



## ***BUDGET MEMO: GOVERNOR'S BUDGET PROPOSALS***

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*January 2021*

Governor Inslee released his proposed 2021-23 operating, transportation, and capital budgets on December 17<sup>th</sup>. The budget proposals focused on the key priority areas of COVID-19 response (which ranges from testing and contact tracing to food insecurity, broadband access, and housing), rebuilding the state's economy, protecting vital services, and emphasizing equity.

Specific to the operating budget, the 2021 supplemental would *reduce* appropriations from funds subject to the outlook<sup>1</sup> from \$53.7 billion down to \$52.1 billion, which includes reversions as well as a proposed \$915 million in reduced spending for the remainder of the current biennium. The 2021–23 biennial budget proposal would appropriate \$57.8 billion, which includes increased maintenance level spending as well as \$1.7 billion in new policy items. The balancing of the budget and increase in proposed appropriations is funded by transfers from the budget stabilization account, cost savings and adjustments to caseloads, and new revenue proposals put forth by the governor including a capital gains tax, a covered lives tax, and the narrowing of the B&O bad debt tax preference. (*see revenue section below for more information on these proposals*)

Governor Inslee also released his proposed transportation and capital budgets for the upcoming biennium. While the focus of this brief is on the operating budget proposal, there are still key investments relating to health and prevention made in the other two budgets. For example, the [proposed transportation budget project list](#) provides increased funding for bicycle and pedestrian grant programs; and the [capital budget](#) proposes increased funding for programs such as the Housing Trust Fund, early learning facilities, behavioral health facility capacity, outdoor recreation, and more.

This memo will provide an overview of the operating budget proposal for the 2021-23 biennium as put forth by Governor Inslee, including the following:

- A brief overview of the November Revenue Forecast
- A summary of the Governor's proposed 2021-23 operating budget, including highlights of some of the key issues related to the Prevention Alliance platform
- An overview of revenue proposals put forth by Governor Inslee
- Next steps in the budget process

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<sup>1</sup> Funds Subject to the Outlook includes General Fund – State (GFS) plus the Education Legacy Trust Account, WA Opportunity Pathways Account, and the Workforce Education Investment Account. In this context, 'The Outlook' means the budget for the current biennium as well as the next ensuing fiscal biennium. Under state law, the legislature must pass a budget that leaves a positive ending fund balance for funds subject to the outlook.

### **November Revenue Forecast & Budget Landscape**

As a reminder, on November 18<sup>th</sup> the [Economic and Revenue Forecast Council](#) (ERFC) released the official quarterly revenue forecast, which is the revenue forecast that Governor Inslee’s proposed budget is based on. The November forecast continued to capture the extensive impact the COVID-19 pandemic has had on our economy, but also highlighted the instability and unpredictability of the landscape. In the forecast, the three year revenue shortfall for the remainder of the current 2019-21 biennium (\$-1.695 billion) and upcoming 2021-23 biennium (\$-1.651 billion) combined are at about \$-3.4 billion compared to the February forecast. For additional details and analysis, see the [Prevention Alliance Budget Memo: November 2020 Revenue Forecast](#).

The revenue shortfall projected in November is still challenging and highlights the ongoing instability, but it was much improved compared to the nearly \$9 billion shortfall that was projected in June 2020. When the broader budget is looked at including not only revenue, but also factoring in changes in caseloads (many are lower than projected due to the COVID-19 pandemic), savings achieved through furloughs and cancellation of some state employee raises, and other reversions, the budget shortfall going into the upcoming biennium is closer to balanced. However, the ERFC has continually cautioned that the revenue and economic landscapes remain very unstable with a wide degree of uncertainty.

### **Governor’s Proposed 2021-23 Operating Budget**

After making necessary adjustments to account for enrollment, caseload and other rising costs, the governor’s proposed 2021-23 operating budget increases appropriations from funds subject to the outlook by 7.7% compared to the enacted 2019-21 budget, bringing appropriations to \$57.849 billion. Of the proposed budget, \$1.737 billion would be new policy items (as opposed to maintenance level funding).

**Table 1: Overview of Governor’s Proposed 2021-23 Operating Budget**

	<b>Operating Budget Proposed by Governor (December 17<sup>th</sup>)</b>
<b>Appropriations total for 2021-23 biennial budget</b>	\$57.85 billion in funds subject to the outlook.
<b>Increase in General Fund spending</b>	\$4.15 billion million total increase. Of this amount, \$2.41 is an increase in the maintenance level base budget compared to the 2019-21 enacted budget and \$1.74 billion is for proposed new policy level spending.
<b>Ending fund balance</b>	The funds subject to the outlook ending fund balance for the 2021-23 biennium is projected to be \$462 million
<b>Budget Stabilization Account Balance</b>	The Budget Stabilization Account (BSA) ending balance for the 2021-23 biennium is \$537 million. <i>Of note, the Governor has proposed appropriating out the full current BSA balance of over \$2 billion for use in his proposed 2021 supplemental budget. He then proposes putting \$537 million back into the BSA in the 2021-23 budget.</i>
<b>Total Reserves</b>	The total reserves for the 2021-23 biennium is \$999 million. <i>Total reserves is comprised of the projected ending fund balance plus the BSA balance.</i>

