



# BUDGET BRIEF

## 2021-23 House Operating Budget

(Conference Report to ESSB 5092)

### Key takeaways

- Despite the pandemic, the state operating budget is back to where it was projected to be pre-COVID.
- State tax revenue increased by 13.6% during the COVID shutdowns and will grow by \$4.3 billion in 21-23.
- The 21-23 budget spends about \$58.9 billion in state funds, an increase of \$7 billion (13.6%) over 19-21.
- The increased spending is supported by \$4.3 billion in natural revenue growth, a new tax on capital gains, a new \$100 surcharge on recorded documents, and a new premium tax on captive insurance companies.
- The budget transfers \$1.8 billion from the rainy-day fund to the state general fund for ongoing operating costs.
- The four-year ending fund balance is \$98 million (but is really \$1.5 billion if you correct a budget gimmick).
- The budget spends another \$7 billion in federal stimulus funds from the American Rescue Plan Act of 2021.

*Additional fiscal information is available on LEAP ([fiscal.wa.gov](http://fiscal.wa.gov))*

### Background & Context

- The current 19-21 operating budget was built off of a pre-pandemic revenue forecast and spent about \$53.5 billion from the state's NGF-O accounts.<sup>1</sup>
- The economic impacts of COVID were first incorporated in the June revenue forecast causing a sharp revenue decline of \$9.3 billion over the four-year outlook (19-23).
- Since then, revenue projections increased in each forecast (September + November + March) and the budget is back to where it was projected to be pre-COVID.
- Budget writers will have an additional \$4.3 billion to spend in 21-23 based on normal revenue growth.

### Overview

- The **21-23 budget spends \$58.9 billion NGF-O**, an increase of \$7 billion (13.6%) above the proposed 19-21 spending.
- The increased spending is supported by \$4.3 billion in natural revenue growth, a new tax on capital gains (\$500 million per year), a new \$100 surcharge on recorded documents (\$150 million per year), and a new premium tax on captive insurers (\$39 million over four years).
- Leaves an ending fund balance of \$98 million NGF-O plus \$1.1 billion in the Budget Stabilization Account (BSA or rainy-day fund) by the end of the 23-25 biennium.

### Key messages

*State spending has increased rapidly in recent years and this budget is no exception. The conference budget would grow state spending by \$7 billion, an increase of 13.6% over 19-21 (or 74% since the Governor took office). This level of spending growth is not sustainable and will inevitably lead to devastating cuts, or burdensome new taxes.*

*Unemployment remains high and the state has not recovered 200,000 of its pandemic-related job losses. Yet the majority party imposed a job-killing capital gains tax when their entire budget can be funded within existing resources.*

*The budget needlessly drains the state's rainy-day fund to circumvent the normal supermajority vote requirement. These one-time funds are not earmarked for any particular use, but are spent on normal, ongoing operating expenses.*

<sup>1</sup> NGF-O includes the General Fund-State, Education Legacy Trust Account, Opportunity Pathways Account, and Workforce Education Investment Account. The NGF-O accounts receive general tax revenue, are "flexible funds," and are covered by the four-year balanced budget requirement.

# State Resources

## Background

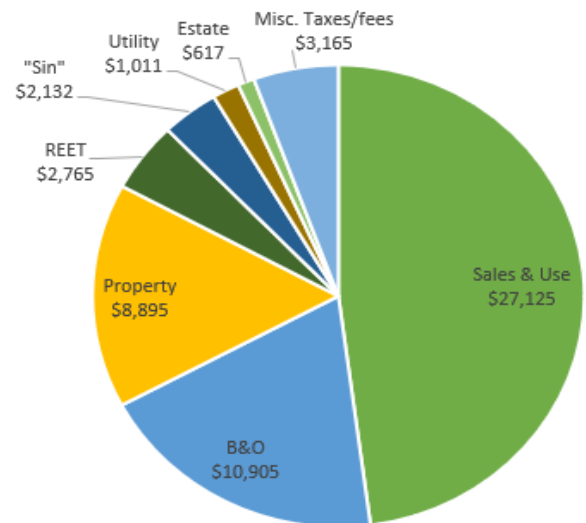
- Despite the COVID-related shutdowns, state tax collections increased by 4.1% in FY20 and 10.1% in FY21.
- State revenues have now fully recovered from COVID and operating budget writers have an additional \$4.3 billion in normal tax growth to spend in 21-23 (compared to 19-21).
- **NGF-O collections for 21-23 total \$56.6 billion** (see pie chart for breakdown by revenue source).

