

Prevention Alliance

BUDGET REPORT: NOVEMBER 2024 OPERATING BUDGET UPDATES

Budget Landscape Updates

Before we dive into updates for some of the specific budget forecast (economic & revenue forecast and caseload forecast), it is important to have a grounding in the broader operating budget landscape this fall.

Current Estimated Budget Shortfall

Based on a [November 8th memo from the Office of Financial Management \(OFM\)](#), it is estimated that the operating budget is facing a deficit of between \$10-12 billion in the operating budget over the four-year outlook period. This projected budget shortfall is due to several factors including declining state revenue projections (discussed in the following pages of this report), increased caseloads (also discussed), the cost to maintain existing programs, and recently released collective bargaining agreements. For a deeper dive into these various components, see the [Prevention Alliance Fall 2024 State Budget Landscape Report](#).¹

In the OFM budget memo, state agencies were directed to conduct a budget reductions exercise. Under this directive, state agencies went through their budgets to look for opportunities for immediate savings, such as hiring freezes and/or pauses or delays of programs. They were also directed to look for under-expenditures, and options for ‘program eliminations, reductions, and delays especially for programs or services that do not meet the agency’s core mission’.

The operating budget [‘state agency savings options for fiscal year 2025 and 2025-27 biennium’](#) were recently made public on the OFM website. While it is difficult to see many of the options that are put forward for cuts, it is important to be aware what is at risk with this challenging budget landscape, including many programs and services that are priorities of the prevention community.

65% of the State Budget is ‘Protected’

When looking at a budget shortfall as significant as our state is facing, it is important to note that a significant portion (65%) of the state operating budget is typically considered ‘protected’. Something may be considered if it falls into one of two categories (*See chart 1 for more detail*):

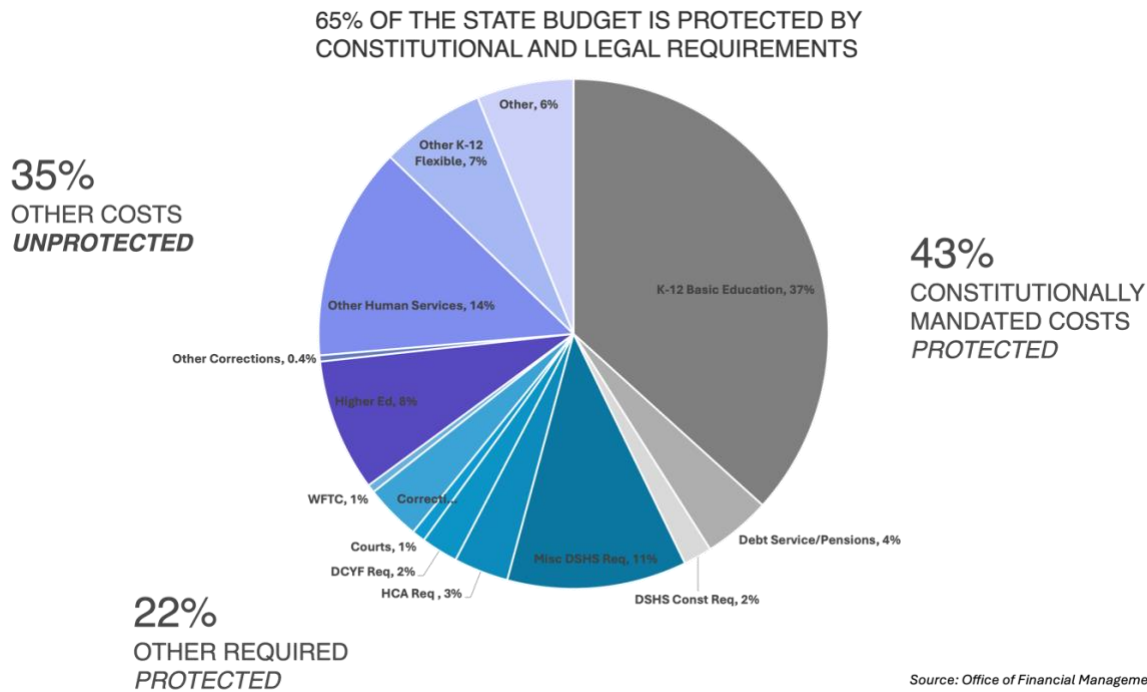
- **Constitutionally protected (43%):** Includes K-12 basic education, debt service/pensions, and certain DSHS services

