

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

Prevention Alliance

BUDGET MEMO: FEBRUARY 2020 REVENUE FORECAST

February 2020

2020 is the second year of the biennium, which means the budget that the legislature will pass is a supplemental budget that makes changes to the biennial budget passed during the 2019 legislative session. Typically, supplemental budgets make adjustments for changes in case load, projected spending, and any emergent issues that have arisen since the full biennial budget was passed. They may also consider new or increased funding needs depending on resources available, but overall there is a tendency towards adjustments in the existing budget rather than funding a lot of new programs. There are, of course, exceptions.

On February 19th, the Economic and Revenue Council (ERFC) released the [spring quarterly revenue forecast](#). The ERFC must release the spring forecast by February 20th in even numbered years (short sessions) and by March 20th in odd numbered years (long sessions).

In the February 19th forecast, Near General Fund-State (NGF-S) revenue for the current 2019-21 biennium is forecasted to increase by \$606 million, bringing the total 2019-21 NGF-S to \$52.339 billion, which is 13.6% more than the 2017-19 biennium. NGF-S revenue for the upcoming 2021-23 biennium is forecasted to increase by \$536 million, bringing the total 2021-23 NGF-S to \$55.69 billion, which is 6.4% higher than the expected 2019-21 biennial revenue.

These revenue projections provide House and Senate budget writers with the funding levels they have to work with as they draft their respective proposed budgets. While the revenue forecast overall is higher than expected, over half of the 2019-21 forecast change is due to unexpected increase in estate tax receipts. Specifically, there is estimated to be an increase in \$310 million during the 2019-21 biennium and \$25 million in the 2021-23 biennium as a result of increased estate tax receipts. It is important to note that this bump in estate tax revenue is a one-time increase; not ongoing. This creates a unique challenge for budget writers having an increase in available dollars but not wanting to invest in programs that have ongoing funding needs. Finding those potential investments that are truly on-time opportunities narrows the options significantly.

Another unique spike in revenue came from the Real Estate Excise Tax (REET). There was an increase in December 2019, which was largely due to the new REET rates that took effect on January 1, 2020. Large commercial sales (greater than \$10 million) increased to \$5.4 billion in December, and property valued between \$1.56 million to \$10 million also nearly doubled from the November forecast to \$1.45 billion in December. There was a big move to sell property on the market that would have had an increased REET starting January 1st. Following the bump in December, January's numbers were lower than normal as a result of property having sold.

While revenue collections overall remain strong, the forecast also laid out potential risks that could negatively impact revenue including international trade policy, Boeing 737 max, and coronavirus.

The total reserves estimated for the 2019-21 biennium are estimated at \$4.1 billion. Reserves are comprised of the Near General Fund (General Fund-State (GFS), Education Legacy Trust Account (ELTA), and Opportunity Pathways Account (OPA)) and the Budget Stabilization Account, which is also known as the rainy day fund.

The bottom line for the revenue forecast is that the Washington economy remains strong and the revenue forecast has increased by a significant amount for the current and ensuing biennium.

Next steps for the budget: Now that the February revenue forecast is released, each chamber will factor the updated numbers in and will soon release their respective proposed budget. Typically the chambers take turns on which one releases their budget first, and this time it is the House's turn to release their budget. However, it is anticipated that both chambers are releasing their proposed operating budgets on Monday, February 24th.

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This publication was supported by National Center for Chronic Disease Prevention and Health Promotion of the Centers for Disease Control and Prevention under award number NU58DP004830. The content of this publication is solely the responsibility of the authors and does not necessarily represent the official views of the Centers for Disease Control and Prevention.