



WASHINGTON STATE  
**ECONOMIC AND REVENUE FORECAST COUNCIL**

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## AGENDA

### **Budget Outlook Adoption Meeting**

January 28, 2014  
9:00 a.m.

- Call to order
- Approval of meeting minutes: November 20, 2013
- Approval of meeting minutes: January 16, 2014
- Approval of meeting minutes: January 23, 2014
- Budget Outlook
- Adoption of the Budget Outlook

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STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

### **Meeting Minutes Revenue Review**

November 20, 2013

John L. O'Brien, Hearing Room B

#### **Economic and Revenue Forecast Council**

##### *Members Present*

Ross Hunter, House of Representatives, Chair  
Andy Hill, Senate  
Jim Hargrove, Senate  
Carol Nelson, Department of Revenue  
David Schumacher, Office of Financial Management  
James McIntire, Treasurer

##### *Staff*

Steve Lerch, ERFC  
*Budget Outlook representatives:*  
Richard Ramsey, Senate  
Pam Davidson, OFM  
Melissa Palmer, House of Representatives

#### **Call to Order**

The meeting was called to order by Representative Hunter at 10:04 a.m.

#### **Motion**

Treasurer McIntire made a motion to approve the meeting minutes from the November 7, 2013 meeting, seconded by Director Schumacher. Council approved the motion at 10:04 a.m.

#### **Presentation on Revenue Forecast**

Dr. Lerch presented information on the economic and revenue forecast. Dr. Lerch summarized the forecast changes. Discussion ensued regarding the technical corrections applied to the forecast which reclassifies funds from "revenue" to "total resources".

#### **Motion**

Treasurer McIntire moved, seconded by Senator Hill, that the baseline revenue forecast be adopted. Council unanimously approved the motion at 10:30 a.m.

#### **Presentation on the Washington State Budget Outlook**

Members from the Budget Outlook Work Group present the November 2013 outlook for the enacted 2013 budget based on 3ESSB 5034. Some of the changes include caseload changes, technical corrections, recoveries, and central service and debt service charges and expenditures.

**Motion**

Senator Hill made a motion to adopt the budget outlook as presented, seconded by Representative Hunter. The motion passed unanimously at 10:46 a.m.

**Other items**

Treasurer McIntire moved, seconded by Director Schumacher, the Council empowers the Chair to negotiate the contract renewal for the Supervisor of the Forecast including a compensation increase of 2.5%. The motion is approved unanimously at 10:47 a.m.

**Adjournment**

Meeting adjourned at 10:47 am.



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ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

Meeting Minutes
Budget Outlook Assumptions

January 16, 2014
Senate Rules Room

Economic and Revenue Forecast Council

Members Present

Ross Hunter, House of Representatives, Chair
Andy Hill, Senator
Jim Hargrove, Senator
Terry Nealey, House of Representatives
Carol Nelson, Department of Revenue
David Schumacher, Office of Financial Management

Staff

Steve Lerch, Executive Director, ERFC

Budget Outlook representatives:

Pam Davidson
Melissa Palmer
Richard Ramsey

Call to Order

The meeting was called to order by Representative Hunter at 10:06 a.m.

Presentation on Budget Outlook

Richard Ramsey, Melissa Palmer, and Pam Davidson presented information on the budget outlook and reviewed questions on assumptions to use in the budget outlook methodology. The questions include:

1. Is sufficient action taken in the budget to assume savings in the outlook?

Primary Criteria

For the enacted Legislative budget outlook, prepared 30 days following enactment of the budget, the Council could require future savings included in the outlook be related to policies reflected in:

- 1. An enacted bill or a bill that has passed the Legislature;
2. A fiscal note written to an enacted bill or a bill that has passed the Legislature;
3. The enacted budget or budget proviso; or
4. The agency detail for the enacted budget.

