

# Budget Outlook Adoption

January 23, 2017



Washington State  
Economic and Revenue Forecast Council

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WASHINGTON STATE  
**ECONOMIC AND REVENUE FORECAST COUNCIL**

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## AGENDA

### **Budget Outlook Adoption**

January 23, 2017  
10:00 a.m.

- Call to order
- Approval of meeting minutes: January 17, 2017
- Budget Outlook Adoption
- Adjourn

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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

### Budget Outlook

January 17, 2017

John A. Cherberg, Hearing Room 3

#### Economic and Revenue Forecast Council

##### *Members Present*

**John Braun, Senate**

**Kevin Ranker, Senate**

**Terry Nealey, House of Representatives (via phone)**

**Timm Ormsby, House of Representatives**

**Duane Davidson, Treasurer**

**David Schumacher, Office of Financial Management**

**Vikki Smith, Department of Revenue**

##### *Staff*

Steve Lerch, Executive Director

*Budget Outlook Work Group*

*representatives:*

Michael Bezanson, Senate

Andy Toulon, House

Pam Davidson, OFM

#### Call to Order

Director Schumacher called the meeting to order at 10:07 a.m.

#### Governance

Representative Ormsby moved to nominate Senator Ranker for the chair position of the Economic and Revenue Forecast Council, seconded by Senator Braun. Motion unanimously approved at 10:08 a.m.

#### Approval of the Minutes

Representative Ormsby moved to adopt the meeting minutes from November 16, 2016, seconded by Director Smith. Motion unanimously approved at 10:09 a.m.

#### Presentation on Budget Outlook

Pam Davidson, Andy Toulon, and Michael Bezanson requested guidance from the council as they prepare the outlook on the Governor's proposed budget regarding the federal remote sales tax legislation included in the Governor's proposed budget. The Governor's budget assumes that by Fiscal Year 2020, Congress will approve national remote sales tax legislation estimated by the Department of Revenue to bring in about \$360 million in the 2019-21 biennium. Discussion ensued regarding a state bill or budget proviso linked to the remote sales tax legislation, concern about including items outside of current law, and the process of inclusion in future budget outlooks.

#### Motion

Senator Braun moved not to include the national remote sales tax legislation into the budget outlook and to direct Budget Outlook Work Group staff to propose a rule to deal with similar revenue in future outlooks. Director Schumacher seconded the motion. Motion unanimously passed at 10:18 a.m.

#### Adjournment

Meeting adjourned at 10:18 a.m.

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### **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, 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 State Budget Outlook (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 2015-17, 2017-19, and 2019-21 reflect the November 2016 quarterly revenue forecast by the Economic and Revenue Forecast Council (ERFC). The provisions of Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636) call for the ensuing biennium (in this instance, the 2019-21 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. Because the November 2016 forecast projects revenue growth of less than 4.5 percent per year in the 2019-21 biennium, the November 2016 Outlook uses the 4.5 percent growth rate.

#### **Transfers 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 (FY) to the Budget Stabilization Account. The estimated transfer amounts are based on the calculation of estimated general state revenues as defined in Article VIII, section 1, of the Constitution. The calculation of estimated general state revenues is based on the November 2016 revenue forecast.

#### **Extraordinary Revenue Growth**

Pursuant to a constitutional amendment approved by the voters in 2011, this reflects the transfer of three-quarters of extraordinary revenue growth into the budget stabilization account. Extraordinary revenue growth (ERG) is defined in the state Constitution as growth in general state revenues for the fiscal biennium that exceeds the average biennial percentage growth of the prior five fiscal biennia by one-third. The state Constitution also provides that the transfer only occurs to the extent that it exceeds the normal transfer

## Overview of the Methodology for the State Budget Outlook (January 2017)

amount into the budget stabilization account. A transfer of \$680.5 million in 2015-17 is reflected from the GF-S into the BSA, based on the November 2016 revenue forecast.

