

The logo for Prevention Alliance features a blue curved line above the text "Prevention Alliance" in a blue, sans-serif font.

Prevention Alliance

BUDGET MEMO: SUMMER 2021 REVENUE FORECAST

June 2021

On June 23rd, the Economic and Revenue Council (ERFC) released the [summer quarterly revenue forecast](#). In Washington, the [Economic & Revenue Forecast Council](#) (ERFC) releases and adopts four official revenue forecasts each year: spring during legislative session (February in short session years; March in long session years), summer (June), fall (September), and winter before the governor releases their proposed budget (November). These revenue forecasts look at the various revenue sources (sales tax, property tax, real estate excise tax, business & occupation tax, tobacco/marijuana/liquor tax, etc.) and the projected impact of economic factors such as unemployment, sales, airline travel (for the ripple effect on Boeing), housing construction, exports, etc. Looking at all of these factors, the ERFC builds a forecast for what the state's estimated revenue will be and how much larger/smaller it is than the previous forecast.

The June 23rd forecast captures the improving revenue landscape in Washington as the economy continues to open up and consumer spending improves following the economic downturn resulting from the COVID-19 pandemic. While just one year ago the June 2020 revenue forecast projected what could have been a devastating \$9 billion shortfall over the ensuing three year period, the landscape has since improved, taxable economic activity has been significantly higher than previously forecasted, and therefore revenue projections continue to grow.

In the June 23rd forecast, when compared to the spring 2021 revenue forecast, the forecast of funds subject to the [budget outlook](#)¹ for the remainder of the current 2019-21 biennium is projected to increase by \$838 million, and revenue is also projected to increase by \$1.798 billion in the 2021-23 biennium and \$2.246 billion in the 2023-25 biennium. *See table 1 for more detail.* What this translates to is that compared to the March 2021 forecast, the projected state revenue has continued to grow and as a result will increase the projected ending balance and total reserves in the current and ensuing biennia. Of the total \$4.882 billion in revenue increase projected over the current and next two biennia, \$3.675 billion is due to economic changes (consumer spending, personal income, GDP, etc) and \$1.206 billion is due to legislative changes (mainly the capital gains tax, which is discussed in more detail below).

¹ Funds subject to the budget outlook include the state general fund (GF-S), the Education Legacy Trust Account (ELTA), the Opportunities Pathways Account (OPA), and the Workforce Education Investment Account (WEIA). [Chapter 8, Laws of 2012](#), requires the legislature to adopt a four-year balanced budget. Since the 2013-2015 biennium, the legislature has been required to enact a balanced operating budget that leaves a positive ending fund balance in the general fund and related funds (ELTA, OPA, and WEIA). For more background on the Four-Year Outlook, see the [Prevention Alliance policy brief on Washington's Four Year Outlook](#).

The total reserves are now estimated at \$3.835 billion for the 2019-21 biennium and \$3.569 billion for 2021-23. Reserves are comprised of the projected ending balance (projected revenue and other resources minus estimated expenditures) combined with the amount in the Budget Stabilization Account, which is also known as the rainy day fund.

Table 1: State Revenue Forecast Feb 2020 Compared to March 2021

Biennium	March 2021 Forecast (baseline)	June 2021 Forecast	March 2021 to June 2021 comparison
2019-21 Biennium (Current)	\$52.334 billion	\$53.172 billion	\$828 million
2021-23 Biennium	\$56.615 billion	\$58.413 billion	\$1.798 billion
2023-25 Biennium	\$59.906 billion	\$62.151 billion	\$2.246 billion

There are several reasons that explain the significantly improved forecast:

- The U.S. economy continues to improve, including U.S. Gross Domestic Product (GDP) growth projected higher for this year and in 2022 when compared to the March forecast.
- Washington personal income growth is higher and Washington employment has increased by 37,300 jobs.
- State Revenue Act collections (includes retail sales and use, business and occupation, public utility and non-cigarette tobacco products) have increased for four straight months with Revenue Act receipts for April activity increasing 8.4% above March.
- The forecast for Washington residential building permits is higher than was projected. In fact, housing permits in the first quarter of 2021 hit a 42 year high.
- Residential real estate transactions (home purchases) remain strong.
- Cannabis revenues have spiked since April.

In addition to the changing economic and revenue conditions listed above, the June 2021 forecast is also the first one to capture the projected revenue from the newly passed capital gains tax ([SB 5096](#)). Once implemented, a portion of the revenue from the capital gains tax will be deposited into the Education Legacy Trust Account (ELTA), which is one of the funds subject to the outlook (*see footnote on page one for more info*). The tax will be first collected in FY 2023, based on calendar year 2022 taxable gains. Under the legislation as passed, the first \$500 million of the tax gets transferred to ELTA each year, which means the ELTA share of the tax is forecasted at \$500 million for the 2021-23 biennium and \$1.028 billion for the 2023-25 biennium. Funds appropriated from the ELTA are directed to be spent on education and early learning.

Whenever the ERFC produces the quarterly forecast, they include both potential upside and downside risks that could impact the forecast as released, for better or for worse. For the June 2021 forecast, on the potential upside there could be a faster than anticipated decline in COVID-19 cases, and consumer response could be stronger than anticipated. Another potential

upside would be if Congress passed the infrastructure stimulus legislation that is being worked on. For the potential downside, the more infectious COVID variants could lead to increased cases and hospitalizations, which in turn could slow the pace of recovery. There could also be higher than expected inflation resulting from slower supply chain recovery. Of any of these or other factors come into play and impact projected revenues, that would be reflected in the fall quarterly revenue forecast which will be released in September 2021.

June Caseload Forecast

Another factor that impacts the state budget landscape in Washington is projected changes in caseload for the various state-funded programs and services. The state Caseload Forecast Council met on June 16th to discuss their [June caseload forecast](#). A summary of the caseload forecast is available [here](#). When looking at the June 2021 caseload forecast compared to the February 2021 caseload forecast, projected caseloads were either lower than anticipated or unchanged for nearly all caseload categories. The only exceptions are subsidized child care through the Working Connections Child Care program, and the Early Childhood Education and Assistance Program (ECEAP), though ECEAP is only projected to be higher in FY2022 and not the other years being looked at. During the Caseload Forecast Council meeting, the Council Executive Director stated that this reduction or flatlining of caseload numbers is largely reflective of the return to a new normal.

What's Next

At this point in the year, state agencies are hard at work pulling together the funding requests (known as decision packages) that they may put forward for the Governor to consider for inclusion in his budget. The strength of the summer revenue forecast provides some level of indication about potential health of the state budget in the upcoming session, and therefore if there will be opportunity for growth in programs and services or the need to cut back on state spending. The ERFC will convene again in September to release the fall quarterly revenue forecast, which will further build out the economic and revenue landscape as we prepare for the 2022 legislative session.

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