

Modest Operating Budget Growth in Inflationary Times

Briefly

After a few years of record spending increases, the Legislature slowed the growth in the operating budget this year. As enacted, appropriations from funds subject to the outlook (NGFO) for 2023–25 are up 8.9% compared to the 2022 supplemental.

New policy spending of \$4.744 billion is the most of any original biennial budget going back to at least 2007–09. The Legislature was able to adopt so much new policy spending while keeping total growth at a modest level in part because of the unusually high level of one-time spending in 2021–23. (More than 70% of the new spending in the historically large 2022 supplemental budget was meant to be one-time, rather than ongoing.) Of the new policy spending in 2023–25, 42.6% is related to increases in employee compensation and service provider rates. (This is an example of the impact that inflation has on the spending side of the budget.) Aside from compensation, two major areas of new policy spending are special education and housing programs.

Although revenue growth is also expected to slow in 2023–25 (adjusted for inflation, revenues are estimated to decrease), the March 2023 revenue forecast estimated that NGFO revenues would be \$3.106 billion higher through the outlook period than was expected when the 2022 supplemental budget was adopted. The Legislature did not increase general taxes this year. The budget balances over four years, but the balance relies on the use of reserves and other one-time funds, and it makes some budgetary assumptions that raise concerns about sustainability.

After a few years of record spending increases, the Legislature slowed the growth in the operating budget this year. Adjusted for inflation, spending growth is practically flat. Meanwhile, inflation is driving revenue growth and has increased the cost of services.

Overview

Table 1 (on page 2) shows the estimated NGFO (see the box below) balance sheet for the recently enacted 2023–25 state operating budget and 2023 supplemental (ESSB 5187), as signed by the governor and including appropriations in 2E2SSB 5536 (which was enacted during the May 16 special session).

Resources. The budget is based on the March 2023 revenue forecast, under which NGFO revenues were expected to grow by 20.7% in 2021–23, 2.4% in 2023–25, and 7.1% in 2025–27. However, inflation is a

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)

	2021-23	2023-25
Beginning Balance	4,161	4,168
Revenue		
March 2023 Revenue Forecast	64,146	65,702
Revenue Changes	6	39
<i>Total Revenue</i>	<i>64,152</i>	<i>65,741</i>
Other Resource Changes		
Transfer to Budget Stabilization Account	(610)	(630)
Other Enacted Fund Transfers	(1,180)	
Transfer from Washington Rescue Plan Transition Account		1,302
Other Fund Transfers	(96)	51
ACFR/Prior Period Adjustments	360	41
<i>Total Other Resource Changes</i>	<i>(1,526)</i>	<i>764</i>
<i>Total Resources</i>	<i>66,787</i>	<i>70,673</i>
Spending		
Enacted 2021-23 Appropriations	64,125	
Maintenance Level Change	401	
Maintenance Level		65,060
New Policy	(1,190)	4,741
Effect of Vetoes and Lapsed Items	11	3
Actual/Assumed Reversions	(728)	(493)
<i>Total Spending</i>	<i>62,618</i>	<i>69,311</i>
Unrestricted Ending Fund Balance	4,168	1,362
Budget Stabilization Account Balance	19	652
Transfers from GFS and Interest Earnings	628	692
Appropriations from BSA		
Transfer to BSA	5	
Projected BSA Ending Fund Balance	652	1,345
WA Rescue Plan Transition Account Balance	1,000	2,100
Transfer from GFS	1,100	
Transfer to GFS		(1,302)
Projected WRPTA Ending Fund Balance	2,100	798
<i>Total Reserves</i>	<i>6,920</i>	<i>3,504</i>

Note: Totals may not sum due to rounding.

major contributor to those increases. Adjusted for inflation, revenues in the March forecast were expected to increase by 10.1% in 2021–23, *decrease* by 4.1% in 2023–25, and increase by 3.0% in 2025–27. (See Chart 1 on page 3.) That said, revenues in the March 2023 forecast were \$3.106 billion higher over the six-year period than they were in the February 2022 forecast. Thus, the Legislature had \$3.106 billion more to work with than it had at the time that the 2022 supplemental operating budget was adopted.