Chapter 2, Laws of 2015, 3rd sp. sess. (EHB 2286) directs the State Treasurer to transfer amounts attributable to extraordinary revenue growth that were deposited into the BSA to the GF-S. The transfer amounts were capped at \$75 million for 2015-17 and \$550 million for 2017-19. A transfer of \$75 million is projected to be deposited back to the GF-S in 2015-17. As of the November 2016 revenue forecast, there is no ERG transfer assumed in either the 2017-19 or 2019-21 biennia.

### **Enacted Fund Transfers**

This category includes all enacted fund transfers made in the 2015 and 2016 legislative sessions (including special sessions) after accounting for vetoes. For more information, see the 2015 and 2016 Legislative Budget Notes at:

- <http://leap.leg.wa.gov/leap/budget/lbns/2015operating1517.pdf>
- <http://leap.leg.wa.gov/leap/budget/lbns/2016LBNOp.pdf>

The Governor's budget proposal assumes additional transfers for the 2017-19 biennia as listed below. These include some but not all of the transfers assumed in the November 2016 Outlook. The table below provides the transfers assumed in the Governor's proposal.

<b>2017-19 Transfers in the Governor's Proposed Budget</b>		
	<b>2017-19</b>	<b>2019-21</b>
Treasurer's Service Account	\$20.0 M	0
Disaster Response Account	0.0 M	0
Criminal Justice Treatment Account	8.9 M	0
Public Works Assistance Account*		
Flood Control Account	2.0 M	0
Performance Audit of Government Account	6.5 M	0
Financial Services Regulation Account	5.0 M	0
Safe Drinking Water Account	1.0 M	0
Carbon Pollution Reduction Account	91.9 M	151.3
	<b>\$135.3 M</b>	<b>\$151.3 M</b>

\* See next page

### **Governor's Tax Package**

The Governor's proposal assumes a revenue package that includes changes to local distributions, loophole closures, a carbon tax, adding the B&O tax to services, an increase in the capital gains, and some reductions in tax incentives and credits.

The budget also calls for repayments to the Public Works Assistance Account (PWAA) to be transferred to the Education Legacy Trust Account (ELTA) starting in 2017-19 and for the various taxes going into PWAA to be deposited in ELTA and the General Fund starting in 2019-21.



## Overview of the Methodology for the State Budget Outlook (January 2017)

Please see tables on the next page for a detailed list of proposed revenues.

### Governor's Tax Package \$ in millions

	2017-19 Total	2019-21 Total
<b>Local Distributions/Fees/Other</b>		
Eliminate Streamlined Sales/Use Tax Mitigation	-	45.1
Increase interest rate on assessments/reduce int. rate on refunds	16.5	29.6
Expand Trust Fund Accountability	10.3	11.7
Extend Economic Nexus to Retailing B&O Activities	12.1	22.5
<b>Loophole Closures</b>		
Limit Trade-in Exclusion to \$10,000	90.8	94.2
Refund nonresident sales tax exemption	49.2	54.6
Repeal bottled water sales tax exemption	57.1	62.3
Repeal extracted fuel (except hog fuel)	51.8	67.4
Limit REET foreclosure exemption	59.4	63.0
<b>Carbon Tax (Net Revenue) Ed Legacy Trust Account</b>		
\$25/ton plus inflation plus 3.5%	1,069.1	2,458.7
	-	-
<b>B&amp;O Tax on Services</b>		
Increase rate to 2.5% (all services)	2,276.0	2,609.0
<b>Capital Gains Tax Ed Legacy Trust Account</b>		
7.9% (\$25,000/\$50,000 threshold, exempt all residential property)	821.0	1,848.0
School Investment Fund		(48.0)
<b>Total</b>	<b>4,513.3</b>	<b>7,318.1</b>
<b>Revenue Reductions</b>		
High-Technology R&D Tax Incentives	(30.2)	(44.7)
Small Business B&O Credit and Tax Filing Threshold	(91.9)	(151.3)
	<b>(122.1)</b>	<b>(196.0)</b>
<b>Governor's Tax Package</b>	<b>4,391.2</b>	<b>7,122.2</b>

