

A Surplus of \$11.249 Billion: Gov. Inslee Would Increase Spending, but a Sustainable Budget Could Include Tax Reductions

Briefly

We estimate that the state surplus in funds subject to the outlook (NGFO) is now \$11.249 billion over four years. On top of that, the state has one-time funds: \$1.0 billion in the Washington rescue plan transition account, \$1.273 billion in general federal relief funds, and about \$1.2 billion in the budget stabilization account.

This rosy situation is thanks to \$7.356 billion in increased forecast state revenues since the 2021 legislative session ended, \$349.8 million from collections coming in above the most recent forecast, and \$2.388 billion in savings from lower-than-expected costs to continue current services.

Gov. Inslee's supplemental budget proposal would add new NGFO spending totaling \$4.185 billion in 2021–23. His proposal would not reduce taxes, and it would increase reserves.

The governor's office has emphasized the one-time nature of some of the state's available resources and the slower forecasted revenue growth going forward as reasons not to reduce taxes. It is good to be cautious when enacting new, ongoing policies, lest the expected revenues not materialize. The state does have some one-time revenue, but under the official forecast most of the state's available resources are not projected to disappear in future biennia. If the slower growth (as currently forecasted) in revenues makes tax cuts unrealistic, then increasing spending would be unrealistic as well.

The governor made a choice to use the surplus on new spending (and increases to reserves). The Legislature could reasonably choose to use some of the surplus on tax reductions as well. After all, as far as budget sustainability is concerned, spending increases and tax cuts are two sides of the same coin.

State revenues and spending have increased substantially in Washington since 1970. Revenues have continued growing through the pandemic and recession. Now, increased revenues and reduced spending needs have resulted in the rosiest budget outlook in memory.

Gov. Inslee has proposed increasing state spending substantially. Because the circumstances still warrant caution, he would also increase reserves.

The Estimated Surplus Has Increased

In December, we estimated the state's surplus from funds subject to the outlook (NGFO) over the four-year budget window to be \$8.649 billion (WRC 2021). Now, based on the Economic and Revenue Forecast Council's official January outlook and recent collections reports, we estimate that the NGFO surplus

Table: Estimated NGFO Balance Sheet (Dollars in Millions)

	2021-23	2023-25
Beginning Balance	4,161	6,656
Revenue		
Nov. 2021 Revenue Forecast	60,238	64,047
4.5% Growth Assumption		737
Dec. 2021 Collections	89	
Jan. 2022 Collections	261	
<i>Total Revenue</i>	<i>60,588</i>	<i>64,784</i>
Other Resource Changes		
Transfer to Budget Stabilization Account	(574)	(607)
Other Enacted Fund Transfers	50	7
ACFR/Prior Period Adjustments	41	41
<i>Total Other Resource Changes</i>	<i>(483)</i>	<i>(559)</i>
<i>Total Resources</i>	<i>64,266</i>	<i>70,880</i>
Spending		
Enacted Appropriations	59,067	
Maintenance Level (ML)		61,181
Estimated ML Change	(1,144)	(1,244)
Actual/Assumed Reversions	(313)	(306)
<i>Total Spending</i>	<i>57,610</i>	<i>59,631</i>
Unrestricted Ending Fund Balance	6,656	11,249
Budget Stabilization Account Balance	19	595
Transfers from GFS and Interest Earnings	575	611
Projected BSA Ending Fund Balance	595	1,206
<i>Total Reserves</i>	<i>7,251</i>	<i>12,456</i>

Sources: ERFC, OFM, WRC estimates

is \$11.249 billion in 2023–25. (This figure does not include policy changes proposed by Gov. Inslee.) (See the balance sheet.)

On top of that, the state has \$1.0 billion stashed in the Washington rescue plan transition account (originally from the budget stabilization account), and it still has \$1.273 billion left of the federal coronavirus state and local fiscal recovery fund. Additionally, the budget stabilization account (BSA, or the rainy day fund) balance is expected to be about \$1.2 billion at the end of the outlook period.

Revenues Are Still Growing

NGFO revenues did not decline (year-over-year) during the pandemic. Not including legislative changes made last session (mainly the capital gains tax), from March 2021 (the forecast on which the current budget was based) to November 2021, the revenue forecast increased by \$7.356 billion for the period of 2019–21 through 2023–25. (This represents the amount of state revenues that the Legislature did not expect at the end of the 2021 session.)

