

Prevention Alliance

BUDGET MEMO: NOVEMBER 2021 REVENUE & CASELOAD FORECASTS

November 2021

November Revenue Forecast

On November 19th, the Economic and Revenue Council (ERFC) released the [November quarterly revenue forecast](#). The forecast shows a continued improvement in the economic and revenue landscape in Washington. When compared to the fall 2021 revenue forecast released in September, the forecast of funds subject to the [budget outlook](#)¹ projects a revenue increase of \$898 million in the 2021-23, and \$965 million in the 2023-25 biennium. This brings forecasted total revenue for the 2021-23 biennium to \$60.238 billion (an 13.4% increase over expected 2019-21 revenue), and \$64.047 billion for the 2023-25 biennium (a 6.3% increase over expected 2021-23 revenue). See *table 1 for more detail*.

It is important to note that these numbers reflect just one quarter of changes. But as we prepare for legislative session, advocates, and legislators (especially budget writers) don't just look at the changes in revenue over the past quarter, but rather the combined changes since the spring revenue forecast last March, which is what was used as the revenue assumption for the budget passed in the last session. When we look at the combined changes in revenue of March to the current November forecast, we see an increase of \$3.623 billion in the 2021-23 biennium and \$4.141 billion in the 2023-25 biennium. When we look at these increases, it is important to note that the increase is due to a mix of economic changes (consumer spending, personal income, GDP, etc) as well as legislative changes (notably this year is the newly passed capital gains tax).

The total reserves are now estimated at \$4.18 billion for the 2019-21 biennium (an increase of \$384 million since the September forecast) and \$6.01 billion for 2021-23 (an increase of \$1.55 billion since the September forecast). 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.

Overview: The Economic & Revenue Forecast Council

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 and sales, 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.

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](#).

Table 1: State Revenue Forecast September 2021 Compared to March 2021

Biennium	March 2021 Forecast (baseline)	June 2021 Forecast	September 2021 Forecast	November 2021 Forecast	March 2021 to November 2021 comparison
2021-23 Biennium	\$56.615 billion	\$58.413 billion (+\$1.8 billion)	\$59.341 billion (+\$928 million)	\$60.238 billion (+\$898 million)	\$3.623 billion increase
2023-25 Biennium	\$59.906 billion	\$62.151 billion (+\$2.2 billion)	\$63.082 billion (+\$931 million)	\$64.047 billion (+\$965 million)	\$4.141 billion increase

Reasons that explain the continued increases in the forecast include:

- The U.S. economy continues to improve, and the Washington economy is expected to outperform the national economy in both employment and personal income growth for 2022-2025.
- Revisions to the historic Washington personal income data suggest stronger-than-expected revenue to personal income relationship. ²
- Washington employment has increased 23,100 jobs since September.
- Continued stronger-than-expected growth in retail sales and real estate transactions.

While the economic and revenue forecast shows a continued increase, concerning trends were flagged including that inflation is higher, the case rate for new COVID cases may have flattened (as opposed to continuing to decrease), and supply chain issues continue to persist for some sectors.

The quarterly revenue forecast always provides both potential upside and downside risks that could impact the forecast that was released, for better or for worse. For the November 2021 forecast, on the potential upside is that there could be a rapid decline in COVID-19 cases from the recent peak. Other potential upsides include the anticipated positive impact of the federal infrastructure bill recently passed by Congress, and the possible passage of the federal Build Back Better plan. For the potential downside, COVID case counts and hospitalizations could rise again, which in turn could slow the pace of recovery. Slower supply chain improvement and workforce shortages could hinder economic recovery. If any of these or other factors come into play and impact projected revenues, that would be reflected in the spring quarterly revenue forecast which will be released in February 2022.

November 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 November 9th to discuss their [November caseload forecast](#). A summary of the caseload forecast is available [here](#). When looking at the November 2021 caseload forecast compared to the June 2021 caseload forecast (which was the most recent caseload forecast), projected caseloads were either lower than anticipated or unchanged for nearly all caseload categories. The only exceptions are two caseload categories under the Health Care Authority:

² Personal income includes all income earned by Washington households, including wages, self-employment income, interest, dividends, rent, social security, and other payments. Because there was a change in the personal income data calculation, the resulting revenue per dollar calculation was increased, which in turn lead to an increase in the revenue forecast.

Medical Assistance for Adult Caretakers and Children and Medical Assistance for Low Income Adults. When looking at caseload counts in November, they are nearly all either decreased or the difference was negligible compared to the February 2021 forecast, which is what the legislature based the 2021-23 budget that they passed last session on.

When looking at the caseload forecast, it is important to note that a reduction in caseload counts could in some cases mean a reduction in need, but it also means that programs and services aren't being utilized at a rate that was expected or even hoped for. For example, common school enrollment is projected to be down 4.7% for the 2021-22 academic year and enrollment in ECEAP (Early Childhood Education and Assistance) is projected to be down 13.1% for the 2022 fiscal year. For these examples, it is not assumed that the *need* for common education or ECEAP have decreased, but rather that they are not being utilized at the level intended due to various barriers or other reasons that are hindering enrollment.

What's Next

The Governor is in the process of preparing his proposed 2022 supplemental budget, which will be released in mid-December. The strength of the three revenue forecasts that have been released since the legislature passed the 2021-23 budget last April provides a strong indication about potential health of the state budget and resources available as we head in the upcoming session. The ERFC will convene again in February to release the spring quarterly revenue forecast. That spring forecast is what the legislature will base their proposed and final budgets on.

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