### 058 Public Works Assistance Acct Transfer of Revenue Stream and Repayments in 08A ELTA

	2017-19	2019-21
Public Utility Tax	-	43.7
REET (5.1%) & interest	-	95.2
Refuse Tax	-	92.9
PWAA Loan Repayments	252.6	190.2
	<b>252.6</b>	<b>422.0</b>

**Governor’s Other Revenue Legislation**

In other revenue legislation, there is one bill to create new dedicated account at the Department of Labor and Industries, and both spending and revenue move from the General Fund to the new account. Similarly, the existing commercial fish privilege tax moves from the General Fund to the Wildlife Account.

**Other Revenue Legislation**

Shift Commercial Fish Privilege Tax to the Wildlife Acct	(4.4)	(6.0)
New L&I Dedicated Account	(20.4)	(20.4)
Raise Cigarette Age to 21	(15.9)	(20.0)
	<u>(40.718)</u>	<u>(46.348)</u>

**Governor’s Proposal Budget Driven Revenue**

Based on slightly higher spending in the budget for the Liquor and Cannabis Board, budget than was assumed in the November 2016 revenue forecast, budget-driven revenue is a loss of about \$2 million in 2017-19.

**Other Resource Assumptions**

The Governor’s proposed budget assumes legislation that will transfer from the Budget Stabilization Account to the general fund an amount equal to the constitutionally required one percent transfer during the 2017-19 and 2019-21 biennia.

**Expenditures**

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget. It is based on the 2016 supplemental budget appropriation levels, and then the total for carryforward level (CFL), and a high level of the changes in the Governor’s final Maintenance and Policy levels. For more information on the 2016 supplemental Budget, please see: <http://leap.leg.wa.gov/leap/budget/lbns/2016LBNOp.pdf>

**Assumed Reversions**

The general methodology for calculating future reversions was updated during the 2016 session to be based on 0.5% of the GF-S budget. Additionally, reversions were increased across the four-year timeframe to reflect amounts agencies were directed to hold in unallotted status. Reversion assumptions for fiscal year 2016 have been updated to reflect actuals of \$122 million. In addition, an adjustment was made to the FY 2016 balance of the Budget Stabilization Account to reflect \$37 million less in spending of funds appropriated out of the BSA for fires. The Governor’s proposed budget makes slightly different assumptions than the .5%. Reversions assumed for the remainder of the outlook period are as follows:

- FY 2017: \$105 million
- FY 2017-19 biennium: \$255 million (.55%)
- FY 2019-21 biennium: \$280 million (.51%)

### **Maintenance Level Revisions**

In this section, additional adjustments are made to reflect the costs of continuing to comply with current law provisions. This is referred to as Maintenance Level (ML). 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, and costs of any adverse court rulings within 90 days of each respective legislative session.

### **Kindergarten – Grade 12 (K-12) Schools**

The updates are based on the most recent enrollment forecast and budget driver information for required K-12 entitlement changes. The K-12 funding is adjusted each year of the ensuing biennium using the K-12 model which updates the growth and inflationary factors with each forecast. The K-12 model is also continually updated for other factors such as levy equalization, student transportation, and staff mix.

Larger adjustments in the 2017-19 ML include: K-3 class size reductions (\$485 million in 2017-19 and \$578 million in 2019-21), enrollment/workload adjustments (\$353 million in 2017-19 and \$806 million in 2019-21), MSOC inflation (\$78 million in 2017-19 and \$205 million in 2019-21), national board bonus costs (\$33 million in 2017-19 and \$81 million in 2019-21), grandfathered salary adjustments (\$17 million reduction in 2017-19 and \$19 million reduction in 2019-21), local effort assistance (\$67 million reduction in 2017-19 and \$139 million reduction in 2019-21, and staff mix adjustments (\$81 million reduction in 2017-19 and \$92 million reduction in 2019-21).

