

Overview of the Methodology for the State Budget Outlook

November 2013

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. Expenditures reflect the Preliminary Maintenance Level as of November 18th, and will not be the same as the Governor's proposed supplemental that will be released in December.

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 2011-13 and 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 2011, 2012, and 2013 legislative sessions (including special sessions). For more information, see the 2011, 2012, and 2013 Legislative Budget Notes at http://leap.leg.wa.gov/leap/budget/index_lbns.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.

Working Capital Reserve and Comprehensive Annual Financial Report (CAFR) Adjustments

This reflects a lowering of the amount of resources needing to be set aside for the working capital reserve. This adjustment is allowed by the provisions of the Chapter 9, Laws of 2012, 1st sp. sess. (SHB 2822), which makes an administrative change that requires the local share of retail sales and use taxes to be transferred from the state general fund into the Local Sales and Use Tax Account on a monthly basis rather than on a daily basis. This was done in a manner not impacting the amount or timing of distributions made to local government. The additional cash resources being retained in the state general fund allow lowering the amount of resources set aside for the working capital reserve by \$238 million. This was a one-time (but permanent) adjustment.

CAFR adjustments are those changes made to the budgetary balance sheet to reconcile to the official CAFR ending balance at the end of each fiscal year.

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budgets. In this case, the 2013 supplemental budget appropriation levels for 2011-13 and 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

Actual and Assumed Reversions

The reversions reflected for the 2011-13 period reflect actual reversions (appropriations not spent by agencies). 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).

Preliminary 2014 Supplemental Maintenance Level Revisions

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. These 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), this excludes the costs of policy enhancements, including new collective bargaining agreements not approved by the Legislature, 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. The components included in this Outlook are:

K-12 Education

The amounts depicted reflect the most recent enrollment 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 .5 percent per year from Fiscal Year 2015.

DSHS Mental Health, Long Term Care, and Developmental Disabilities

The amounts depicted reflect the most recent 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 most recent 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 most recent 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 future growth is estimated at 2 percent per year from Fiscal Year 2015.

Low-Income Health Care

The amounts depicted reflect the most recent 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

Base funding for wildfire suppression by the Department of Natural Resources and the Department of Fish and Wildlife is adjusted to reflect the ten-year adjusted average of yearly fire

suppression expenditures. These amounts will be adjusted for actual expenditures in the year they are incurred.

All Other Maintenance Items

The remaining \$22 million reflects the balance of all other items as contained in the November 18th maintenance level. This includes items such as a \$12 million adjustment to self-insurance premium rates (based on an updated actuarial report), a \$5.6 million increase to College Bound to bring it up to expected spending levels, and \$3 million to maintain the Medicaid Treatment Child Care program in the Department of Early Learning.

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.

Note: The January 2014 Outlook will be updated based on the assumptions, including policy level enhancements, used in the Governor’s proposed budget submitted in December 2013.