Given the timing for the Governor's proposed budget outlook, which is prepared in January of each fiscal year, the Council could require future savings included in the outlook be related to policies reflected in:

- 1. A proposed bill, an enacted bill or a bill that has passed the Legislature;
2. A fiscal note written to a proposed bill, an enacted bill or a bill that has passed the Legislature;
3. The proposed budget or proviso in the proposed budget; or
4. The agency detail for the proposed budget.

Additional Criteria

The documents listed for the Primary Criteria may vary in the level of detail. Given this, the Council could require that the savings be related to one of the documents listed above and that the document include enough specificity to be quantifiable. The level of detail could include, but not be limited to:

1. Defined objectives;
2. Specific actions; and
3. An implementation timeline or plan.

If the criteria the Council selects are met and the savings are included in the outlook, the council could require that methodology and assumptions for determining the fiscal impact be set forth in the methodology document that accompanies the outlook.

**Response:** The Council discussed the criteria and acknowledged that this changes the outlook process as it was understood prior to the release of the Governor's proposed budget. Discussion ensued regarding the importance of staff members representing the Senate, House of Representatives, and the Office of Financial Management to agree on the set of assumptions. Further it was noted that budget notes or provisos would require more specificity to include savings that occur in ensuing biennia in the outlook. There was consensus among the members that this criterion will be used in future outlooks.

2. ***Should the outlook include costs of the employee health care collective bargaining agreement (CBA) in the 2015-17 biennium?***

Options for the Council to Consider:

- 1) *Does the council view the impact of the CBA "tail" as maintenance level under the statute and include the fiscal impact in the Outlook?*
- 2) *If the Council includes the fiscal impact of the "tail" in the outlook, the Outlook will reflect holding the funding level at the FY 2016 level for both years.*

**Response:** The Council requested further clarification on the information provided by the Budget Outlook Work Group. The Work Group is asked to provide more information and clarity on this issue at an additional assumptions meeting.

**Adjournment**

Meeting adjourned at 10:55 a.m.



STATE OF WASHINGTON

**ECONOMIC AND REVENUE FORECAST COUNCIL**

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

**Meeting Minutes**  
**Budget Outlook Assumptions**  
January 23, 2014  
Senate Rules Room

**Economic and Revenue Forecast Council**

*Members Present*

Ross Hunter, House of Representatives, Chair  
Andy Hill, Senator  
Jim Hargrove, Senator  
Terry Nealey, House of Representatives  
Carol Nelson, Department of Revenue  
David Schumacher, Office of Financial Management

*Staff*

Steve Lerch, Executive Director, ERFC

*Budget Outlook representatives:*

Pam Davidson  
Melissa Palmer  
Richard Ramsey

**Call to Order**

The meeting was called to order by Representative Hunter at 2:20 p.m.

**Presentation on Budget Outlook**

Richard Ramsey, Melissa Palmer, and Pam Davidson presented clarification on how the Budget Outlook would address the costs of state employee benefits. The recommendation from the Budget Outlook Work Group is to use the rate estimate from the latest PEBB model. The PEBB model rates are the best numbers available for the January outlook. The work group recognizes that, during the 2014 session, the Legislature and the Executive branch may make choices that reflect updates and changes to the PEBB model. The work group further recommends legislative members of the council monitor the use of the PEBB model as it will affect future outlooks.

**Response:** Discussion ensued regarding the PEBB model. It was acknowledged that the previous budget outlook done in November did utilize a lower number for the public employee health care benefits and that this change in assumptions would have altered that outlook as well as any future outlooks. It was clarified that this is a move to standardize the methodology with an understanding that it did not bind the outlook to a specific number but rather a policy to use the PEBB funding rate. It was noted that an update in the PEBB model does not require legislation but the Council is interested in continued refinement to increase accuracy.

**Motion**

Treasurer McIntire moved, seconded by Director Schumacher, to utilize the PEBB model funding rate for the budget outlook in both the Governor’s proposed and future legislatively enacted budgets moving forward. The motion passed unanimously at 2:28 p.m.