## 21-23 Operating Budget Resources

- Despite \$4.3 billion in additional tax collections, the budget assumes **new revenue from three bills**:
  - [SB 5096](#), which imposes a new 7% tax on long-term capital gains (\$400 million per year)
  - [HB 1277](#), which creates an additional \$100 document recording fee surcharge (\$150 million per year)
  - [SB 5315](#), which imposes a premium tax on captive insurance companies (\$39 million over four years)
- The budget assumes 13 pieces of revenue legislation that reduce NGF-O resources by \$67 million over six years.
- The budget **drains the BSA and transfers the entirety (\$1.8 billion) to the state general fund** in FY21 with a simple majority vote.<sup>2</sup> The funds are spent on general operating costs and are not earmarked for any particular purpose.
- The budget contains a number of fund transfers including \$45 million from the state general fund to the Workforce Education Investment Account (to balance it) and \$1 billion from the state general fund to the new Washington Rescue Plan Transition Account (see box below).

2021-23 NGF-O Revenue by Source

Dollars in Millions



The budget transfers **\$1 billion to the new Washington Rescue Plan Transition Account (WRPTA)** to respond to the impacts of COVID, but only two appropriations are made out of the account and they are both contingent in nature:

1. \$500 million to the UI Trust Fund if the federal funding provided for this in the underlying budget is disallowed; and
2. \$20 million to pay for various rental and housing assistance programs if HB 1277 is not enacted (document recording fee). (Note that if HB 1277 is not enacted, the backfill requires the \$20 million transfer from WRPTA plus \$272 million from the federal ARPA funds, described more fully below).

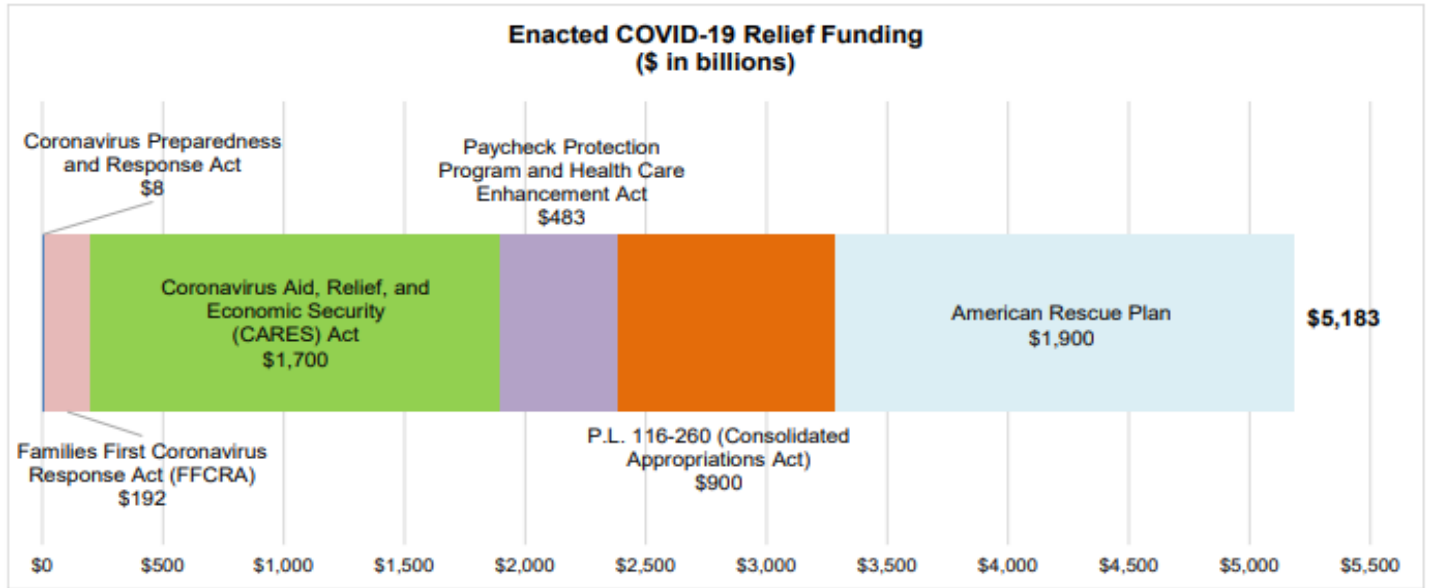
## Resources under the Four-Year Outlook

