

Prevention Alliance

BUDGET MEMO: SPRING 2023 REVENUE & CASELOAD FORECASTS

March 2023

Spring Revenue Forecast

On March 20th, the Economic and Revenue Council (ERFC) released the [spring quarterly revenue forecast](#). These revenue projections provide House and Senate budget writers with the fiscal landscape they must work with as they draft their respective proposed operating budgets. 2023 is the first year of the biennium, which means they will be putting forward proposals for the full two-year (biennial) operating budget.

In the March 20th forecast, the forecast of funds subject to the [budget outlook](#)¹ for the current 2021-23 biennium is projected to increase by \$194 million, but then is projected to *decrease* by \$483 million for the 2023-25 biennium, and *decrease* by \$541 million for the 2025-27 biennium. This means state revenue is fairly flat for the current biennium, but then starts to tip into a budget shortfall for the next two ensuing biennia. The combined change in revenue projections compared to the November 2022 forecast is a *decrease* of \$830 million over the period of the current biennium and the next two ensuing biennia (2023-25 and 2025-27).

Reasons that explain the downward trend in the forecast include:

- The WA personal income numbers and building permits are lower than they were in the November 2022 forecast.
- Inflation remains high and federal interest rates are increasing.
- Washington employment numbers have increased by over 15,000 jobs.
- Retail sector and real estate excise tax (REET) have been slowing and are lower than projected in November 2022.

The total reserves are now estimated at \$5.994 billion for 2021-23. Reserves are comprised of the projected ending balance (projected revenue and other resources minus estimated

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](#).

expenditures) combined with the amount in the Budget Stabilization Account (also known as the Rainy Day Fund), and the [Washington Rescue Plan Transition Account](#).

The quarterly revenue forecast always provides both potential upside risks and downside risks that could impact the forecast that was released, for better or for worse. For the March 2023 forecast, on the potential upside there could be a quicker resolution of the Russia-Ukraine conflict, energy prices could decline faster than expected, and consumer spending could be stronger than expected. For the potential downside, rising interest rates could push the economy into recession, technology sector layoffs could be larger than expected, the banking crisis could intensify, inflation could remain elevated, the Russia-Ukraine conflict could intensify, and Congress could fail to raise the debt ceiling. Any of these factors could impact the forecast, positively or negatively.

February 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 back on February 10th to discuss their [February caseload forecast](#). A summary of the caseload forecast is available [here](#). When looking at the February 2023 caseload forecast compared to the November 2022 caseload forecast (which was the most recent caseload forecast), the projected caseloads with *higher* than anticipated caseloads in fiscal year 2023 include Aged, Blind, Disabled Assistance Grant (+10.4%), Low Income Adults Medical (+5.6%), Charter Schools (+1.8%), College Bound Scholarship Program (+1.2%), and Aged, Disabled, and Other Medical (+1.3%). Caseloads that were *lower* than the November 2022 forecast for fiscal year 2023 include Early Childhood Education and Assistance Program (-5.5%), Licensed Foster Care (-3%), Extended Foster Care (-2.3%), and Community Custody Violators (-2.6%).

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, enrollment in ECEAP (Early Childhood Education and Assistance) is projected to be down 5.5% for the 2023 fiscal year. For this example, it is not necessarily assumed that the *need* for ECEAP has decreased, but rather could mean 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 Senate is releasing their proposed budget on Thursday, March 23rd, and the House is releasing their proposed budget on Monday, March 27th. The downward trend of the revenue forecast compared to the November forecast; it is anticipated the proposed budgets will be fairly modest compared to recent years. After the budgets are released, budget leaders will spend the next few weeks working towards a final budget that they will need to pass before the 2023 legislative session adjourns on April 23rd.

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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.