**Adjournment**

Meeting adjourned at 2:28 p.m.

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# Overview of the Methodology for the State Budget Outlook January 2014

## Introduction

The purpose of this document is to provide an overview of the methodology used to develop the four-year budget projections pursuant to Chapter 8, Laws of 2012, and 1st sp. sess. (SSB 6636). This document summarizes the major components of the projection, the overall approach, as well as the assumptions used in the Outlook document.

The amounts reflected in the Outlook are the sum of the state General Fund, the Education Legacy Trust Account, and the Opportunity Pathways Account.

## Resources

Pursuant to Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636), the amounts depicted include the actual/projected revenue and other resources. Some of the largest components include:

### Beginning Fund Balance

The Outlook uses the certified fund balance in accordance with generally accepted accounting principles for the most recently closed biennium as the starting point. The beginning fund balance for subsequent years is equal to the projected ending balance for the previous year.

### Revenue Forecast

The amounts for 2013-15 reflect the November 2013 quarterly revenue forecast by the Economic and Revenue Forecast Council. The provisions of Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636) call for the ensuing biennium (in this instance, the 2015-17 biennium) to be balanced based on the greater of (1) the official revenue forecast for the ensuing biennium; or (2) an assumed revenue increase of 4.5 percent per year for that ensuing biennium. Since the November 2013 forecast calls for revenue growth in the ensuing biennium of less than 4.5 percent per year, this Outlook uses the 4.5 percent growth rate.

### Transfer to Budget Stabilization Account

Pursuant to a constitutional amendment approved by the voters in 2007, this reflects the transfer of one percent of general state revenues for each fiscal year to the Budget Stabilization Account. See more information on the Budget Stabilization Account below.

### Enacted Fund Transfers (Net) and Capital Budget Transfers

This category reflects all enacted fund transfers made in the 2013 legislative session (including special sessions). For more information, see the 2013 Legislative Budget Notes at [http://leap.leg.wa.gov/leap/budget/index\\_ibns.asp](http://leap.leg.wa.gov/leap/budget/index_ibns.asp). Since the fund transfers are one-time, no assumption is made regarding the Legislature deciding to make additional fund transfers after the 2013-15 Biennium with the exception of a statutory transfer from the General Fund to the Child and Family Reinvestment Account.

### Prior Period Adjustments

Prior period adjustments are the write off of prior period unliquidated accruals not needed for anticipated vendor payments.

### Governor's Proposed 2014 Supplemental Resource Changes:

Revenues are adjusted to reflect impacts of the Governor's B&O tax threshold increase beginning in FY 2015, continuation of the Research and Development Tax incentive for FY 2015 and FY 2014, and the transfers from the Capital Budget (\$109.2 million) in FY 2014 and FY 2015. There are also several small resource changes, and a \$23 million revenue deposit from the General Fund to backfill the Education Legacy Trust Account.

## **Expenditures**

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budgets. In this case, the 2013-15 Biennial Budget, including EHB 2088 passed in the recent 2013 Third Special Session. For more information, please see [http://leap.leg.wa.gov/leap/budget/index\\_lbns.asp](http://leap.leg.wa.gov/leap/budget/index_lbns.asp)

### Actual and Assumed Reversions

The reversions for 2013-15 reflect those assumed on the enacted budget balance sheet for the current biennium. That assumption regarding reversions is carried into the 2015-17 Budget for planning purposes.

### Adjustments to the FY 2015 Baseline

The 2015-17 Biennium reflects the assumptions made in the July Official Outlook, except for the Initiative 732 being recalculated using the November inflation factors, and the Projected Pension cost being updated using the State Actuary's October 2013 estimate.

Annual growth rates for fiscal year 2016 and 2017 are the same as was assumed in the July outlook (e.g. 4.32% for low income health care, 6.0% for debt service, 0.5% for certain K-12 costs; and 2% for most other entitlement programs).