- The budget is required to balance over four years to prove that the decisions made today are feasible next biennium. The four-year balanced budget requirement is satisfied if there is a positive ending fund balance in the current biennium (21-23) and ensuing "outlook" biennium (23-25), as reflected in a budget outlook.
- The [outlook statute](#) directs budget writers to adjust the revenue assumed in the outlook biennium based on the 4.5% growth rate assumption, which is intended to reflect historical revenue growth. The revenue adjustment would normally boost the four-year ending fund balance, but the **conference budget suspends the 4.5% growth rate assumption which effectively moves \$1.4 billion "off the books."**
- Put simply, the 21-23 budget outlook projects a four-year NGF-O ending funding balance of \$98 million, but after updating for the 4.5% growth rate assumption, their ending fund balance would be \$1.5 billion.
- By artificially reducing the ending fund balance, the conference budget *substantially* changes the balance sheets. This was probably done to help make the case for a capital gains tax and/or to help plug future revenue shortfalls in the event that the capital gains tax is repealed via referendum or declared unconstitutional (again).

<sup>2</sup> Normally, appropriating funds from the BSA requires a supermajority (3/5) vote, but lawmakers can tap the BSA in FY21 with a simple majority due to low employment growth during COVID (i.e. less than 1% growth between FY20 and FY21).

## Federal Resources

Over the past year, the federal government has enacted six stimulus packages totaling \$5.2 trillion (see FFIS chart below). The vast majority of stimulus funds went directly to Washington businesses, individuals, and service providers outside of the state budget. As of February 2021 (prior to ARPA), approximately \$50 billion in federal stimulus payments, grants, and loans have been provided to individuals, households, businesses in Washington, and also to the state and local governments, institutions of higher education, and common schools.



The six federal stimulus packages provided about \$24 billion to Washington state and local governments. Funding from the first three packages was spent by the Governor as the Legislature was not in session. Funding from the Consolidated Appropriations Act (CRRSA) was spent by the Legislature in the early action legislation referenced below. And most of the funding under the American Rescue Plan Act (ARPA) is spent in the conference operating budget.

Here is a breakout of the \$24 billion in federal stimulus funding provided to Washington state and local governments:

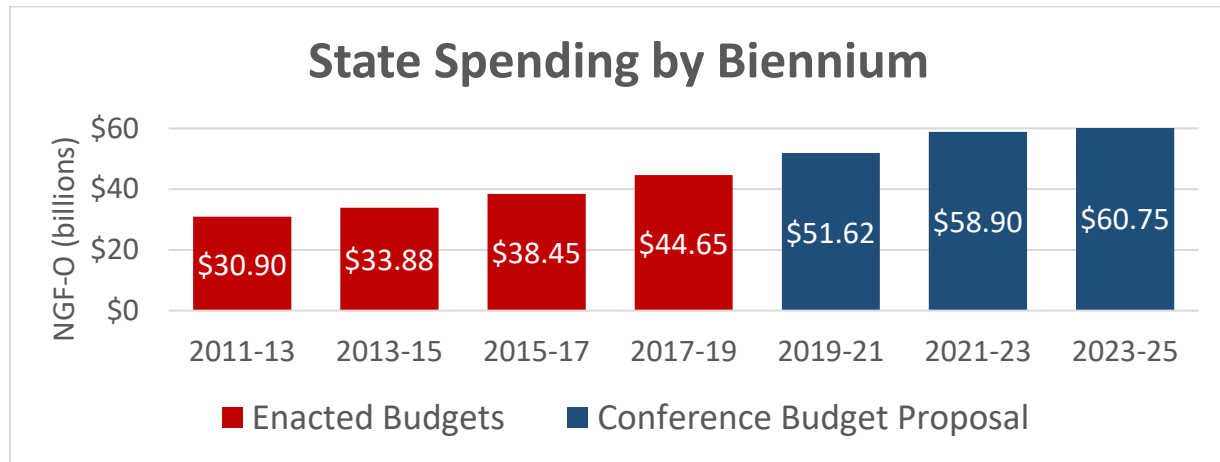
- Families First Coronavirus Response Act: \$3.3 billion
- CARES Act (mostly via [UARs](#)): \$5.5 billion
- PPP and Health Care Enhancement Act: \$226 million
- CRRSA ([HB 1367](#)/[HB 1368](#)): \$3.5 billion (includes \$1 billion for transportation)
- ARPA ([HB 1094](#)): \$12 billion

