Prevention Alliance

BUDGET MEMO: JUNE 2024 REVENUE FORECAST

On June 26th, the Economic and Revenue Council (ERFC) released the June 2024 Quarterly Economic & Revenue Forecast. The forecast showed a *downward* trend 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 2024 supplemental operating budget on), total net state revenue subject to the budget outlook[1] is expected to *decrease* by $477 million in the current 2023-25 biennium, and *decrease* by $189 million in the 2025-27 biennium.

The projected decrease of $666 million total over those two biennia (2023-25 and 2025-27) is largely due to forecasted economic changes (consumer spending, unemployment rates, real estate activity, etc.). Non-economic changes (e.g., legislative changes and fund transfers made during the 2024 legislative session) had a smaller, though still downward trend. *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/cannabis/liquor taxes, 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 March 2023 Compared to June 2023

Biennium	February 2024 Forecast (baseline)	Non-Economic Changes from Feb to June	Economic Changes from Feb to June	June 2024 Forecast	February 2024 to June 2024 comparison
2023-25 Biennium	$67.01 billion	$34 million *decrease*	$443 million *decrease*	$66.53 billion	$477 million *decrease*
2025-27 Biennium	$71.72 billion	$37 million *decrease*	$152 million *decrease*	$71.53 bil	$189 million *decrease*
					Four Year Total: $666 million decrease

[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.

These numbers show that overall, the June 2024 economic and revenue forecast projects a concerning downward trend for the current and ensuing biennia. While there were some positive economic trends (the economy continues to expand, employment growth continues, inflation has eased (though remains elevated)), there were also major factors that drove the downward forecast. These negative factors include:

- Revenue collections continue to be slow.
- Net receipts of capital gains taxes in the current fiscal year (FY24) were much lower than those of FY23.
- The consumer price index (CPI) remained unchanged from Dec 2023 to May 2024.
- Employment growth and business investment are both expected to slow.
- The housing market outlook remains weak.

This downward shift in the revenue forecast is an early indicator of the potential budget landscape for the 2025 session. There are still several months before the 2025 session begins and there are a lot of factors that could impact that landscape, but having a fairly substantial decrease in projected revenue in the couple of months since the previous session adjourned is a concerning shift.

When 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 potential landscape shifts for economic and revenue projections include:

- Elevated interest rates could push the economy into recession.
- The ongoing Russia-Ukraine and Middle East conflicts could intensify.
- Inflation could decrease at a slower rate than currently expected.
- I-2109 could pass in November, which would repeal the capital gains tax and therefore result in the ending of that revenue source and a resulting impact the budget forecast.[2]

The pessimistic June 2024 alternative forecast produced by the ERFC projects a *decrease* of $2.64 billion for the current 2023-25 biennium (as opposed to a $477 million decrease) and a *decrease* of $6.56 billion for the 2025-27 biennium (as opposed to a $189 million decrease).

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 estimated at $3.249 billion for the 2023-25 biennium. In recent years, the total reserves amount included the balance from the Washington Rescue Plan Transition Account (WRPTA), which was the remaining funding for COVID-19

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[2] The ERFC only speaks to the potential impact of Initiative 2109 (attempting to repeal of the capital gains tax) in the revenue forecast and not Initiative 2117 (attempting to repeal the Climate Commitment Act). This is because revenue from the capital gains tax revenue is included as part of the quarterly revenue forecasts while revenue from the Climate Commitment Act (CCA) is not. Therefore, if I-2117 were to pass and CCA revenue were to be repealed, the impact of losing that revenue source will not be accounted for in the quarterly revenue forecasts, but will be something the Governor and legislature will need to account for in their respective budgets.

response and recovery. However, the remaining balance from WRPTA was transferred to the general fund for appropriation in the 2024 supplemental budget, so the WRPTA balance is now zeroed out.

It is important to remember that all 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 13th to discuss their June caseload forecast. A summary of the caseload forecast is available here. When looking at the June 2024 caseload forecast, there were 15 caseloads that saw an increase, 6 that are lower, and 10 that had a negligible change. In presenting the caseload forecast, staff noted that the June forecast is the one that captures the impact of changes made by the legislature in the previous session, so it is not uncommon to see a higher level of caseload increases in the June forecast.

What's Next

At this point in the year, state agencies are hard at work pulling together the funding requests (known as decision packages or DPs) that they may put forward for the Governor to consider for inclusion in his 2025-27 proposed budget, which he will release in mid-December 2024. The downward shift in the economic and revenue forecast is an early indicator that the fiscal landscape will likely be strained with not a lot of funding available for anything new or expanding. This concern is echoed in the budget instructions for state agencies released by the Office Financial Management in June 2024. The budget instructions, which agencies follow as they prepare their decision packages, state that agencies should focus their submittals on non-discretionary changes (ex. legally mandated caseloads), technical corrections, adjustments to federal or private local funding, and other high priority needs that must be completed during the 2025-27 biennium. The only new or expanded policies that agencies should submit are directed to be consistent with Governor Inslee's highest priorities. Agency decision packages are due to the Office of Financial Management on September 10th.

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 2025 legislative session.

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