### Governor's Proposed 2014 Supplemental Budget

In this section, adjustments are made to reflect the expenditure level based on the estimated cost of providing currently authorized services in the current biennium as well as policy enhancements. Maintenance level adjustments reflect forecasted changes in the entitlement caseload/enrollment programs, as well as other mandatory expenses. Pursuant to the provisions of Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636), the outlook excludes other proposed compensation increases, costs of any adverse court rulings within 90 days of each respective legislative session, and the phase-in of K-12 McCleary related funding. Additionally, this outlook excludes future savings related to the State Health Care Innovation Plan based on newly adopted criteria by the Council.

The components included in this Outlook are:

### K-12 Education

The amounts depicted reflect the November 2013 enrollment forecast and other cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. Some of the major cost components include a staff mix savings of \$33 million and assessment system savings of \$10 million. Assumed future growth is estimated at 0.5 percent per year from Fiscal Year 2015.

### Higher Education

The amounts depicted reflect the estimated costs of the College Bound program of \$11 million in 2013-15 and \$20 million in 2015-17. Otherwise, there is no assumed future growth in higher education from Fiscal Year 2015.

### DSHS Mental Health, Long Term Care, and Developmental Disabilities

The amounts depicted reflect the November 2013 caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. Some of the major cost components include utilization and severity of client needs. Assumed future growth is estimated at 2 percent per year from Fiscal Year 2015.

### Department of Corrections, DSHS Juvenile Rehabilitation and Special Commitment Center

The amounts depicted reflect the November 2013 caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. A major cost component is the proportion of community and institution population. Assumed future growth is estimated at 2 percent per year from Fiscal Year 2015.

### DSHS Children's Services and Economic Services

The amounts depicted reflect the November 2013 caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. Some of the major cost components include foster care and adoption support caseload, eligibility experience and revised growth trends. Assumed costs are adjusted by 2 percent per year from Fiscal Year 2015.

### Low-Income Health Care

The amounts depicted reflect the November 2013 caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. Some of the major cost components include utilization and medical inflation, as well as a Medicaid expansion adjustment, a presumptive SSI-FMAP adjustment, and a Certified Public Expenditure (CPE) adjustment. Assumed future growth is estimated at 4.32 percent per year from Fiscal Year 2015.

### Debt Service for Currently Authorized Capital Projects

This adjusts total debt service funding to reflect the estimated cost of all currently authorized bonds. Assumed future growth is estimated at 6 percent per year from Fiscal Year 2015.

### Emergency/Wildfire Fire Suppression

Amounts depicted reflect actual expenditures for wild land fire suppression by the Department of Natural Resources and the Department of Fish and Wildlife in Fiscal Year 2014.

### State Employee Health Benefits

The Governor's Proposed 2014 Supplemental Budget assumes approval of a collective bargaining agreement which specifies the health benefit package and employee/employer share of the cost.

The underlying biennial budget relies upon a one-time use of a surplus in the Public Employees Benefits Board (PEBB) fund to reduce rates paid by state agencies. The effect on the next biennium of the use of the PEBB surplus has not been reflected in prior outlooks adopted by the Council.

The Governor's budget includes an additional one-time use of the PEBB surplus. This is displayed as an item in FY 2015. This savings amount does not carry into the ensuing biennium.

The amounts depicted represent a restoration of the savings attributable to the PEBB surplus in the underlying budget, resulting in a \$118 million (GF-S) per year increase in the 2015-17 to maintain the benefit package and employee/employer cost share.

### All Other Items

The remaining \$108 million reflects the balance of all other items as contained in the Governor's Proposed 2014 Supplemental Budget.

### **Projected Balance**

This reflects the projected combined Near General Fund and Opportunity Pathways Account balance at the end of each respective fiscal year and is calculated by taking the beginning fund balance, adding resources and subtracting expenditures.