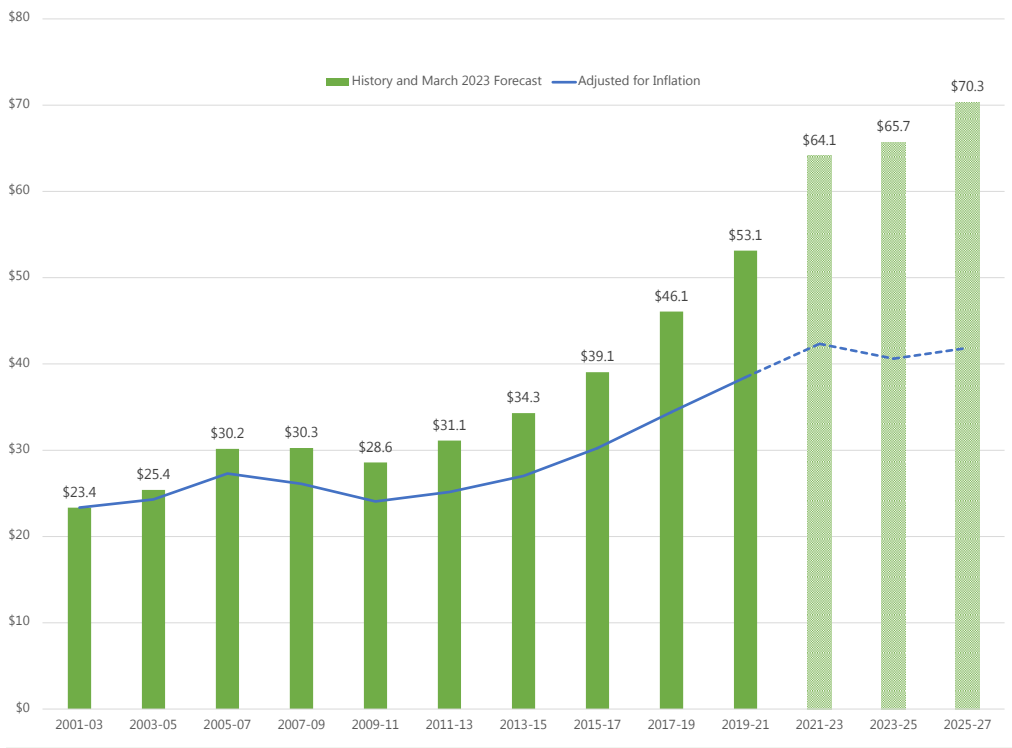
The enacted budget does not increase general taxes. Nevertheless, enacted revenue legislation is estimated to increase NGFO revenues by a net of \$57.3 million in 2023–25 and \$51.0 million in 2025–27. Revenue legislation includes:

- SHB 1850, which makes changes to the hospital safety net program and is expected to increase NGFO revenues by \$54.2 million in 2023–25 and \$74.8 million in 2025–27.
- HB 1742, which allows the Department of Revenue to enter into settlement agreements with holders of unclaimed property and is estimated to increase revenues by \$28.2 million in 2023–25 and \$29.8 million in 2025–27.
- SHB 1682, which shifts certain insurance premium taxes from the general fund–state to the auto theft authority account and is estimated to reduce NGFO revenues by \$8.0 million in 2023–25 and \$8.1 million in 2025–27.

The budget transfers a net of \$95.5 million from the NGFO to other accounts in 2021–23, including \$85.8 million to the disaster response account. It transfers a net of \$1.353 billion to the NGFO from other accounts in 2023–25. The 2023–25 transfers include:

- \$1.302 billion from the Washington rescue plan transition account (WRPTA) to the NGFO,
- \$50.0 million from the model toxics control operating account to the NGFO,
- \$40.0 million from the Washington student loan account to the NGFO,
- \$30.0 million from the state treasurer’s service account to the NGFO,

Chart 1: Biennial NGFO Revenues (Dollars in Billions)



- \$89.8 million from the NGFO to the wildfire response, forest restoration, and community resilience account, and
- \$49.0 million from the NGFO to the home security fund account.

Spending. The 2023 supplemental budget (including appropriations in other legislation) reduces NGFO appropriations for 2021–23 by \$778.2 million (-1.2%) relative to the 2022 supplemental. The revised 2021–23 total is 22.8% higher than 2019–21

spending. The change in appropriations for 2021–23 is the net of a maintenance level increase of \$400.7 million and a policy level decrease of \$1.179 billion. (See the box below for definitions of these budget terms.) The policy level changes are driven by savings from the COVID-related enhanced federal match for Medicaid that will wind down this year and a reduction to a planned extra payment toward the Teachers’ Retirement System plan 1 unfunded liability.

