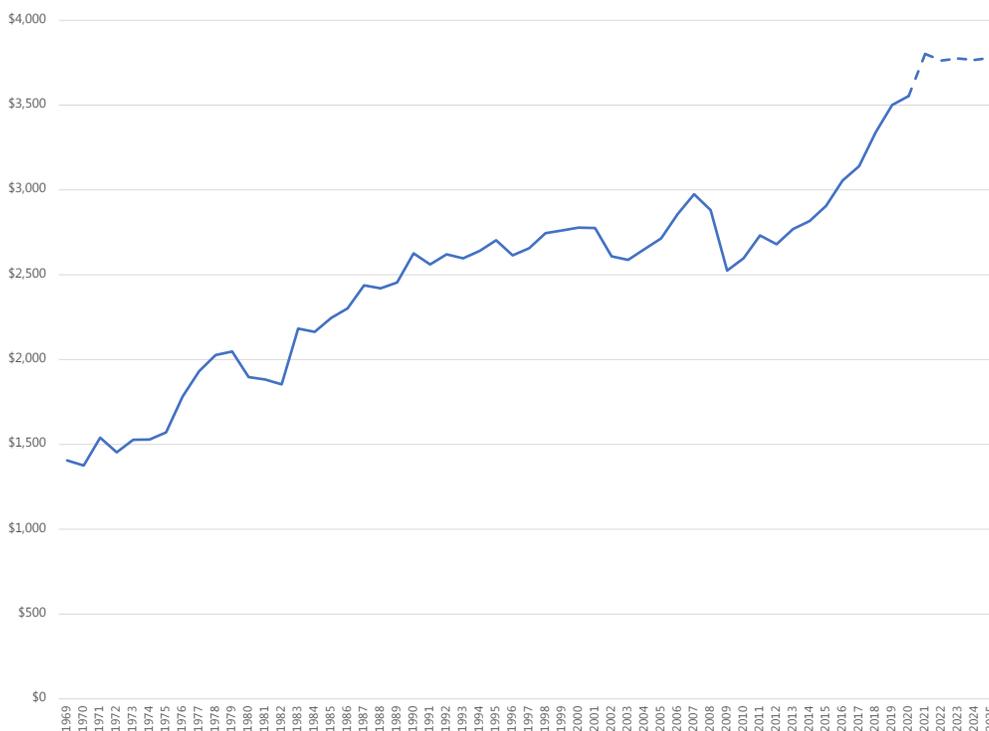
The state revenue system and budget has come through this emergency remarkably well. We are in the fortunate position to not need to increase taxes to meet current obligations. Economic growth continues to generate increasing revenues for the state.

At the same time, many individuals and businesses in Washington continue to feel the negative effects of the recession. Washington can use federal aid funding to help them get through this time. Raising their taxes to fund relief would be counterproductive.

Not only are new taxes not needed this year, but the state may not even need to tap the BSA. (What seemed like a very rainy day last spring and summer has brightened considerably, at least as far as the state budget is concerned.) The Legislature should avoid making withdrawals from the BSA until all federal aid is exhausted.

Additionally, the Legislature should refrain from using federal relief money to begin new, ongoing programs. If federal funds are used for one-time needs or to bridge gaps in funding, the eventual cessation of federal relief should not trigger a need for new state revenue sources. There is always uncertainty in revenue forecasting, but revenues are currently expected to continue to grow. The best way to plan for budget uncertainty is to enact sustainable budgets (that balance over four years) and maintain healthy reserves.

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



References

Cochran, Norris. 2021. [Letter to Governors](#). Department of Health and Human Services. Jan. 22.

Makings, Emily. 2021. ["Washington's state and local governments will have more than \\$11 billion in federal relief funding to distribute from the ARP Act."](#) WRC Blog. March 16.

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