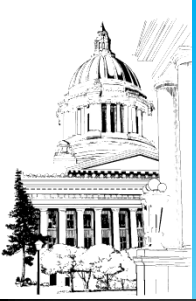




Fiscal Impacts of COVID-19

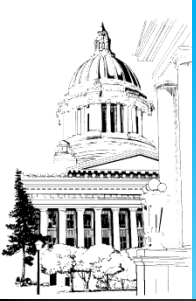
David Johnson
Office of Program Research
November 30, 2020



Major Components

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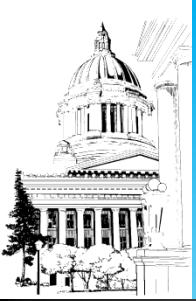
- ▶ Timeline
- ▶ Impacts on Revenue & Budget Outlook
- ▶ Spending
- ▶ Federal Funds



Going Back to January...

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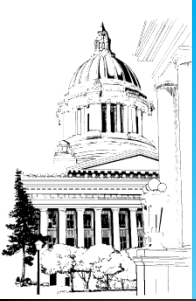
- ▶ **January 10:** First COVID-19 related death reported (China).
- ▶ **January 21:** First COVID-19 case reported (US and Washington).
- ▶ **February 19:** ERFC adopts February revenue forecast.
- ▶ **February 21:** First US community spread case reported (without known connections to China or a person with COVID-19).
- ▶ **February 27:** Senate passes proposed 2020 Supplemental Budget.
- ▶ **February 28:** House passes proposed 2020 Supplemental Budget.
- ▶ **February 29:** First COVID-19 death reported (US and Washington). Governor signs emergency proclamation (20-05).



Federal and State Actions Intensify

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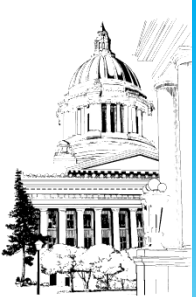
- ▶ **March 6:** The federal Coronavirus Preparedness and Response Supplemental Appropriations Act (\$8.3 billion) is enacted.
- ▶ **March 12:** Legislature passes 2020 Supplemental Budget (ESSB 6168) and State Response to Novel Coronavirus (EHB 2965).
- ▶ **March 13:** President Trump declares national emergency.
- ▶ **March 18:** The federal Families First Coronavirus Response Act (initial estimate \$192 billion) is enacted. This included enhanced FMAP funding.
- ▶ **March 23:** Governor signs Executive Order 20-25 (“Stay Home, Stay Healthy”).
- ▶ **March 27:** The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act (\$1.8 to 2.2 trillion) is enacted, including the Coronavirus Relief Fund.



Since The End of March

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- ▶ **April 3:** Governor signs 2020 Supplemental Budget (with partial veto).
- ▶ **April 24:** The federal Paycheck Protection Program and Health Care Enhancement Act (\$484 billion) is enacted.
- ▶ **April 29:** ERFC members receive requested unofficial forecast update.
- ▶ **June 17:** ERFC adopts June revenue forecast.
- ▶ **Sept. 23:** ERFC adopts September revenue forecast.
- ▶ **Nov. 16:** Governor imposes four-week statewide set of restrictions.
- ▶ **Nov. 18:** ERFC adopts November revenue forecast.
- ▶ **Dec. 30:** Last day to incur costs under Coronavirus Relief Fund.



Forecast Revisions Since The Enacted Budget (Economic Changes, Millions of Dollars)

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	FY 2020	FY 2021	FY 2022	FY 2023	4 Years
June Forecast Change (GFS+OpPW+ELTA+WEIA)	(1,136)	(3,556)	(2,414)	(2,198)	(9,305)
September Forecast Change (GFS+OpPW+ELTA+WEIA)	116	2,123	1,225	1,194	4,658
November Forecast Change (GFS+OpPW+ELTA+WEIA)	0	634	240	88	962
June + Sept + Nov Forecast Change (GFS+OpPW+ELTA+WEIA)	(1,020)	(799)	(949)	(916)	(3,684)

Notes: Reflects economic changes and excludes the impact of legislation enacted between the February and June revenue forecasts. Also excludes other changes (reversions, CAFR adjustments).