¹ Of note, the PA Fall 2024 State Budget Landscape Report was written earlier this fall, and it is important to remember that there have been changes since that time. Most notably, the projected budget shortfall has increased from \$5-10 billion over the four-year outlook to instead be projected at a \$10-12 billion shortfall. In addition, that brief discusses two initiatives that were on the November ballot that would have repealed the state capital gains tax and/or climate commitment act. Neither initiative passed, so those revenue sources will remain in place. If they had passed, the state would have faced an additional significant shortfall on top of the current projected numbers.

- **Required cost under state law (22%):** Includes Medicaid, adoption support, foster care, courts, certain corrections costs, etc. While this bucket is often viewed as ‘protected’ because it is required in state law, state law can be modified or repealed by the legislature. So, items in this bucket could become vulnerable and shift to unprotected.

The remaining 35% of the budget is considered ‘unprotected’ and includes things higher education, human services, K-12 flexible services, other corrections costs, natural resources, etc. It is from this portion of the state budget that cuts or program elimination would most likely need to come from. Any cuts to the other ‘protected’ portions of the budget would require changes in state law, changes to the state constitution, or not meeting federal requirements.

Chart 1: Breakdown of Protected vs Unprotected Costs in the Washington State Operating Budget



Source: Office of Financial Management

When you look at an operating budget shortfall of \$10-12 billion over the next four years, and that cuts would need to come from that unprotected 35% (~25 billion for the 2025-27 biennium and ~\$26.9 billion of the 2027-29 biennium), the gravity of the budget landscape and what is at risk comes into sharper focus.

It is this budget landscape that the Governor is looking at when preparing his proposed budget, which will be released in mid-December, and the legislature will need to factor in when doing the work of writing the budget during the upcoming 2025 legislative session.

With that bigger landscape understanding, this brief will now dig into some of the details of the recently released revenue and caseload forecasts.

November 2024 Revenue Forecast

On November 20th, the Economic and Revenue Council (ERFC) released the [November 2024 Quarterly Economic & Revenue Forecast](#). The forecast showed a continued downward trend in our state revenue collections and operating budget projections compared to the last quarterly forecast released in September. The November forecast projects that when compared to the September forecast, total net state revenue subject to the budget outlook is expected to *decrease* by \$88.8 million in the current 2023-25 biennium, *decrease* by \$180.7 million in the 2025-27 biennium, and *decrease* by \$130.7 million in the 2027-29 biennium. *See table 1 for more detail.*

The projected *decrease* of \$1.008 billion total over the current and ensuing two biennia (2023-2029) is largely due to forecasted economic changes (consumer spending, unemployment rates, real estate activity, etc.).

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.

These numbers show that the November 2024 economic and revenue forecast projects a continued concerning downward trend for the current and ensuing biennia. While there were some positive economic trends (there is less inflation pressure and the Boeing strike resolved), there were also major factors that drove the downward forecast (price levels remain elevated, Washington employment numbers declined, and WA revenue collections growth continues to be slow – particularly for declining sales and B&O taxes).