The current forecast expects revenues to continue to increase going forward, albeit at a slower rate than in recent years. (In 2019–21, NGFO revenues increased by 15.3%. Revenues are estimated to increase by 13.4% in 2021–23 and 6.3% in 2023–25.) Meanwhile, collections in December and January came in \$349.8 million higher than forecast, suggesting that the forecast very likely will be revised upward in February.

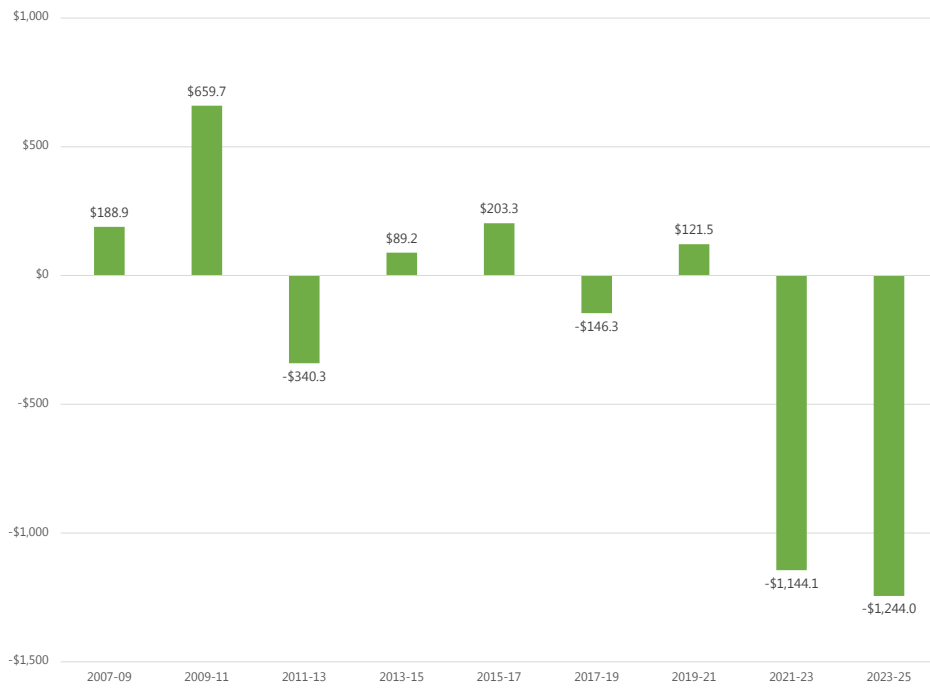
The Cost of Continuing Current Services is Expected to Decline Significantly

The maintenance level is the cost of continuing current services, adjusted for inflation and enrollment. The official January outlook estimates that the cost of continuing services funded in the enacted 2021–23 budget is down \$1.144 billion for 2021–23 and down \$1.244 billion for 2023–25 (ERFC 2022).

Most of these savings (\$928 million in 2021–23 and \$1.110 billion in 2023–25) come in public schools and are largely related to decreased enrollment. However, other savings are widespread. For example, the maintenance level for the Department of Corrections is estimated to decrease by \$73 million in 2021–23 and by \$85 million in 2023–25. The maintenance level for social and health services is expected to decrease by \$47 million in 2021–23 and by \$20 million in 2023–25.

This is quite a change from the June 2021 outlook, which estimated that the maintenance level for the

Chart 1: Maintenance Level Change for the Mid-Biennium Supplemental (Dollars in Millions)