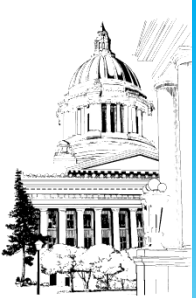


Revenue Collections During The Last Recession (NGF-O, before WEIA)

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Fiscal Year	Millions of Dollars	% Change From Prior Year	Amt as % of FY 2007
FY 2007	15,734		
FY 2008	15,872	0.9%	100.9%
FY 2009	14,382	-9.4%	91.4%
FY 2010	13,728	-4.6%	87.3%
FY 2011	14,859	8.2%	94.4%
FY 2012	15,107	1.7%	96.0%
FY 2013	16,009	6.0%	101.8%

Source: Economic and Revenue Forecast Council, September 2020 forecast



Projected Revenue Collections as of November 2020 (NGF-O excluding WEIA)


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Fiscal Year	Millions of Dollars	% Change From Prior Year	Amt as % of FY 2019
FY 2019	23,938		
FY 2020	24,883	3.9%	103.9%
FY 2021	25,768	3.6%	107.6%
FY 2022	26,561	3.1%	111.0%
FY 2023	27,500	3.5%	114.9%
FY 2024	28,195	2.5%	117.8%
FY 2025	29,116	3.3%	121.6%


Source: Economic and Revenue Forecast Council, November 2020 forecast.



Alternative Forecasts: Plus \$5.2b / Minus \$5.4b

 2019-21 Biennium alternative General Fund-State forecasts		
\$Millions (cash basis)	2019-21 Biennium	Difference From the baseline*
November 2020 Baseline (50%)	\$48,796	
November 2020 Alternative Forecasts		
Optimistic (25%)	\$50,054	\$1,257
Pessimistic (25%)	\$47,484	(\$1,312)
Probability Weighted Average	\$48,783	(\$14)
GCEA*	\$48,918	\$122
<small>Revenue Review November 18, 2020</small> <small>*Based on the Governor's Council of Economic Advisors' economic assumptions</small> <small>#May not add to total due to rounding</small> WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL		

Slide 26

 2021-23 Biennium alternative General Fund-State forecasts		
\$Millions (cash basis)	2021-23 Biennium	Difference From the baseline*
November 2020 Baseline (50%)	\$52,478	
November 2020 Alternative Forecasts		
Optimistic (25%)	\$56,421	\$3,943
Pessimistic (25%)	\$48,356	(\$4,122)
Probability Weighted Average	\$52,433	(\$45)
GCEA*	\$53,204	\$726
<small>Revenue Review November 18, 2020</small> <small>*Based on the Governor's Council of Economic Advisors' economic assumptions</small> <small>#May not add to total due to rounding</small> WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL		

Slide 27

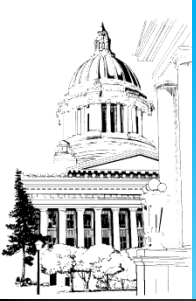


Projected Ending Balances (Millions of Dollars)

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	19-21 NGF-O	21-23 NGFO	19-21 BSA	21-23 BSA
Passed Legislature (GFS+OpPW+ELTA)	918	859	1,979	2,598
Enacted Budget (GFS+OpPW+ELTA)	1,292	1,679	1,979	2,597
With June Forecast (GFS+OpPW+ELTA+WEIA)	(3,403)	(8,465)	1,916	2,427
With Sept. Forecast (GFS+OpPW+ELTA+WEIA)	(1,184)	(3,848)	1,942	2,476
With Nov. Forecast (GFS+OpPW+ELTA+WEIA)	(158)	(2,497)	1,949	2,500

Notes: Projections for “Passed Legislature” did not include the impact of EESB 6690 (Aerospace Incentives). NGF-O reflects funds subject to the four-year outlook. Beginning with the June forecast, these amounts also include the Workforce Education Investment Account. BSA reflects amounts in the Budget Stabilization Account. June and September amounts are updated only for changes in forecasted revenues. November amounts are updated for changes in forecasted revenues, FY 20 actual reversions, and CAFR adjustment amounts. September and November amounts do not apply the 4.5% annual revenue growth provision to the 2021-23 Biennium. Finally, the only official outlook listed above is for the enacted budget; all other figures prepared for legislative deliberations of House members.