NGFO appropriations for the upcoming 2023–25 biennium are \$69.804 billion, an increase of 8.9% over the 2022 supplemental. New policies account for \$4.744 billion of that. (More details on new spending are included in the appendix, beginning on page 7.)

Reserves. The budget does not make any withdrawals from the budget stabilization account (the BSA, or constitutional rainy day fund). The BSA balance is estimated to be \$1.345 billion at the end of 2023–25. As noted above, the budget does transfer funds from the WRPTA, another reserve account (which is not subject to constitutional restrictions). With that transfer, the WRPTA balance is expected to be \$798 million at the end of 2023–25. Finally, the unrestricted NGFO ending balance is estimated to be \$1.362

billion and total reserves are estimated to be \$3.504 billion (10.5% of revenues and other resources) in 2023–25.

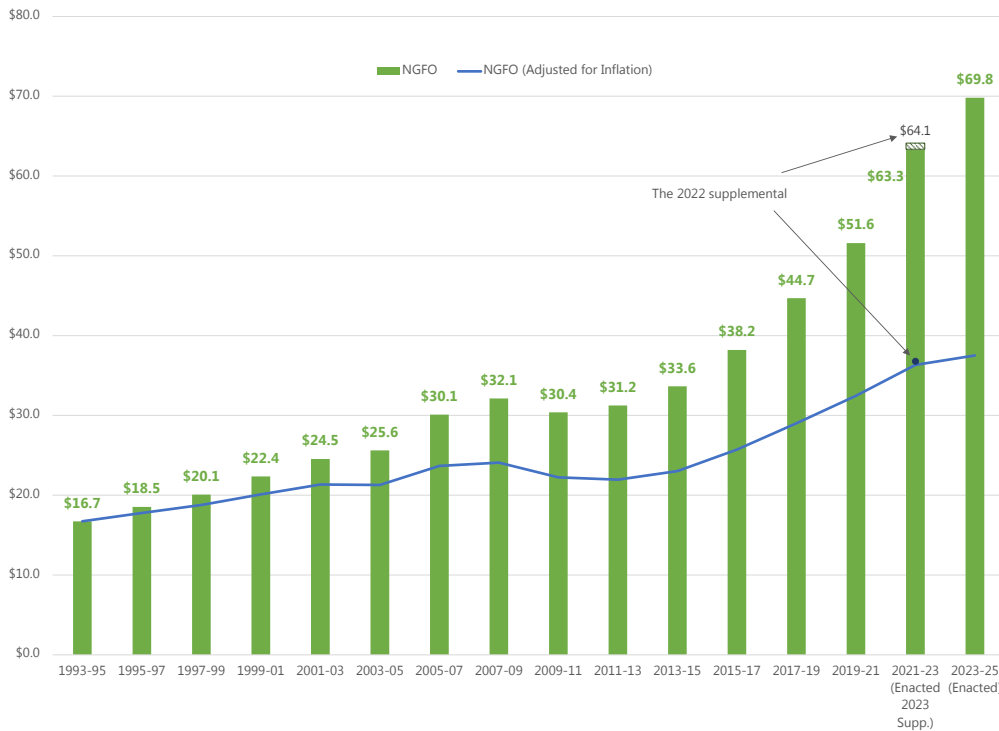
Outlook. The budget balances over four years, leaving an estimated unrestricted NGFO ending balance of \$23 million in 2025–27. Total reserves in 2025–27 are estimated to be \$2.952 billion (8.1% of revenues and other resources).

Budget Components

Total changes in a budget include:

- carry-forward level (the biennialized cost of enacted appropriations),
- maintenance level (the cost of current spending, adjusted for inflation and enrollment), and
- new policies.

Chart 2: NGFO Spending (Dollars in Billions)



The Budget Increases Spending Modestly, After Historically High Spending in 2021-23

The Legislature increased NGFO appropriations for 2023-25 by 8.9% (compared to the enacted 2022 supplemental). That growth is below average—biennial spending growth from 1993-95 through 2019-21 averaged 9.1%. (Adjusted for inflation, the growth in 2023-25 is just 2.0%, compared to an inflation-adjusted average of 5.2%.)