The larger adjustments in the 2017 supplemental include enrollment/workload adjustments (\$43 million), local effort assistance (\$9 million), and staff mix adjustments (-\$11 million savings).

### **Low-Income Health Care**

The larger adjustments in the 2017-19 ML are related to: utilization changes (\$181 million in 2017-19 and \$241 million in 2019-21); federal matching changes for the Affordable Care Act, Medicare Parts A, B, and D clawback, and IMD federal rule changes (\$147 million in 2017-19 and \$398 million in 2019-21); and managed care rate changes (\$105 million in 2017-19 and \$140 million in 2019-21). Other large reduction changes include (\$12 million savings in 2017-19 and \$14 million in 2019-21) a less than anticipated rate increase for dual eligible Medicare clients (\$41 million savings in 2017-19 and \$45 million savings in 2019-21).

The larger adjustments for the 2017 supplemental budget are related to: utilization changes (\$16 million); managed care rate changes (\$12 million); and caseload changes (\$41 million) savings.

**Mental Health/Long Term Care/ Developmental Disability 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 utilization and severity of client needs. Assumed future growth is estimated at 4.12 percent per year from FY 2019.

Larger adjustments in the 2017-19 ML include: caseload, workload, and utilization changes (\$140 million in 2017-19 and \$212million in 2019-21); loss of federal funding for Institutions of Mental Diseases and the Disproportionate Share Hospital grants (\$4 million in 2017-19 and \$69 million in 2019-21); State Hospital Overspending (\$48 million in 2017-19 and \$51 million in 2019-21); Governor's Behavioral Health Innovation Fund bowwave (\$20 million in 2015-17 and \$21.4 million in 2019-21); federal matching changes for the Affordable Care Act (\$16 million in 2017-19 and \$38 million in 2019-21); nursing home rebasing (\$18 million in 2019-21); and actuarial rate savings (\$16 in 2017-19 and \$38 million in 2019-21).

The larger adjustments for the 2017 supplemental budget related to hospital transition funding (\$23 million), and caseload and utilization changes savings (\$56 million).

**Children's/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 caseload and per capita cost increases and revised growth trends. Assumed future growth is estimated at 1.20 percent per year from FY 2019.

The larger adjustments in 2017-19 are related to caseload changes (\$34 million savings in 2017-19 and \$25 million savings in 2019-21).

The larger adjustments for the 2017 supplemental budget are related to caseload changes (\$21 million savings).

**Department of Corrections/ Special Commitment/ Juvenile Rehabilitation**

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 1.58 percent per year from FY 2019.

Larger adjustments in the 2017-19 ML include caseload and workload changes (\$39 million in 2017-19 and \$44 million in 2019-21), and equipment and facility maintenance (\$15 million in 2017-19 and \$3 million in 2019-21).

The larger adjustments for the 2017 supplemental budget are related to caseload changes (\$12 million).

## Overview of the Methodology for the State Budget Outlook (January 2017)

### **Debt Service**

The amounts depicted reflect the cost of debt service for the capital budget. Assumed future growth is estimated at 4.35 percent per year from FY 2019. The adjustments are a \$6 million savings in FY 2017, \$22 million increase in 2017-19 biennium and \$57 million increase for the 2019-21 biennium.

### **Higher Education**

Higher Education adjustments are related to the College Bound Scholarship program and to maintenance and operations and lease adjustments. Higher Education items are adjusted by 0.07 percent per year from FY 2019.

Larger adjustments in the 2017-19 ML include the Opportunity Scholarship program (\$14.7 million in 2017-19), operating costs for existing capital projects (\$9 million in 2017-19 and \$11 million for 2019-21), College Affordability Program (\$6 million in 2017-19 and \$14 million in 2019-21), and College Bound Caseload changes (\$4 million savings in 2017-19 and \$3 million increase in 2019-21).