Spending: What Do We Know ?

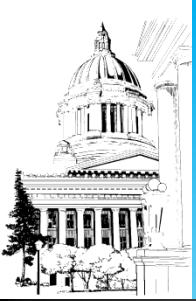
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► FY 20:

- Reversions were greater than originally assumed in the outlook (\$571m vs \$187m).
- In some cases, federal funds were able to offset state spending. (Largest example: Temporary FMAP rate increase).
- Agencies began taking steps to reduce spending.

► FY 21:

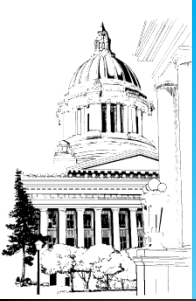
- Furloughs (\$47m cabinet agencies; \$42m non-cabinet agencies).
- Salary changes (\$8m cabinet agencies; \$20m non-cabinet agencies).
- Increased FMAP rate (FY 21: \$269m for two quarters).
- Child care rate increase (use federal funds, \$32m).



Spending: Questions Still To Be Answered

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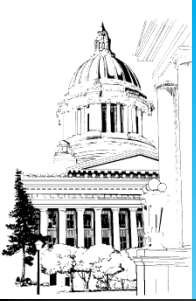
- ▶ What additional COVID-related costs will agencies incur (particularly after December 30th)?
- ▶ What will the federal government do (amounts, timing, uses)?
- ▶ What impacts will various gubernatorial actions (hiring freeze, equipment freeze, contract freeze, etc.) have on FY 2021?
- ▶ What will the next caseload and per capita forecasts show? (COVID impacts seem different from prior recessions).
- ▶ Are there additional gubernatorial actions that will impact costs (up or down)?
- ▶ What legislative actions will be taken to increase/decrease spending?



Additional Federal Funding

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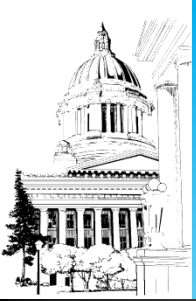
- ▶ Federal funding streams are both numerous and complex. For each stream, there are typically separate:
 - Administering entities and application processes
 - Allowable uses and timeframes
 - Distribution formula (many flow through the state budget, others go directly to providers, others to non-state governmental entities)
 - Agency spending authorization has typically been done via Unanticipated Receipts (UARs) and/or letters from OFM.
- ▶ Federal funding is tied to specific activities—none was provided for lost state or local revenue.
- ▶ Future federal legislative action could alter amounts, allowable uses, and timeframes. Evolving federal administrative decisions can also have a significant impact.



What Are The Major Federal Funding Streams?

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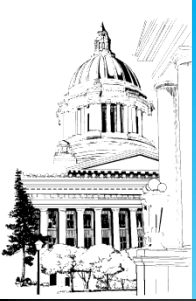
- ▶ FEMA—Federal Stafford Act funding.
- ▶ Enhanced FMAP—Federal share increases from 50% to 56.2%.
- ▶ Coronavirus Relief Fund (CRF)—\$2.95 billion.
- ▶ K-12 Fund—\$217 million.
- ▶ Higher Education—\$228 million (direct to colleges and universities, typically half must be used for emergency financial aid).
- ▶ Governor's Fund—\$57 million (higher education).
- ▶ Child Care Development Block Grant—\$59 million.
- ▶ Others—Payroll Protection, UI, Food, Testing, Providers, Transportation, Individuals, etc. Many flow directly to individuals, businesses, non-profits, and other governmental organizations.



FEMA (Stafford Act) Funding

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- ▶ Typically limited in scope and duration.
- ▶ Requires a presidential declaration.
- ▶ State match is typically 25% but can drop to 10% if approved claims exceed a threshold (something over \$1 billion).
- ▶ Must be directly tied to responding to the emergency. Allowable costs have included personal protective equipment (although only in certain settings and for certain types), testing and food assistance.
- ▶ Costs can change from covered (responding to an emergency) to non-covered (the new normal) over time.
- ▶ Claims receive significant federal review and payment can take years (while expenses are being incurred now).