Table 1: State Revenue Forecast March 2023 Compared to June 2023

Biennium	February 2024 Forecast (baseline)	June 2024 Forecast (compared to Feb)	September 2024 Forecast (compared to June)	November 2024 Forecast (compared to Sept)	Cumulative Impact: February 2024 to November 2024 comparison
2023-25 Biennium	\$67.005 billion	\$66.528 billion <i>(-\$476.7 million)</i>	\$66.479 billion <i>(-\$49.2 million)</i>	\$66.39 billion <i>(-\$88.8 million)</i>	-\$615 million decrease
2025-27 Biennium	\$71.721 billion	\$71.532 billion <i>(-\$189 million)</i>	\$71.611 billion <i>(+\$79.1 million)</i>	\$71.431 billion <i>(-\$180.7 million)</i>	-\$290 million decrease
2027-29	\$76.948 billion	\$77.044 billion <i>(+\$96.1 million)</i>	\$76.976 billion <i>(-\$68.6 million)</i>	\$76.845 billion <i>(-\$130.7 million)</i>	-\$103 million decrease
Total 4-year outlook budget shortfall					-\$1.008 billion decrease

When the ERFEC 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.
- There could be potential tariff impacts

The pessimistic September 2024 alternative forecast produced by the ERFEC projects an additional *decrease* of \$1.472 billion for the current 2023-25 biennium and an additional *decrease* of \$5.394 billion for the 2025-27 biennium.

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 \$3.362 billion for the 2023-25 biennium.

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.

November Caseload Forecast

Projected changes in caseload for the various state-funded entitlement programs and services is a significant factor in the budget landscape. The caseload forecast tracks things like Apple Health (Medicaid), common school enrollment, subsidies for childcare, basic needs programs, etc. Entitlement programs are things that the state must provide if a person is eligible. In other words, they can’t cap enrollment due to lack of funding. They must provide adequate funding to ensure that service is provided to all who are eligible.

The state Caseload Forecast Council meets three times a year – in the spring during session, in June, and in November. Unlike the Economic & Revenue Forecast Council, the Caseload Forecast Council doesn’t meet in September.

The state Caseload Forecast Council met on November 13th to discuss their [November caseload forecast](#). A summary of the caseload forecast is available [here](#). When looking at the November 2024 caseload forecast, there were 15 caseloads that saw an increase, 8 that are lower, and 8 that had a negligible change. The Governor’s budget will need to factor in these adjusted caseload numbers and their corresponding budget impact in his proposed budget, which will be released in mid-December.

Other Budget Landscape Indicators

It is important to note that while the revenue forecast is a very important component of the budget landscape, and one that there is consistent and transparent reporting for due to the existence of the Economic & Revenue Forecast Council in Washington, it is not the *only* piece of the budget puzzle. The caseload forecast is also a helpful indicator for the projected use of entitlement programs, though cost impact numbers aren't assigned to those shifting caseload numbers. For a deeper dive into some of the additional budget components that are impacting our current budget landscape heading into the 2025 session, see the [Prevention Alliance Fall 2024 State Budget Landscape Report](#).

What's Next

As we approach the 2025 legislative session, the challenging budget landscape is at the forefront of everyone's mind. Rather than growth and new investments, it is anticipated that the legislature will have minimal opportunity for new spending and rather are facing not having enough resources available to pay for current investments and therefore will need to make cuts to existing programs and services, and/or consider new revenue options. And as explained in this brief, most spending cuts would need to come from the 35% of the budget that is considered 'unprotected' or modify state law to cut things in the 'protected under state law' bucket. The legislature could also consider new revenue options to bring in additional resources to minimize the budget shortfall.

The last time the state was faced with such a significant budget shortfall was during the 2008-2011 recession, and during that time the Governor and legislature reduced existing and projected spending by \$11 billion. Much of this reduced spending was achieved by significant cuts to many programs and services.² For additional reading about the budget landscape and decisions made during the recession, see the Office of Financial Management's 2012 Report, [Guiding Washington Through the Great Recession: How Governor Gregoire and the Office of Financial Management Addressed a Relentless State Budget Crisis](#)

The extent of the budget shortfall and whether or not the Governor and legislature will be faced with cuts and/or considering new revenue is still to be determined. What is clear at this point is that the budget landscape is currently very challenging and will continue to evolve in the coming months.

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