The recently passed ARPA legislation included \$4.2 billion in State Recovery Funds for more flexible economic recovery purposes plus another \$4+ billion in dedicated funding streams (i.e. childcare, K-12, vaccines, etc.), most of which is appropriated in the conference operating budget. However, the \$4.2 billion in State Recovery Funds is allocated across all three state budgets (operating, capital, and transportation) and leaves approximately \$800 million unspent:

<b>Operating Budget</b>	<b>\$2 billion</b> (includes \$272 million in contingent appropriations described above)
<b>Transportation Budget</b>	<b>\$1 billion</b> (\$600M to backfill COVID-related revenue losses, \$400M for fish passage barrier removal)
<b>Capital Budget</b>	<b>\$400 million</b> (for water, sewer and broadband infrastructure projects)
<b>Unspent</b>	<b>\$800 million</b> (must be spent by Dec. 31, 2024)

## Expenditures

**Overview:** The House Democrat 21-23 budget spends about \$58.9 billion NGF-O, an increase of \$7 billion (13.6%) above their proposed 19-21 spending. While budget writers generally focus on NGF-O spending, it is worth noting that the House budget proposal actually spends around \$122.6 billion in total funds, which is unusually high and attributable to the numerous rounds of federal stimulus funding. Here is a look at recent state spending (NGF-O only, not total funds):



The budget proposal does not have an overarching theme or single spending priority as it spends money in nearly every area. A more complete spending summary is below, but here are some of the larger ticket items:

- Working Families Tax Exemption (\$806 million over three years)
- Notable provider rate increases for DD/LTC, primary care (including pediatrics), behavioral health, and childcare
- State employee furlough restoration (\$100 million one-time)
- Funding for long-term forest health management (\$226 million over four years)
- Additional Immigrant Relief Fund grants (\$340 million federal)
- Transfer to the Unemployment Insurance Trust Fund (\$500 million federal)

**Maintenance Level:** Maintenance level is the cost of continuing current programs and includes automatic caseload and inflationary adjustments for entitlement programs (i.e. K-12, Medicaid, State Need Grant, etc.). Due to the nature of the pandemic, maintenance level in FY21 is actually down by nearly \$1 billion, with most of the saving attributable to K-12 enrollment declines. However, the cost of continuing current programs into 21-23 is estimated to be \$2.3 billion.

**Policy Level:** Funding for new or expanded programs is increased by \$3.2 billion NGF-O and \$18.5 billion total funds (which includes recent federal stimulus funds). Below is a high-level summary of the policy level changes by functional area. Additional details and summary documents can be found on [LEAP](#) under Conference Committee.

**K-12:** Significant funding is provided to school districts from state and federal resources. Approximately \$1.7 billion in federal ESSER funds are provided to districts, with portions set aside for learning loss. Certain districts are backfilled for enrollment-related funding declines that were not otherwise offset by federal grants. The budget includes funding for learning devices, an increase to MSOC allocations in the school funding formula, the elimination of school lunch copays, paraeducator training, and additional special education supports include services for students with disabilities.