### **Budget Stabilization Account (BSA) Balance**

This balance is calculated by taking the beginning balance, adding the mandated transfers from the state general fund and subtracting any appropriations made from the BSA. The balances shown on this version of the Outlook do not reflect any appropriations from the BSA.

Mandated transfers from the state general fund include 1% of general state revenues plus a portion of any "extraordinary revenue growth." Based on current revenue forecasts, no transfers triggered by "extraordinary revenue growth" are expected for the time period covered by the Outlook at this time.

While the provisions of Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636) specifically exclude the BSA balance in determining compliance with balanced budget requirements, it is displayed for information purposes in this document.

**Budget Outlook Plus 2014 Supplemental**  
(Near GF-S & Opportunity Pathways Account, Dollars in Millions)

|  | FY 2014         | FY 2015         | 2013-15         | FY 2016         | FY 2017         | 2015-17         |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Beginning Balance</b>                                     | 156.3           | 352.8           | 156.3           | 228.9           | (261.6)         | 228.9           |
| <b>Current Revenues</b>                                      |                 |                 |                 |                 |                 |                 |
| November 2013 Forecast                                       | 16,537.9        | 17,038.4        | 33,576.3        | 17,756.0        | 18,492.5        | 36,248.5        |
| Additional Revenue Based on 4.5% Growth Rate Assumption      |                 |                 |                 | 49.1            | 113.9           | 163.0           |
|  | 16,537.9        | 17,038.4        | 33,576.3        | 17,805.1        | 18,606.4        | 36,411.5        |
| <b>Other Resource Changes</b>                                |                 |                 |                 |                 |                 |                 |
| Transfer to BSA  | (143.3)         | (168.6)         | (311.8)         | (175.4)         | (182.8)         | (358.3)         |
| Enacted Fund Transfers (Net)                                 | 57.5            | 82.9            | 140.4           | (2.7)           | (2.7)           | (5.4)           |
| Capital Budget Transfers                                     | 138.6           | 138.6           | 277.2           |                 |                 | -               |
| Prior Period Adjustments                                     | 20.8            | 20.3            | 41.1            | 20.4            | 20.4            | 40.8            |
| <b>Governor's Supplemental Budget</b>                        |                 |                 |                 |                 |                 |                 |
| Capital Budget Transfers                                     | 54.6            | 54.6            | 109.2           | -               | -               | -               |
| Deposit to ELTA from General Fund                            | -               | 23.5            | 23.5            |                 |                 | -               |
| Reflect Opportunity Pathways CAFR Adjustment                 | 6.1             |                 | 6.1             |                 |                 | -               |
| Revised Child and Family Reinvestment Account                | 2.2             | 0.9             | 3.2             | 0.9             | 0.9             | 1.9             |
| Liquor Control Board Budget Driven Revenue                   | 1.3             | (0.9)           | 0.4             | -               | -               | -               |
| Lottery Kiosk at Seatac Airport                              | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| Correct Education Savings Account Deficit                    | (0.0)           | -               | (0.0)           | -               | -               | -               |
| DNR PILT Adjustment  | (0.2)           | -               | (0.2)           | -               | -               | -               |
| Increase B&O Tax Filing Threshold                            | -               | (3.4)           | (3.4)           | (3.5)           | (3.6)           | (7.1)           |
| Liquor Excise Tax fix for locals                             | (4.7)           | (4.9)           | (9.6)           | -               | -               | -               |
| R&D tax incentive placeholder                                | -               | (26.2)          | (26.2)          | (36.6)          | -               | (36.6)          |