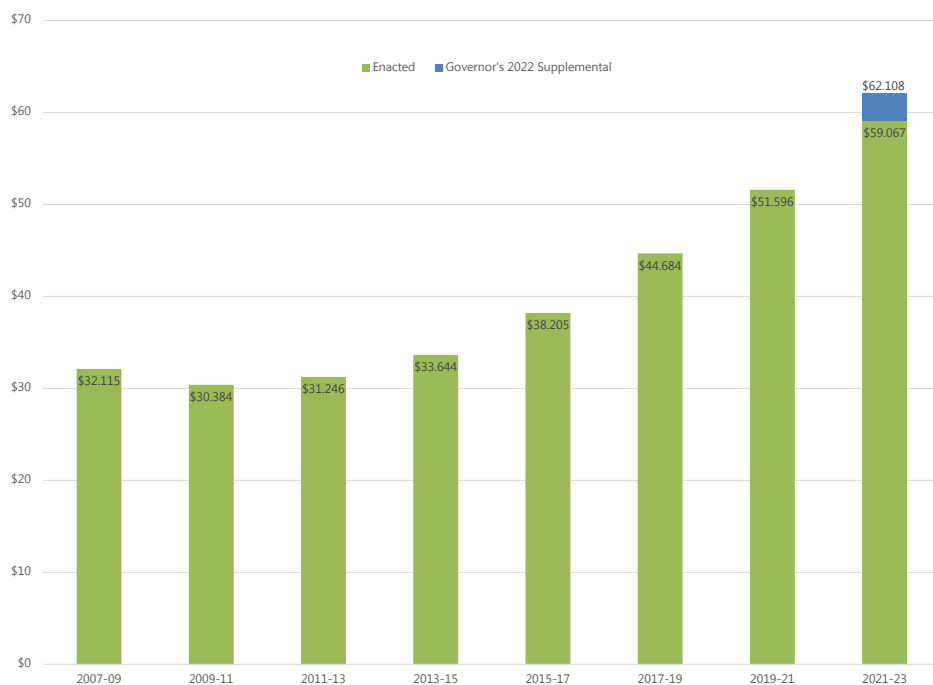


enacted 2020 supplemental to the 2019–21 budget would decrease by \$927 million in the biennium but increase by \$2.280 billion in 2021–23 and by \$2.365 billion in 2023–25 (ERFC 2021). Moreover, the large maintenance level change in the January outlook is unusual for a mid-biennium supplemental budget. (See Chart 1.)

Gov. Inslee’s Supplemental Operating Budget Proposal Would Increase Spending

Gov. Inslee’s budget proposal would add new NGFO spending totaling \$4.185 billion in 2021–23. (Net of the maintenance level reductions, appropriations would increase by \$3.041 billion.) According to the official budget outlook, the cost of these new policies would be \$4.657 billion in 2023–25 (ERFC 2022). Unusually, the proposed policy level change in this mid-year supplemental is higher than the policy level increase (\$3.234 billion) in the enacted 2021–23 biennial budget.

Chart 2: NGFO Spending (Dollars in Billions)



The governor did not propose tax reductions. Under the governor’s proposal, the unrestricted NGFO ending balance would be \$998 million in 2023–25. Additionally, he would make an extra deposit to the BSA of \$600 million, so the BSA balance at the end of 2023–25 would be \$1.823 billion. (He would not touch the \$1.0 billion in the Washington rescue plan transition account.)

Comment

In discussing the governor’s budget proposals, the governor’s office has emphasized

the one-time nature of some of the state's available resources and the slower forecasted revenue growth going forward to suggest that caution is warranted. For example, at Gov. Inslee's budget rollout press conference, he was asked why his proposal does not include any tax cuts. Gov. Inslee said, "Well, it's a simple fact. The need for expenditures are going to go on, but the revenues are going to go away. If those who get stars in their eyes and think that this revenue is going to continue to come pouring in, it's totally unrealistic" (Inslee 2021).

It is good to be cautious when enacting new, ongoing policies, lest the expected revenues not materialize. To that end, the governor's proposed additional deposit to the BSA would be a good step, as is his budget's relatively high unrestricted ending balance.

However, revenues are currently expected to continue to grow. The state does have some one-time revenue, and it's possible that some of the projected revenue growth won't come to pass. But under the official forecast—the best information available to budget writers—most of the state's resources are *not* going to disappear. If the slower growth (as currently forecasted) in revenues makes tax cuts unrealistic, then increasing spending would be unrealistic as well.

The governor made a choice to use the surplus on new spending (and increases to reserves). The Legislature could reasonably choose to use some of the surplus on tax reductions. After all, as far as budget sustainability is concerned, spending increases and tax cuts are two sides of the same coin.

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NGFO

Under the four-year balanced budget requirement, a positive ending balance is required in both the current and following biennium for "funds subject to the outlook." This is a synthetic "account" that rolls up the general fund—state (the state's primary budget account) with the education legacy trust account, the opportunity pathways account, and the workforce education investment account. It is also called the near general fund—outlook, or NGFO.