However, the spending growth comes on top of the historically large 2022 supplemental budget (WRC 2022). NGFO spending has more than doubled in just 10 years (up 107.5% since 2013-15). Adjusted for inflation, spending increased 62.9% over that period. Spending per capita (adjusted for inflation) will grow by just 0.2% in 2023-25, after substantial growth coming out of the Great Recession. (See charts 2 and 3.)

The Legislature was able

Chart 3: NGFO Spending Per Capita (Adjusted for Inflation)

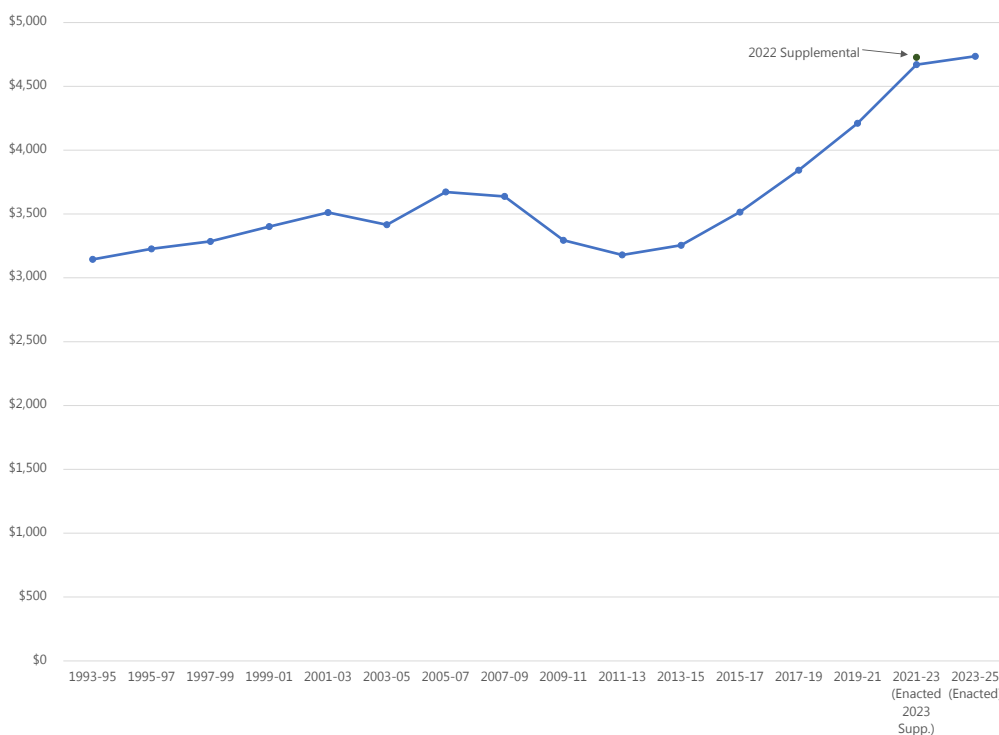
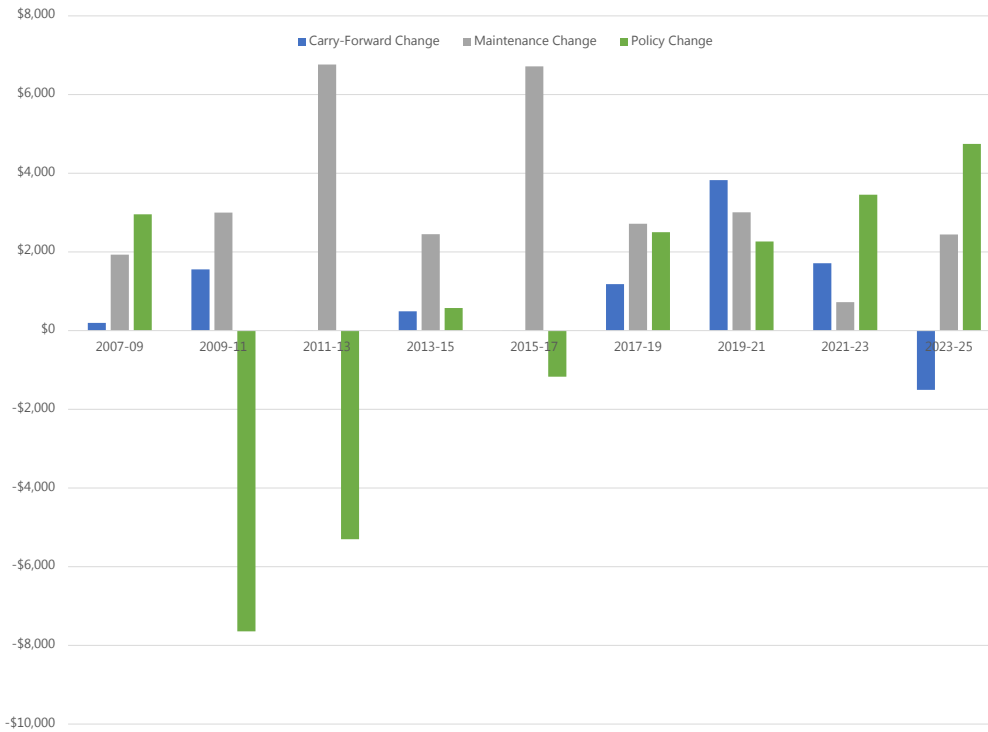


