

Criteria Options for Resources Assumed in Outlook

At the 1 May 2014 Outlook meeting, the ERFC directed the workgroup to develop options regarding criteria for when resources may be reflected in the outlook and present these to the ERFC at the June 17th meeting.

Background:

The Outlook adopted on May 1, 2014 reflects \$52.7 million in resources in the 2015-17 biennium related to the Life Sciences Discovery Fund (LSDF). The 2014 Supplemental budget includes language expressing the Legislature's intent to direct the resources from the strategic contributions to the Education Legacy Trust Account (ELTA) rather than the LSDF in the 2015-17 biennium. The 2014 Supplemental budget also eliminated the strategic contribution deposit into the LSDF in the current biennium; however, this was vetoed.

Criteria Options:

The options below for defining the criteria regarding when resources can be reflected in the Outlook are based on the following general premises:

- Impacts of separate legislation that address transfers/redirections to and from funds covered by the Outlook will be included in the Outlook, as prescribed by the legislation.
- Resources reflected in the Outlook must be available. For instance, if the budget includes a one-time fund transfer, leaving the fund with no balance, then the transfer may not be reflected as an available resource in future years in the Outlook.
- The Legislature must specifically identify the fund affected by the transfer/redirection.

Possible Criteria/Options for defining when resources may be reflected in the Outlook:

Option 1

If a redirection/transfer is addressed in the operating budget, the Outlook may reflect the continuation of the policy adopted in the operating budget, provided:

- a. There is Legislative intent language addressing the resource/transfer in the budget;
- b. There is a projected balance in the fund in the ensuing biennium, including balances that result from changes in appropriations that result in resources in the succeeding fiscal period; and
- c. The assumptions in the Outlook are tied to policy in the biennial budget. The outlook cannot assume a policy that has not been enacted in the current budget or separate legislation.

Example: If this option were adopted, the resources in the 2014 Supplemental Budget Outlook would not reflect any resources related to the strategic contribution because the section in the operating budget that eliminated the 2015 strategic contribution transfer to the LSDF was vetoed. Therefore, the intent language affecting the 2015-17 biennium is no longer linked to policy in the current biennial budget. This is a different approach than the one used for the Outlook adopted by the ERFC on May 1, 2014; that Outlook includes resources related to the strategic contribution related to the 2015-17 intent language, as it was not vetoed.

Option 2

If a redirection/transfer is addressed in the operating budget, the Outlook may reflect the continuation of the policy adopted in the operating budget, provided:

- a. There is Legislative intent language addressing the resource/transfer in the budget;

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- b. There is a projected balance in the fund in the ensuing biennium, including balances that result from changes in appropriations that result in resources in the succeeding fiscal period;
- c. The assumptions in the Outlook are linked to policy in the current biennial budget; and
- d. The policy does not assume a permanent elimination/redirection. However, if the policy assumes a permanent elimination/redirection of a resource and there is statute regarding the resource – the change would need to be made to statute.

Examples: (A) The strategic contribution is deposited into the Tobacco Settlement Account. Per statute, the Legislature is directed to transfer the amount associated with the strategic contribution from the Tobacco Settlement Account to the Life Sciences Discover Fund.

The 2014 Supplemental budget modified the transfer to eliminate the strategic contribution deposit to the LSDF – this was vetoed. Because the budget ended the funding for the LSDF, in order to include the resource in the Outlook under this option, the Legislature would need to amend the LSDF statute.

However, if the Legislature did not eliminate the program, it could have expressed its intent to continue a reduced level of funding for the LSDF without changing the statute regarding the LSDF transfer. During the 2009-11, 2011-13, and 2013-15 biennium, the Legislature transferred part of the strategic contribution to the LSDF but not the entire amount.

(B). The current budget could reduce the authorization for appropriated accounts (e.g. Wildlife Account, State Toxics Control Account) that are not covered by the outlook, thereby creating sufficient fund balances for assumed transfer in the outlook for the succeeding fiscal period. The Legislature could express its intent to transfer resources in the succeeding biennium in the budget and reflect these resources in the Outlook. Absent intent language, the resources would be assumed to remain in the account, rather than be available in the accounts covered by the outlook.

Option 3

In order to assume a resource related to a redirection/transfer in a timeframe beyond the budget, the statute would need to be amended. Because amendatory changes included in the budget affect only the timeframe covered by the budget, this would require separate legislation.

Example: Under this option, resource/transfers would not be reflected in the outlook beyond the timeframe covered in the biennial budget, unless separate legislation specified the redirection/transfer addressing the timeframe beyond the biennial budget. Chapter 9, Laws of 2013, 2nd sp.s, (ESHB 2051) amended the statute to redirect the Public Utility Tax and a portion of the Real Estate Excise Tax from the Public Works Assistance Account to the ELTA through FY 2019.

Outlook: Updated Growth Factors

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Growth factors for outlooks prepared for the 2015-17 biennium.

As discussed in previous meetings of the ERFC regarding the 4-year budget Outlook, the Outlook Work Group has developed alternative growth factors for the Outlook functional areas. These growth factors would be used for the Outlooks prepared during the 2015-17 biennium, that is from November 2014 through the outlook on the enacted 2016 supplemental budget in the summer of 2016. The growth factors would then be updated during the 2016 interim for the following biennium.

The attached table displays the current and revised growth factor rates.

Per statute, the estimated expenditures in the Outlook are to reflect the cost to continue current program, entitlement program growth, and actions required by law. The cost to continue current programs and growth in entitlement programs is estimated in the Outlook by using the growth factors. Other changes that are required by law, including items with future implementation dates, are generally reflected separately in the Outlook (e.g. Opportunity Scholarship or I-732). The Outlook statute specifically excludes any future costs related to policy items, collective bargaining agreements not approved by the Legislature, or salaries and benefits, unless required by statute.