### **Other**

This area includes all other agencies not reflected in the proceeding Outlook groups. Many are general government agencies, smaller human service agencies, natural resource agencies, and legislative and judicial agencies. Larger adjustments in the 2017-19 ML include: funding for a transfer to the local public safety enhancement account required under RCW 41.26.802 (\$50 million each in 2017-19 and in 2019-21), and adjustments related to federal Medicaid match for chemical dependency treatment programs (\$26 million in 2017-19 and \$26 million in 2019-21).

### **Special Appropriation Items (Part of Other in the Outlook)**

This category reflects the typical special appropriation items removed in the development of the CFL, but have historically been restored in the ML. See the itemized list below:

	Dollars in Millions	
	2017-19	2019-21
Governor's Emergency Fund	1.7	1.7
K-20 Telecommunications Network	16.0	16.0
County Public Health Assistance	72.8	72.8
COP Repayment	5.6	5.6
Cherberg Building COP	1.1	1.1
SERA Repayment	10.0	10.0
Common School Construction Account	1.2	1.2
NR Real Property Replacement Acct	0.6	0.6
Communication Services Reform	10.0	-
Impaired Driving	0.7	0.7
Legal Financial Obligations	1.0	0.9
Cancer Research Endowment	10.0	10.0
Local Government Distribution/I502	30.0	-
No Child Left Inside	1.0	1.0
	<b>161.7</b>	<b>121.6</b>

### **Policy Level Revisions**

In this section, adjustments are made to reflect the policy level expenditures included in the Governor's proposed budget.

#### **Kindergarten – Grade 12 (K-12) Schools**

The largest adjustment in K-12 education is an increase of \$2.95 billion in 2017-19 and \$5.55 billion in 2019-21 for providing funding for K-12 compensation pursuant to the McCleary court decision. The Governor's proposal also provides an increase of \$330 million in 2017-19 and \$631 million in 2019-21 for implementing class size reductions pursuant to Initiative 1351. The amounts noted for Initiative 1351 are in addition to the amounts shown in the maintenance level section of the Outlook. Additional items in this section include support for low-income students (\$50 million in 2017-19 and \$98 million in 2019-21) and adjustments for local effort assistance (\$54 million in 2017-19 and savings of \$158 million in 2019-21.)

#### **Low-Income Health Care**

The largest adjustment in this area includes an increase of \$61 million in 2017-19 and \$64 million in 2019-21 to restore savings that are assumed in the enacted budget related to the Healthier Washington Initiative. In addition, the Governor's proposal provides an increase of \$41 million in 2017-19 and \$45 million in 2019-21 for expanding access to treatment for Medicaid clients with Hepatitis C. Savings of \$21 million in 2017-19 and \$22 million in 2019-21 are assumed in lower Medicaid costs related to lowering the facility fee for hospital based clinics. Additional savings of \$11 million in 2017-19 and \$13 million in 2021 is realized because of a shift of spending from the General Fund to the Dedicated Marijuana Account.

The larger adjustments for the 2017 supplemental budget are for Hepatitis C and the restoration of savings assumed for Healthier Washington (\$50 million).

#### **Mental Health/Long Term Care/ Developmental Disability Services**

The largest adjustments in this area are related to the following components of the Behavioral Health Investment Plan: enhanced discharge placements in long term care and developmental disabilities settings (\$63 million in 2017-19 and \$107 million in 2019-21); state hospital compliance plan (\$53 million in 2017-19 and \$56 million in 2019-21), and creation of six new 16-bed state run psychiatric hospitals (\$3 million 2017-19, \$66 million 2019-21). In addition, a residential rate increase is provided to supported living providers (\$23 million in 2017-19 and \$24 million in 2019-21).