Chart 4: Changes to Appropriations in the Original Biennial Budget (Dollars in Millions, Adjusted for Inflation)



to adopt \$4.744 billion in new policies while keeping total growth at a modest level in part because of the unusually high level of one-time spending in 2021–23 (especially in the 2022 supplemental). Indeed, 71.6% of the new NGFO appropriations in the 2022 supplemental were meant to be one-time (WRC 2022). These one-time items are backed out in the carry-forward level for 2023–25. (See the box on page 3 for definitions of budget terms.)

Given that, the technical components of the spending changes in the 2023–25 budget are unusual. As Chart 4 shows, in 2023–25, there is a large carry-forward level reduction (-\$1.506 billion), a below-average maintenance level increase (\$2.442 billion), and a large policy level increase (\$4.744 billion). Indeed, compared to other original biennial budgets (going back to 2007–09), the largest carry-forward reduction and the largest policy level increase occur in 2023–25.

New Spending Focused on Compensation, With Major Increases for Special Education and Housing

Of the \$4.744 billion in new policy spending in 2023–25, 42.6% is related to increases in employee compensation and service provider rates. This is an example of the impact that inflation has on the spending side of the budget.

Aside from compensation, two major areas of new policy spending are special education and housing programs. The Legislature appropriated \$253.6 million to increase the special education multiplier, \$106.9 million to increase the special education cap to 15%, and \$5.5 million to lower the safety net threshold. For new policy spending on housing programs, the Legislature appropriated \$224.6 million in the operating budget from the NGFO. (See the appendix for more details on the new policies.)

There are some notable bow waves in the budget, particularly from debt service on state bonds, a new program to provide health care for uninsured adults (for residents, regardless of immigration status, with incomes at or below 138% of the federal poverty level), and inflation adjustments to public school employee salaries. Of the programs in Table 2 (on page 6), the community eligibility provision (school meals) expansion and emergency housing and shelter are partially funded with federal pandemic relief funds in 2023–25 and fully funded from the NGFO in 2025–27.

Table 2: Notable NGFO Spending Bow Waves in 2025–27 (Dollars in Millions)

	2023-25 Policy Level	2025-27 Maintenance Level
K-12 Salary Inflation	\$261.4	\$627.0
Debt Service	\$59.7	\$433.5
Health Care for Uninsured Adults	\$49.9	\$154.8
Emergency Housing and Shelter	\$55.5	\$111.0
Maple Lane Expansion	\$48.1	\$96.3
Vancouver Residential Treatment Facility	\$47.4	\$84.8
Community Eligibility Provision Expansion (School Meals)	\$30.5	\$61.0
Eliminate Recoveries of Aged, Blind, Disabled Payments	\$0.0	\$53.7
Behavioral Health Facility Operating Costs	\$16.4	\$45.1

Even the Modest Spending Increase Required Some Risky Assumptions to Balance

Even though the overall change in 2023–25 is moderate, the budget would not have balanced over four years had the Legislature not

used reserves and made some potentially risky assumptions.