Links to documents	<a href="#">Budget &amp; Policy Highlights</a> <a href="#">Proposed Operating Budget Bill</a> <a href="#">Landing Page for Agency Detail Reports</a> <a href="#">Glossary of Budget Terms</a>
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The key investment areas in Governor Inslee’s budget focused on [COVID-19 recovery](#); commitment to [diversity, equity & inclusion](#); and Governor Inslee’s [climate commitment](#). Some of the key investments related to health and prevention include:

- \$164 million in state general fund (GFS) for rental assistance in the current biennium (through June 30, 2021), as well as another \$164 million to continue the assistance in the next biennium
- \$397 million GFS (\$447 million total)<sup>2</sup> for COVID-19 response including testing, contact tracing, vaccine administration, care coordination, and more
- \$205 million in FY23 (\$343 million in the 2023-25 biennium) for long-term public health system investments. This is proposed to be funded by a new covered lives assessment (*see revenue section below*)
- \$23.7 mil GFS (\$39.7 million total) to reduce the monthly family copayment by approximately 50% in the Working Connections Child Care program for families whose income falls between 144-220% of the federal poverty level
- \$7.4 million GFS (\$20 million total) for behavioral health provider rate increase for Medicaid patients
- \$5.1 million GFS (\$20.7 million total) for family planning rate enhancement
- \$577,000 GFS (\$1.1 million total) for supporting children’s mental health
- \$2.6 million GFS for the Washington State Office of Equity
- \$1 million GFS for school counselors in high poverty schools
- \$23.1 million GFS for the Emergency Food Assistance Program (EFAP)

While this isn’t a comprehensive list, it does provide a glimpse at the range of investments made in programs and services related to health and prevention, including issues related to social determinants of health.

***Revenue and Other Funding Streams Proposed by Governor Inslee***

The proposed increase in appropriations in Governor Inslee’s proposed budget is funded by several savings items, pulling from the budget stabilization account (aka rainy day fund), as well as the following [new revenue proposals](#):

- **Budget Stabilization Account:** Governor assumes full use of the \$2 billion available in the BSA in the current fiscal year (FY 2021). Under his proposal the BSA would be left with a balance of \$0 at the end of the current fiscal year.
- **Capital Gains Tax:** Governor Inslee proposed a 9% tax to capital gains earnings above \$25,000 for individuals and \$50,000 for joint filers. His proposal includes exemptions for sole proprietorships, retirement accounts, homes, farms, and forestry. The capital gains

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<sup>2</sup> GFS means that is the dollar amount proposed to be funded from the state general fund. If there is an amount listed in parenthesis after the GFS amount, that implies there are additional funding sources outside the state general fund. Additional funding sources could include federal dollars (such as federal Medicaid match) or other state accounts that lie outside the state general fund.

tax, which wouldn't take effect until the second year of the next biennium, would raise an estimated \$1.1 billion in fiscal year 2023 and more than \$2.4 billion during the 2023–25 biennium.

- **Narrowing of B&O Bad Debt Tax Preference:** This proposal narrows the scope of the existing bad debt deduction on business and occupation taxes and the bad debt credit/refund on the sales/use tax. Under this change, sellers will only be allowed to claim these tax preferences for bad debts from nonpayment by their own customers; not from losses sustained by third-party creditors of their customers. Narrowing these tax preferences will generate about \$36.2 million for the state General Fund during the 2021–23 biennium.
- **Covered Lives Assessment:** Governor Inslee proposed a new “covered lives assessment” on health insurers, Medicaid managed care organizations, limited health service contractors, and third-party administrators. The per member, per month fee will be set and adjusted to bring in \$205 million in fiscal year 2023 and about \$343 million in the 2023–25 biennium. The state Office of the Insurance Commissioner will determine and collect the assessment. The revenue from this proposal is directed to investments in foundational public health services.

### ***What's Next***

The budget proposed by Governor Inslee provides an ambitious plan for investments in economic recovery, COVID-19 response, basic needs and critical services, and promoting equity. The next steps will come as the legislature convenes on January 11<sup>th</sup> for the 2021 legislative session. In March the Economic and Revenue Forecast Council will provide the next quarterly revenue forecast, which the House and Senate will base their respective budget proposals on. There are a lot of unknown factors in this budget landscape including economic and revenue instability due to the ongoing COVID-19 pandemic, the impact of a virtual legislative session, whether there will be legislative support for the revenue proposals put forth by Governor Inslee and whether other revenue proposals will emerge and have sufficient support, if there will be support for pulling funds from the budget stabilization account, and what issues will rise in priority by the legislature. The Governor's proposed budget provides a launching point, but there are many steps that remain ahead and a significant number of unknowns and things that could change over the coming months. The legislature is scheduled to adjourn on April 25, 2021.

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