### K-12 spending by school year (state + federal ESSER only) under the conference budget:

	19-20	20-21	21-22	22-23	23-24
<b>Total State + Federal ESSER</b>	\$13.56 billion	\$14.60 billion	\$15.73 billion	\$14.47 billion	\$14.69 billion
<b>Enrollment</b>	1,103,195	1,060,601	1,113,083	1,116,583	1,120,838
<b>State Per Pupil</b>	\$12,277	\$12,563	\$12,620	\$12,956	\$13,103
<b>State + Federal ESSER Per Pupil</b>	\$12,294	\$13,770	\$14,129	\$12,956	\$13,103

**Higher Education:** State investments in higher education investments are not particularly significant, though UW was the primary winner receiving additional operating support for UW Medical and Dental (one-time). Funding is also provided for a number of equity and diversity programs enacted this session. It's worth noting that higher ed institutions received about \$1.2 billion in federal stimulus funding over the past year (including grants for students).

**Children & Family Services/Early Learning:** Funding is provided to continue child protective services funding despite the decline in intakes during COVID, to provide emergency payments to foster families and providers, and another \$400 million in federal grants are distributed to childcare providers. The early learning investments in the Fair Start for Kids Act are funded (about \$300 million), including higher subsidy rates, expanded eligibility, lower copays, and healthcare premiums for childcare employees up to 300% FPL. Note that the early learning investments will create a large bow wave because they are phased in over multiple biennia and are partially funded with one-time federal resources.

**Social Services:** State and federal funds are used to fund a variety of programs including a 15% increase in TANF grants, an extension of the normal 60-month TANF limit, one-time cash assistance to TANF and SNAP recipients with children, and additional grants through the Immigrant Relief Fund. A variety of food assistance programs are also funded.

**Health Care:** About \$370 million over five years is provided to buy back health care savings that were not achieved. Funding is also provided to increase rates for providers of primary care including pediatrics, family planning (including Planned Parenthood), and behavioral health services. The budget also includes \$50 million for premium assistance to individuals up to 250% FPL enrolled on the Exchange and \$35 million to rural health providers for uncompensated care.

**Behavioral Health:** The budget assumes the closure of about 300 state civil beds over the next four years, makes additional investments in community capacity, and provides a 2% rate increase and other relief for a variety of community providers. Funding is provided to continue the next phase of the *Trueblood* settlement and to make other forensic mental health investments including new forensic wards and a new facility for patients found "not guilty by reason of insanity." Additional funding is provided for the SUD investments under the *Blake* bill (\$65 million).

**Long-Term Care & Developmental Disabilities (DD):** The budget continues the COVID rate enhancements through CY21 and also funds the CBAs, which includes rate increases for individual providers and adult family homes (plus rate parity for agency providers). The budget provides additional rate increases for providers including an increase for home care agencies, nursing homes, supported living providers, and incentives for providers that accept clients from acute care hospitals. It also funds additional slots under four Medicaid waivers to help address the "no paid services" caseload for DD clients and \$50 million is transferred to the Dan Thompson Community Services Account for community supports.

**Public Health:** \$1.1 billion in federal funds is provided for COVID response and vaccine administration and \$150 million per year is provided for local foundational health services including disease control and other prevention efforts.

**Housing & Homelessness:** Substantial new investments in housing and homelessness programs, though they are almost entirely funded by federal stimulus funds (\$1.3 billion) and the new \$100 document recording surcharge (\$292 million).

**Corrections & Criminal Justice:** The budget assumes savings from two correctional reforms (expanding reentry services and reducing the maximum term of community supervision from 30 to 15 days). It includes funding for the new Office of Investigations and funding is provided to implement a number of bills related to use of force. About \$73 million is provided for state and local court costs related to the *Blake* decision and five additional BLEA classes are funded.

**Natural Resources:** Ongoing funding is provided for long-term forest health investments, additional funding is provided to State Parks for increased operations and maintenance, and funding is provided to implement cap-and-trade.

**State Employee Compensation:** The CBAs are approved but the state employee furloughs are restored. There are no general COLAs, but funding is provided for Juneteenth and for the 85/15 healthcare premium split for PEBB and SEBB. A one-time transfer is made to pay-off the TRS 1 unfunded liability early, which produces some medium-term savings to the state and school districts.