

BUDGET MEMO: JUNE 2022 REVENUE FORECAST

On June 22nd, the Economic and Revenue Council (ERFC) released the [June 2022 Quarterly Economic & Revenue Forecast](#). The forecast showed continued upward trends in our state revenue collections and budget projections compared to the last quarterly forecast that was released in February. The June forecast projects that when compared to the February forecast (which is what the legislature based the 2022 supplemental budget on), total net state revenue subject to the [budget outlook](#)¹ is expected to increase by \$1.457 billion in the 2021-23 biennium and \$632 million in the 2023-25 biennium.

This means that compared to the February 2022 forecast, 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. Revenue projections over the current and ensuing biennia (the next three fiscal years) are projected to increase by a total of \$2.66 billion largely due to economic changes (consumer spending, unemployment rates, real estate activity, etc.). However, non-economic changes (e.g. legislative changes and fund transfers made during the 2022 legislative session) are projected to *reduce* state revenue by \$575 million, which puts the total net projected revenue at increasing by \$2.089 billion over the next three years. *See table 1 for more detail.*

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 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.

Table 1: State Revenue Forecast February 2022 Compared to June 2022

Biennium	February 2022 Forecast (baseline)	Economic Changes since February	Non-Economic Changes since February	June 2022 Forecast	February 2022 to June 2022 comparison
2021-23 Biennium	\$61.691 bil	+\$1.552 bil	-\$95 mil	\$63.147 bil	\$1.457 billion increase
2023-25 Biennium	\$65.368 bil	+\$1.112 bil	-\$480 mil	\$65.999 bil	\$632 million increase
					Three-year total: \$2.089 million increase

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](#).

Another budget indicator that is tracked is the amount in ‘reserves’. 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. The total reserves are now estimated at \$4.485 billion for 2021-23. Unique to the current budget landscape, the total reserves amount also includes the remaining balance of \$2.1 billion from the Washington Rescue Plan account, which is funding for COVID-19 response and recovery. The funding in that account includes both state funding as well as any remaining federal COVID response dollars (such as from the American Rescue Plan Act (ARPA)).

All these numbers show that overall, the June 2022 economic and revenue forecast projects improved revenue numbers. There are several reasons that explain the improved forecast:

- Consumer spending has continued to grow, and WA revenue collections have been strong
- U.S. and Washington employment numbers both continue to increase
- Oil prices (and therefore gas tax collections) are higher
- Building permits are higher

While this indicates a positive forecast showing an increase in revenue, the state economist, Dr. Steve Lerch, urged caution in that optimistic forecast. Even though revenue collections have been strong over the past couple of months, much of the increase in revenue is driven by growing inflation (when things cost more, the tax revenue collected on those things is larger). Indicators show that economic growth, both for Washington and the U.S., may be slowing, and there is ongoing concern about the potential of entering a recession.

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. Some concerning indicators for economic and revenue projections include:

- U.S. Gross Domestic Product (GDP) numbers are decreasing
- Inflation continues to grow
- Supply chain issues continue to hamper production and sales
- Washington personal income has gone down slightly
- Rising interest rates could push the economy into a recession
- The impact of the ongoing Russia – Ukraine conflict

While the current revenue projections may show a potential increase, the concerning factors listed above could result in a more pessimistic landscape and potential reduction in projected state revenue by the time we get to the 2023 legislative session. In fact, the pessimistic June 2022 alternative forecast produced by the ERFC projects a *reduction* of \$2.183 billion in projected revenue for the current 2021-23 biennium (as opposed to a \$1.457 billion increase).

All of these numbers are simply projections, or the ‘best guess’, based on available data and the economic landscape. Budget writers, the Governor’s office, state agencies, and advocates will

be tracking actual revenue collections in the coming months to see which way the economic and revenue climate goes – more toward the optimistic or pessimistic projections.

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 (ex. Apple Health (Medicaid), common school enrollment, subsidies for child care, basic needs programs, etc.). The state Caseload Forecast Council met on June 15th to discuss their [June caseload forecast](#). A summary of the caseload forecast is available [here](#). When looking at the June 2022 caseload forecast compared to the February 2022 caseload forecast, overall, there was a fairly even distribution between caseloads projected to increase, those projected to decrease, and those that have a negligible change. The Council Executive Director stated that such even distribution is more typical than the larger reduced caseloads they were seeing over the past couple years because of the COVID-19 pandemic. The main driver of higher caseloads in the current forecast is for Medicaid because of the maintenance of coverage requirement during the COVID-19 pandemic².

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 June revenue forecast would normally provide some level of indication about potential health of the state budget in the upcoming session. However, given the high rate of inflation, slowing economic growth, increases in federal interest rates, and potential for a recession, the Governor, state agencies, and legislators will likely view this positive forecast with caution. We can see that positive but cautious tone echoed in the [budget instructions for state agencies](#) released by the Office Financial Management on the same day the June 2022 Economic & Revenue Forecast was released. The budget instructions, which agencies follow as they prepare their decision packages, stated “As long as the revenue projections remain positive, we encourage you to address lingering problems...” while also stating that “Washington’s economy is cyclical, and the current growth cycle will eventually slow.”

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 2023 legislative session.

² In March 2020, as part of COVID-19 relief legislation, Congress provided increased Medicaid funding to states. States had to meet several conditions to receive the federal funds, including a “continuous coverage” requirement that prohibits states from terminating most Medicaid enrollees’ coverage until after the public health emergency (PHE) ends, as determined by the U.S. Department of Health and Human Services. The current PHE has been extended to October 2022, which means that continuous coverage requirement for Medicaid has also been extended.

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