| <b>Total Revenues and Resources (Including Beginning E</b>   | <b>16,827.3</b> | <b>17,508.2</b> | <b>33,982.7</b> | <b>17,837.1</b> | <b>18,177.0</b> | <b>36,275.7</b> |
| <b>Enacted Appropriations</b>                                | 16,465.2        | 17,166.1        | 33,631.3        |                 |                 |                 |
| EHB 2088 Aerospace Appropriations                            | 0.8             | 9.8             | 10.5            |                 |                 |                 |
| <b>Continue FY 2015 Appropriation Level</b>                  |                 |                 |                 | 17,174.6        | 17,174.1        | 34,348.7        |
| <b>Adjustments To FY 2015 Baseline</b>                       |                 |                 |                 | <b>624.9</b>    | <b>1,102.5</b>  | <b>1,727.4</b>  |
| Actual/Estimated Reversions                                  | (70.0)          | (70.0)          | (140.0)         | (70.0)          | (70.0)          | (140.0)         |
| <b>Governor's 2014 Supplemental</b>                          | <b>78.5</b>     | <b>173.5</b>    | <b>252.0</b>    | <b>369.2</b>    | <b>376.7</b>    | <b>745.9</b>    |
| K-12 Education   | (14.1)          | 31.9            | 17.8            | 44.5            | 44.8            | 89.3            |
| Higher Education   | (12.0)          | 16.0            | 4.0             | 3.4             | 3.4             | 6.8             |
| Higher Education -- College Bound                            | 9.1             | 2.1             | 11.2            | 8.0             | 11.6            | 19.6            |
| Dept of Early Learning                                       | 0.9             | 7.7             | 8.6             | 7.7             | 7.7             | 15.5            |
| Child Care Rate Increase                                     | -               | 10.3            | 10.3            | 14.1            | 14.1            | 28.2            |
| Mental Health/Dev. Disabilities/Long Term Care               | 17.9            | 23.1            | 40.9            | 23.5            | 24.0            | 47.6            |
| Children's Mental Health Settlement                          | 0.3             | 8.0             | 8.2             | 22.0            | 22.4            | 44.4            |
| Corrections/JRA/SCC  | 19.1            | 24.7            | 43.8            | 25.2            | 25.7            | 51.0            |
| Children's/Economic Svcs                                     | (10.9)          | (5.7)           | (16.6)          | (5.8)           | (6.0)           | (11.8)          |
| Low Income Health Care                                       | 1.1             | 45.5            | 46.7            | 47.5            | 49.5            | 97.0            |
| Debt Service   | 35.7            | (31.0)          | 4.6             | 7.2             | 7.6             | 14.8            |
| All Other  | 31.5            | 77.2            | 108.8           | 53.7            | 53.7            | 107.5           |
| FY 2015 Use of PEBB Fund Surplus                             | -               | (36.5)          | (36.5)          | -               | -               | -               |
| Effect of Higher PEBB Rate in 2015-17                        |                 |                 | -               | 118.0           | 118.0           | 236.0           |
| <b>Revised Appropriations</b>                                | <b>16,474.5</b> | <b>17,279.3</b> | <b>33,753.8</b> | <b>18,098.7</b> | <b>18,583.3</b> | <b>36,682.0</b> |
| <b>Projected Unrestricted Ending Balance</b>                 | <b>352.8</b>    | <b>228.9</b>    | <b>228.9</b>    | <b>(261.6)</b>  | <b>(406.3)</b>  | <b>(406.3)</b>  |
| <b>Budget Stabilization Account</b>                          |                 |                 |                 |                 |                 |                 |
| Beginning Balance  | 269.6           | 413.2           | 269.6           | 582.2           | 758.0           | 582.2           |
| Transfer From GFS  | 143.3           | 168.6           | 311.8           | 175.4           | 182.8           | 358.3           |
| Interest Earnings  | 0.3             | 0.4             | 0.7             | 0.4             | 0.4             | 0.8             |
| <b>Ending BSA Balance</b>                                    | <b>413.2</b>    | <b>582.2</b>    | <b>582.2</b>    | <b>758.0</b>    | <b>941.3</b>    | <b>941.3</b>    |
| <b>Combined Near GF-S Unrestricted &amp; BSA Ending Bala</b> | <b>766.0</b>    | <b>811.0</b>    | <b>811.0</b>    | <b>496.4</b>    | <b>534.9</b>    | <b>534.9</b>    |