Coronavirus Relief Fund (CRF)

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- ▶ Washington Total: \$2.953 billion
 - Direct To Locals: \$786 million (Seattle, King, Spokane, Snohomish, Pierce).
 - Direct to State: \$2.2 billion. Of that:
 - Round One to Local Governments: \$297 million*
 - Round Two to Local Governments: \$240 million*
 - Remainder to state (including some additional funding for local health).
- ▶ May only be used to cover expenses that:
 - are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
 - were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
 - were incurred during the period that begins on March 1, 2020 and ends on December 30, 2020.

* There is no federal statutory requirement that these funds be dedicated to local uses. Some amounts yet to be allocated.



What CRF Amounts Have Been Approved Through the UAR Process?

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	<u>Coronavirus Relief Fund</u> <u>(\$ in thousands)</u>
Original Award	2,952,755
Less Direct To Locals	<u>(785,676)</u>
Amount To State	2,167,079
Approved or Pending UARS	
UARS to Date (For State Costs)	1,549,843
UARS to Date (For Locals/Strategic Uses, incl \$240m)	<u>537,415</u>
Total UARS	2,087,258
Award Less Approved UARS	79,821

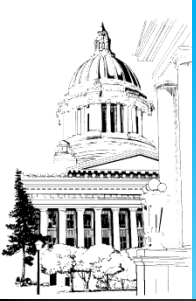


Have All Of The UAR Amounts Been Fully Allocated?

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	<u>Coronavirus Relief Fund</u> <u>(\$ in thousands)</u>
Amount Remaining Based On Submitted UARs	79,821
Amounts Approved But Not Yet Obligated	
Letters Less Than Approved UAR Amount: Locals/Strategic Uses	27,391
Letters Less Than Approved UAR Amount: OFM FY Close Assistance	24,139
Letters Less Than Approved UAR Amount: Everything Else	<u>19,046</u>
	70,576
Best Estimate of Remaining State (including local amounts not distributed)	150,397

Data as of November 22, 2020.



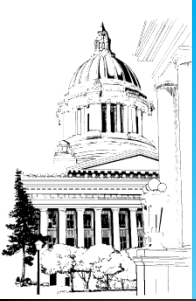
What About The \$200m From The Budget Stabilization Account (BSA)?

- ▶ Engrossed House Bill 2965 appropriated \$175m from the BSA to the Disaster Response Account (DRA). These amounts were almost entirely allocated.
- ▶ Engrossed House Bill 2965 also appropriated \$25m from the BSA to the COVID-19 unemployment account.
- ▶ Some of the authorized expenditures would be an allowable use of Coronavirus Relief Fund (CRF) while others would not be.
 - OFM approved an Unanticipated Receipt to use \$97m of CRF for expenses authorized as part of the \$175m in the DRA.
 - OFM approved an Unanticipated Receipt to use \$25m of CRF for COVID-19 unemployment account expenses.
- ▶ This means that \$125m of the \$200m could potentially be returned to the BSA.



Where Have CRF Funds Been Allocated?

- ▶ For CRF, the process consists of two steps:
 - OFM submits a UAR for use of CRF identifying agencies and amounts.
 - After a UAR is approved, OFM releases those funds through letters from the OFM Director (available on the OFM website).
- ▶ Approved letters include:
 - \$510 million to local governments.
 - \$122 million partially replacing the \$200 million originally from the BSA.
 - Other state agencies including:
 - \$447 million for DSHS Long Term Care & DD (primarily rates);
 - \$101 million for other DSHS costs;
 - \$207 million for DOH & UW;
 - \$180 million for DCYF;
 - \$169 million for Commerce (plus another \$135 million pending UAR approval);
 - \$64 million for food related items; and
 - \$80 million for all other agencies/programs.



Other Potential Uses?

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- ▶ FY 21 Agency Response Costs.
- ▶ Increased Reliance on CRF as Feds Narrow FEMA Cost Eligibility
- ▶ Only Possible If Congress Changes the Statute:
 - Offset Revenue Loss
 - Cover Agency Costs Incurred After 12/30/2020
- ▶ Other Priorities
 - FEMA match?
 - Others?