Prevention Alliance

Budget Memo: Spring 2024 Quarterly Revenue Forecast

February 2024

Spring Revenue Forecast

On February 14th, 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 within as they draft their respective proposed operating budgets. 2024 is the second year of the biennium, which means they will be putting forward proposals for supplemental budgets, which make changes to the full two-year biennial budgets that were passed last session.

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.

In the February 14th forecast, when compared to the Winter 2023 revenue forecast released in November, the forecast of funds subject to the budget outlook[1] is expected to increase by $121.8 million in the 2023-25 biennium and $215.4 million in the 2025-27 biennium. This brings forecasted total revenue for the current 2023-25 biennium to $67 billion (an increase of 3.5% over 2021-23 biennial revenue), and $71.7 billion (an increase of 7.0% over the 2023-25 biennium. When we look at these increases, the changes are due to revenue alone, but rather are a mix of revenue changes, economic changes (consumer spending, personal income, inflation, GDP, etc.), and also any legislative changes (including adding or repealing revenue sources).

It is important to note that these numbers reflect just one quarter of changes. But as the budget writers in the House and Senate work on preparing their respective budget proposals, they 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 previous session. When we look at the combined changes in revenue of February 2024 compared to the current Spring 2023 forecast, we see an increase of $1.3 billion for the current 2023-25 biennium. This is a fairly modest increase when

[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.

other factors are considered such as the increased cost of goods and services due to inflation, and changes in the caseload forecast[2].

Reasons that explain the modest upward trend in the forecast include:

- On the positive side:
    - U.S. and Washington employment numbers have increased.
    - WA unemployment rate remains low.
    - Revenue collections have been above forecast.

- On the negative side:
    - Despite higher than forecasted revenues, revenue collections growth is slow.
    - Inflation continues to trend down but remains above desired levels.
    - The outlook for personal income is slightly lower in the near term.
    - Uncertainty in global stability relating to Russia-Ukraine and Middle East conflicts.

The total reserves are now estimated at $5.883 billion for 2023-25. 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 (aka the Rainy Day Fund), and the Washington Rescue Plan Transition Account.

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 February 2024 forecast, on the potential upside is stronger consumer spending, faster interest rate cuts, and quicker resolution to global conflicts. For the potential downside, elevated interest rates could push the economy into recession, global conflicts could intensify and lead to higher prices for energy, and inflation could decrease slower than expected. If any of these or other factors come into play and impact projected revenues, that would be reflected in the next quarterly revenue forecast which will be released in June 2024.

What's Next

The legislature is preparing to release their proposed budgets on Sunday, February 18th (Senate) and Monday, February 19th (House). The modest increase in the revenue forecast compared to revenue projections when the legislature passed the 2023-25 budget last April provides an indication that the state budget is stable, but there aren't a lot of new resources available for the legislature to appropriate, especially when also looking at other factors such as the caseload forecast, which was just released on February 16th. Given these factors, it is anticipated the proposed 2024 supplemental budgets will be fairly modest in new or expanded investments.

[2] The Prevention Alliance spring revenue forecast brief typically includes an analysis of the Spring caseload forecast, however the forecast materials were still not available at the time of writing this brief.

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