

March 31, 2022

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the Enacted FY2022 Supplemental Operating Budget Outlook

The State Budget Outlook Work Group (work group) poses the following issue for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the Outlook for the enacted FY2022 Supplemental operating budget.

1. Capital Gains Tax Revenue. The adopted ERFC February 2022 revenue forecast incorporates assumed revenue from the enactment of Chapter 196, Laws of 2021 (capital gains tax). On March 1, 2022, the Douglas County Superior Court overturned the tax. The state is appealing the ruling by the Douglas County Superior Court and has filed for direct review of the Superior Court decision by the Washington State Supreme Court. The adopted ERFC February 2022 revenue forecast includes a capital gains revenue assumption of \$1.155 billion NGF-O over the 4-year period.

Question 1: Does the ERFC want the Outlook for the enacted FY 2022 supplemental operating budget prepared by the work group to:

a. assume the February 2022 revenue forecast making no adjustment related to the Douglas County Superior Court decision; or

b. make an adjustment related to the Douglas County Superior Court decision to outlook revenue, and update both the ensuing biennium 4.5% revenue growth adjustment and the 1% budget stabilization account transfer accordingly. This is estimated at a net reduction of \$731 million in NGF-O resources over the 4-year period.