Components of the Mental Health program are transferred to the Health Care Authority and the Department of Health as part of the Governor's proposed Behavioral Health Investment Plan. The net impact of these changes is assumed to cost \$2 million in the 2017-19 biennium and a savings of \$13 million in the 2019-21 biennium.

The largest adjustment for the 2017 supplemental budget is funding for the state hospital compliance plan (\$21 million).



### **Children's/Economic Services**

The largest adjustments in this issue area include a one-time savings from using a Workfirst fund balance (\$34 million in 2017-19) and an adjustment to align Children's Administration funding with fiscal year 2016 expenditure levels (\$22 million in 2017-19 and 23 million in 2019-21).

The Governor also proposes that the Children and Family Services Program of DSHS and the Department of Early Learning become part of a new Child, Youth and Family Services agency. The estimated net impact of these changes is a cost of \$9 million in the 2017-19 biennium and a cost of \$18 million in the 2019-21 biennium.

The larger adjustment for the 2017 supplemental budget are for the Perez v state lawsuit settlement (\$11 million) and to meet required TANF work participation rates (\$4 million).

### **Early Childhood Education**

The largest adjustments in this area include phasing in of the ECEAP entitlement along with an ECEAP slot rate increase and pilot program (\$44 million in 2017-19 and \$127 million in 2019-21. Of the 2019-21 amounts, approximately \$57 million would be required to meet the entitlement requirement in FY 2021. In addition, there is a rate increase for childcare centers (\$14 million in 2017-19, \$15 million in 2019-21).

The agency also becomes part of the Governor's proposed new Child, Youth and Family Services agency described in the section above.

### **Department of Corrections/ Special Commitment/ Juvenile Rehabilitation**

The largest adjustment in this area is the closure of Naselle Youth Camp resulting in a savings of \$7 million in 2017-19 and \$15 million in 2019-21.

### **Debt Service**

Adjustments related to Debt service for the Governor's proposed capital budget are \$40 million in the first biennium and \$76 million in the second biennium.

### **Higher Education**

In Higher Education, larger adjustments include continuation of the current tuition freeze (\$56 million in 2017-19 and \$74 million in 2019-21) expansion of the State Need Grant (\$116 million each biennium) and \$30 million each biennium to maintain the current level of the State Need Grant.

### **Compensation**

The Governor's proposed budget funds all collective bargaining agreements, and provides the same General Wage increase to non-represented staff. This results in adjustments of \$560 million in 2017-19 and \$813 million in 2019-21.

Adjustments related to non-employee provider agreements are \$142 million in 2017-19 and \$235 million in 2019-21.

### **Other**

The largest adjustments in this area include a transfer from the general fund to the Home Security Fund which is used to provide services for the homeless (\$20 million each biennium) and funding for the Department of Health to provide grants to local health districts (\$20 million each biennium). In addition, there are savings associated with shifts in costs at the Department of Revenue to the Business License Account (\$23 million in 2017-19 and \$24 million in 2019-21) and shifts in costs at the Department of Labor and Industries to the Construction Registration Inspection Account (\$19 million in each biennium.)

The largest adjustments in the 2017 Supplemental include \$23 million to Department of Natural Resources for Fire Suppression and \$18 million to backfill the Disaster Assistance Account while the state awaits federal FEMA funding to repay for flooding, fire and mudslide disasters.



**Governor's New Law Budget Outlook  
Near GF-S & Opportunity Pathways Account**

(Dollars in Millions)