First, the budget uses one-time money to fund ongoing programs. It transfers \$1.302 billion from the WRPTA to the NGFO in FY 2024. (Even with that transfer, total reserves at the end of 2025–27 are expected to be 8.1% of revenues—a healthy amount, albeit short of the state treasurer’s recommended level of 10% (OST 2023).) Additionally, the 2021–23 and 2022 supplemental budgets had planned substantial one-time payments at the end of 2021–23 toward the unfunded liability in the Teachers’ Retirement System plan 1 (\$800 million) and toward any deficit in the family and medical leave insurance account (\$350 million). The 2023 supplemental reduces those payments (to \$250 million and \$200 million, respectively), generating one-time savings that are used to fund ongoing spending in 2023–25.

Second, the outlook assumes higher reversions than normal for 2023–25. (Reversions are appropriations that are not expected to be spent.) The outlook for the adopted budget assumes reversions totaling \$1.598 billion across 2021–23, 2023–25, and 2025–27. Of that, \$95.5 million is related to K–3 class sizes (some schools won’t qualify for appropriated state funds because their class sizes are too high) and \$256.0 million is related to a general, temporary increase in assumed reversions. According to the Office of Program Research, the general increase to the reversion assumption is due to temporary federal funding and “workforce shortages impacting both the state employee workforce and contracted service providers” (OPR 2023). If the outlook for the enacted budget assumed the standard level of reversions, it would not balance over four years.

Third, the budget outlook assumes the state will collect \$1.145 billion more in revenues in 2025–27 than expected in the March 2023 revenue forecast. This is consistent with the four-year balanced budget statute (RCW 43.88.055), which allows the state to assume 4.5% revenue growth in the outlook. However, revenues are forecasted to grow by just 3.3% in FY 2026 and 3.5% in FY 2027. Thus, the Legislature is banking on a higher-than-projected revenue forecast increase. (In 2021, the Legislature chose not to assume 4.5% growth in the second biennium. Instead, it balanced the budget over four years within the revenues that were actually forecasted at the time (WRC 2021).)

Comment

The spending growth in the enacted budget is appropriately modest, after historic spending last year. The Legislature maintained last year’s high spending level without increasing taxes. But even though

the state had \$3 billion more in revenues than was expected last year, the Legislature still needed to use various one-time resources to fund new policies.

Additionally, the budget relies on potentially risky assumptions to balance over four years. At the same time, the 2025–27 budget will not benefit from state savings related to the enhanced federal match for Medicaid (which ends at the end of calendar year 2023), and other pots of federal relief funding are winding down as well. Given all that, the use of reserves this year to create ongoing spending obligations is a negative feature of the budget that could complicate decisions in the next budget cycle.

References

- Office of Program Research (OPR). 2023. "[Operating Budget Summary: Conference Report ESHB 5187](#)." April 22.
- Office of the State Treasurer (OST). 2023. "[2023 Debt and Credit Analysis](#)."
- Washington Research Council (WRC). 2021. "[With No Budget Shortfall to Address, Legislature Spent Heavily and Potentially Created Budget Challenges for the Future](#)." PB 21–07. June 16.
- . 2022. "[Historically Large Supplemental Budget Also Sets Aside Significant \(But Unprotected\) Reserves](#)." PB 22–04. April 28.

Appendix

Table A1: Enacted Appropriations (Dollars in Thousands)

	2021-23		2023-25	
	NGFO	All Funds	NGFO	All Funds
Legislative	230,825	252,875	283,694	312,229
Judicial	489,408	688,218	587,839	798,582
Dept. of Commerce	746,986	3,538,482	1,201,961	2,871,761
Other Governmental Operations	870,769	6,326,812	1,269,740	6,849,334
DSHS	7,299,822	17,873,851	10,133,195	20,752,032
HCA	6,814,043	27,987,852	7,506,525	29,831,400
DCYF	2,328,879	4,186,006	3,575,364	4,841,547
Dept. of Corrections	2,327,852	2,641,451	2,968,788	2,989,783
Other Human Services	523,623	6,125,461	678,648	4,352,208
Natural Resources	1,003,778	3,158,157	987,842	3,408,904
Transportation	142,407	308,731	164,876	315,510
Public Schools	27,766,241	33,321,530	30,675,982	33,857,637
Higher Education	5,102,922	16,807,571	5,824,812	18,220,018
Other Education	83,385	156,939	102,817	177,438
Other Appropriations	7,615,539	9,219,836	3,842,271	4,031,558
Total	63,346,479	132,593,772	69,804,354	133,609,941