Methodology Overview

The growth factors were updated through a joint effort by legislative and executive branch staff. The analysis used budgeted appropriations for the three accounts covered by the Outlook from the 2003-05 biennium to the 2013-15 biennium. Generally the approach compares the fiscal year change within each biennium through Maintenance Level of the budget. However given the nature of changes affecting K-12, Low-income health care, and debt service different methodologies were utilized. The specific approach in these areas is described below.

The analysis excluded items related to salaries and benefits, to ensure that growth associated with salary and benefit changes are not reflected in the growth factor. The items that are statutorily required (e.g. pensions and I-732) are calculated and displayed separately in the Outlook; therefore the growth factor does not include these items.

K-12 Education

The Outlook will handle K-12 in three components described below. Additionally, when new items are included in the K-12 budget, the Outlook will continue to reflect the school year to fiscal year adjustment.

Initiative 732 K-12 and Community College Staff Increases

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Funding for costs associated with providing cost of living increases to K-12 and certain community college staff pursuant to Initiative 732 (I-732) is calculated and displayed separately in the Outlook. The costs are revised in the Outlook with the updated I-732 inflationary factor.

Enrollment

The next component is the growth factor to reflect K-12 enrollment. The percentage is based on the most recent K-12 enrollment forecasted growth for the 15-16 school year through the 18-19 school year. The average enrollment growth over this timeframe is 0.66 percent per fiscal year.

Materials, Supplies and Operating Costs (MSOC)

The remaining component is adjusting the MSOC funding for statutorily required inflation. The Outlook will identify MSOC funding separately and will increase this amount by both the enrollment growth factor (0.66 percent) and the IPD.

Low Income Health Care

The growth for the Health Care Authority Medical Assistance program is based on actual and forecasted expenditures in core Medicaid programs from FY 2006 through FY 2015. Populations (e.g. Disability Lifeline) and services (e.g. dental) that have been subject to policy changes in the recent past were excluded from the analysis. Some of the major cost components for this area include utilization and medical inflation. The average growth over this timeframe is 3.22 percent per fiscal year.

Impacts of the expiration of the Hospital Safety Net and the Affordable Care Act (ACA) Federal match adjustment are calculated separately in the Outlook and not captured in the growth factor percentage.

DSHS Mental Health, Long Term Care, and Developmental Disabilities

The growth for Mental Health, Long Term Care and Developmental Disabilities is based on budget appropriations from the 2003-05 biennium to the 2013-15 biennium. Some of the major cost components include utilization and severity of client needs. The average growth over this timeframe is 3.42 percent per fiscal year.

The impacts of the Children's Mental Health Settlement, Nursing Home Re-Basing estimate, and Community First Choice Option are identified separately in the Outlook and not captured in the growth factor.

Higher Education

The growth for Higher Education is based on budget appropriations from the 2003-05 biennium to the 2013-15. The major cost components are changes in central service related charged and maintenance and operation costs for facilities. The average growth over this timeframe is 0.3 percent per fiscal year.

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The cost of College Bound, Opportunity Scholarships, and I-732 are shown separately in the Outlook and are not reflected in this growth rate.

Debt Service

The Debt Service analysis is based on the average annual future growth from the debt service model for the 2015-17 biennium through the 2021-23 biennium (8 fiscal years). The projected average growth is 4.43 percent per year over this timeframe.

Department of Corrections, DSHS Juvenile Rehabilitation and Special Commitment Center

The growth for Corrections, Juvenile Rehabilitation, and the Special Commitment Center is based on expenditures from the 2003-05 biennium to the 2013-15 biennium. A major cost component is the proportion of community and institution population. The average growth is estimated at 3.19 percent per fiscal year.

DSHS Children's Administration and Economic Services

The growth for Children's Administration and Economic Services is based on expenditures from the 2003-05 biennium to the 2013-15 biennium. Some of the major cost components include changes in the caseload and per capita costs for the foster care and adoption support programs, Working Connections Child Care, and TANF WorkFirst caseloads. The average growth over this timeframe is 1.93 percent per fiscal year.

The impacts of items with bow-waves such as the Working Connections Child Care rate increase or savings associated with the implementation of the electronic child care system DEL are captured separately in the Outlook and not reflected in this growth rate.

Other

This Outlook area includes general government agencies, judicially agencies, legislative agencies, and other human service agencies. The growth for Other Outlook area is based on expenditures from the 2003-05 biennium to the 2013-15 biennium. Major cost components in this area are related to fire suppression costs, central service charges, lease rate adjustments, and equipment replacement costs. The average growth is estimated at 0.53 percent per fiscal year.

The statutory transfer into the Public Safety Enhancement Account is identified separately in the Outlook and is not captured in the growth factor.

OUTLOOK GROWTH FACTORS

Outlook Groups <i>(in millions)</i>	Current Outlook Growth Factor	Revised Outlook Growth Factor (10 Yr. Avg.)	Difference
K-12 Enrollment	0.50%	0.66%	0.2%
K-12 MSOC**	0.50%	2.01%	1.5%
Low income health care	4.32%	3.22%	-1.1%
MH,DD, LTC*	2.00%	3.42%	1.4%
Higher Education	0.00%	0.30%	0.3%
Other	0.00%	0.53%	0.5%
Debt Service	6.00%	4.43%	-1.6%
DOC, JRA, SCC*	2.00%	3.19%	1.2%
ESA,CA*	2.00%	1.93%	-0.1%
I-732	N/A	N/A	N/A
Pensions	N/A	N/A	N/A
PEBB	N/A	N/A	N/A
Total			

Notes:

*Weights averages across programs in Outlook group based on the program budget size.

** MSOC is multiplied by enrollment and updated IPD, number reflects 1.35%