	2015-17			2017-19			2019-21		
	FY 2016	FY 2017	2015-17	FY 2018	FY 2019	2017-19	FY 2020	FY 2021	2019-21
<b>Beginning Balance</b>	<b>1,011</b>	<b>1,402</b>	<b>1,011</b>	<b>647</b>	<b>354</b>	<b>647</b>	<b>268</b>	<b>-892</b>	<b>268</b>
<b>Current Revenues</b>	<b>18,933</b>	<b>19,772</b>	<b>38,705</b>	<b>20,232</b>	<b>21,052</b>	<b>41,284</b>	<b>22,000</b>	<b>22,990</b>	<b>44,990</b>
November 2016 Revenue Forecast	18,933	19,772	38,705	20,232	21,052	41,284	21,729	22,537	44,266
Addtl Revenue Based on 4.5% Growth Rate Assumption	0	0	0	0	0	0	270	453	723
<b>Other Resource Changes</b>	<b>-36</b>	<b>-672</b>	<b>-709</b>	<b>1,352</b>	<b>3,425</b>	<b>4,777</b>	<b>3,753</b>	<b>3,937</b>	<b>7,690</b>
GF-S Transfer to BSA (1%)	-186	-194	-380	-200	-207	-407	-215	-223	-438
GF-S Extraordinary Revenue to BSA	0	-680	-680	0	0	0	0	0	0
Extraordinary Revenue from BSA to GF-S	0	75	75	0	0	0	0	0	0
BSA (1%) Revenue from BSA to GF-S	0	0	0	200	207	407	215	223	438
Budget Driven Revenue	0	0	0	0	-2	-2	0	0	0
Other Legislation	0	0	0	-17	-24	-41	-23	-23	-46
Prior Period Adjustments	67	20	88	20	20	41	20	20	41
CAFR Adjustments	-18	0	-18	0	0	0	0	0	0
Local Distributions/Fees/Other	0	0	0	14	25	39	53	56	109
Revenue Legislation	0	0	0	1,177	3,176	4,352	3,418	3,595	7,013
Public Works Redirections	0	0	0	114	139	253	209	213	422
Fund Transfers	101	107	207	44	91	135	75	77	151
<b>Total Revenues and Resources</b>	<b>19,907</b>	<b>20,501</b>	<b>39,007</b>	<b>22,231</b>	<b>24,831</b>	<b>46,708</b>	<b>26,021</b>	<b>26,035</b>	<b>52,948</b>
<b>Enacted Appropriations</b>	<b>18,627</b>	<b>19,826</b>	<b>38,454</b>	<b>18,627</b>	<b>19,826</b>	<b>38,454</b>	<b>20,157</b>	<b>20,497</b>	<b>40,654</b>
<b>Carryforward Level Adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,066</b>	<b>-131</b>	<b>935</b>	<b>-132</b>	<b>-132</b>	<b>-264</b>
<b>Maintenance Level Total</b>	<b>0</b>	<b>-2</b>	<b>-2</b>	<b>984</b>	<b>1,561</b>	<b>2,546</b>	<b>3,068</b>	<b>3,673</b>	<b>6,741</b>
K-12 Education	0	46	46	324	478	802	636	798	1,434
I-732 COLAs	0	0	0	118	288	406	450	602	1,051
I-1351 Class Size Initiative	0	0	0	0	0	0	811	1,055	1,866
Higher Education	0	-2	-2	14	10	24	11	15	26
Dept of Early Learning	0	-2	-2	1	4	5	4	4	8
Mental Health/Dev. Disabilities/Long Term	0	-32	-32	105	180	285	201	225	426
Low Income Health Care	0	-8	-8	127	271	398	386	399	785
Hospital Safety Net Expiration	0	0	0	0	0	0	146	146	292
Hepatitis C	0	-10	-10	-6	-7	-13	-7	-7	-13
Corrections/JRA/SCC	0	18	18	27	32	59	26	27	53
Children's/Economic Svcs	0	-15	-15	-18	-9	-27	-10	-10	-19
Pensions	0	0	0	109	135	244	173	198	371
Debt Service	0	-6	-6	-5	27	22	28	29	57