Table A2: Total NGFO Policy Changes in the Enacted Operating Budget, Plus Major Items (Including Appropriations in Other Legislation and Adjusted for Vetoes, Dollars in Thousands)

	2021-23	2023-25
Legislative	0	15,325
Judicial	1,447	130,431
Dept. of Commerce	(30)	479,452
Encampment response and outreach		60,000
Emergency housing and shelter		55,500
Housing and essential needs program		26,520
Permanent supportive housing operations & maintenance		25,000
Other housing programs	270	57,559
Homeless services contracts increase		45,605
Digital navigator program		30,000
Victims services		41,311
Other Governmental Operations	(995)	177,589
Electronic health records funds		20,000
Department of Social and Health Services (DSHS)	(338,588)	1,224,202
Savings from enhanced federal Medicaid match	(320,057)	(52,136)
Program underspends	(36,678)	(15,000)
Disproportionate share hospital program (shift from NGFO to federal dollars)		(75,144)
Consumer-directed employer (individual provider) rate increase		257,163
Agency provider parity		61,877
Adult family home CBA		151,730
Employee compensation		261,374
Assisted living facility rate increase		56,392
Rate increases for supported employment and community inclusion services		24,296
Nursing homes rate increase		104,652
Vancouver residential treatment facility		47,391
Maple Lane expansion		48,134
Transitional Care Center of Seattle		40,713
Reduction due to decertification of Rainier Program Area Team C		(34,010)
Cash grant increase		21,605
Health Care Authority (HCA)	(294,303)	304,970
Savings from enhanced federal Medicaid match	(323,517)	(52,997)
Cannabis revenue distributions	35,297	6,639
Restoring savings not realized from Medicaid program integrity activities		35,100
Medicaid behavioral health provider rate increase		96,413
Non-Medicaid behavioral health service contract rate increase		55,705
Maintain hospital safety net assessment program		(160,000)
Difficult to discharge pilot		22,290
Health care for uninsured adults		49,934
Dept. of Children, Youth, and Families (DCYF)	32,419	600,932
Savings from enhanced federal Medicaid match	(9,424)	(1,576)
Family child care CBA		199,786
Employee compensation		69,993
Fund Working Connections Child Care rate increases with federal dollars instead of NGFO		(51,500)
ECEAP rate increase		50,059
ECEAP expansion		29,587
Federal reimbursement adjustment	19,675	44,600

Table A2 continued: Total NGFO Policy Changes in the Enacted Operating Budget, Plus Major Items (Including Appropriations in Other Legislation and Adjusted for Vetoes, Dollars in Thousands)

	2021-23	2023-25
Other Human Services	25,465	465,931
Employee compensation		228,418
Unemployment insurance federal funding shortfall		21,227
Natural Resources	94,224	236,123
Fire suppression	95,785	
Funding for Duckabush estuary restoration moved to capital budget	(25,000)	
Employee compensation		32,196
Farmers to Families Food Box program		35,000
Grants to hunger relief organizations and food assistance (including SHB 1784)	20,000	23,655
Biodiversity and species recovery		23,000
Transportation	1,822	28,597
Public Schools	(27,282)	345,618
K-12 salary inflation		261,377
Incremental regionalization rebase		23,369
Lower required rates for unfunded liability in Teachers' Retirement System (TRS) Plan 1		(721,880)
School Employee Benefits Board insurance funding rate		259,541
Special education multiplier increased		253,635
Special education cap increased		106,854
Local effort assistance	(24,618)	(20,142)
Local effort assistance adjustment for assessed value increase	31,611	
K-3 class size compliance	(34,347)	
Community Eligibility Provision (federal lunch program) expansion		30,500
Free school meals		18,523
Passenger reimbursement		26,000
Transitional kindergarten		(48,560)
Higher Education	926	486,095
Employee compensation		145,380
Compensation support (because costs exceed operating fee revenue)		85,601
UW Hospital support		80,000
Other Education	106	16,060
Other Appropriations	(674,035)	232,726
Extra payment to TRS 1 unfunded liability reduced to \$250 million	(550,000)	
Payment to family and medical leave insurance account reduced to \$200 million	(150,000)	
Salmon recovery account	25,000	
Foundational public health		51,916
Funding for information technology projects		38,772
Judicial information systems account (for IT infrastructure in judicial branch)		20,000
Bond retirement		59,663
Total	(1,178,824)	4,744,051