Public Safety Account Transfer	0	0	0	50	0	50	50	0	50
All Other	0	6	6	128	135	263	121	122	243
Initiative 1433 Labor Standards	0	2	2	10	18	27	42	69	111
<b>Policy Level Total</b>	<b>0</b>	<b>136</b>	<b>136</b>	<b>1,320</b>	<b>3,442</b>	<b>4,762</b>	<b>3,960</b>	<b>4,178</b>	<b>8,138</b>
K-12 Education	0	0	0	49	81	130	12	-40	-28
McCleary Compensation	0	0	0	666	2,286	2,951	2,730	2,824	5,554
I-1351 Class Size Initiative	0	0	0	98	232	330	277	354	631
Higher Education	0	0	0	35	41	76	39	39	78
Tuition Freeze Backfill	0	0	0	19	37	56	37	37	74
Expand State Need Grant	0	0	0	58	58	116	58	58	116
Dept of Early Learning	0	0	0	13	11	24	6	6	12
ECEAP	0	0	0	19	25	44	54	73	127
Mental Health/Dev. Disabilities/Long Term	0	0	0	2	12	14	15	16	30
Behavioral Health Investment Plan	0	21	21	69	97	166	133	154	287
Behavioral Health Integration Transfers	0	0	0	9	-6	2	-6	-6	-13
Low Income Health Care	0	0	0	-14	-16	-29	-16	-16	-32
Hepatitis C	0	19	19	20	21	41	22	23	45
Healthier Washington Savings Restoration	0	31	31	31	31	61	31	32	64
Corrections/JRA/SCC	0	3	3	6	-2	4	-2	-1	-3
Children's/Economic Svcs	0	14	14	-18	-16	-34	-1	-1	-3
New Children's Agency	0	0	0	1	9	9	9	9	18
Debt Service	0	0	0	4	36	40	37	39	76
Employee Compensation	0	0	0	203	357	560	407	407	813
Provider CBA & Parity	0	0	0	47	95	142	115	120	235
Public Safety Account Transfer	0	0	0	-50	0	-50	-50	0	-50
All Other	0	48	48	51	57	108	52	53	105
<b>Reversions</b>	<b>-122</b>	<b>-105</b>	<b>-227</b>	<b>-120</b>	<b>-135</b>	<b>-255</b>	<b>-140</b>	<b>-140</b>	<b>-280</b>
<b>Revised Appropriations</b>	<b>18,506</b>	<b>19,854</b>	<b>38,360</b>	<b>21,877</b>	<b>24,563</b>	<b>46,440</b>	<b>26,913</b>	<b>28,076</b>	<b>54,988</b>
<b>Projected Ending Balance</b>	<b>1,402</b>	<b>647</b>	<b>647</b>	<b>354</b>	<b>268</b>	<b>268</b>	<b>-892</b>	<b>-2,041</b>	<b>-2,041</b>
<b>Budget Stabilization Account</b>									
Beginning Balance	513	546	513	1,335	1,344	1,335	1,367	1,404	1,367
GF-S Transfer to BSA (1%)	186	194	380	200	207	407	215	223	438
GF-S Extraordinary Revenue to BSA	0	680	680	0	0	0	0	0	0
Extraordinary Revenue from BSA to GF-S	0	-75	-75	0	0	0	0	0	0
BSA (1%) Revenue from BSA to GF-S	0	0	0	-200	-207	-407	-215	-223	-438
Appropriations from BSA	-189	-13	-202	0	0	0	0	0	0
Actual Reversions	37	0	37	0	0	0	0	0	0
Interest Earnings	0	2	2	9	23	32	37	41	78
<b>Budget Stabilization Account Ending Balance</b>	<b>546</b>	<b>1,335</b>	<b>1,335</b>	<b>1,344</b>	<b>1,367</b>	<b>1,367</b>	<b>1,404</b>	<b>1,445</b>	<b>1,445</b>
<b>Total Reserves</b>	<b>1,948</b>	<b>1,982</b>	<b>1,982</b>	<b>1,698</b>	<b>1,635</b>	<b>1,635</b>	<b>512</b>	<b>-596</b>	<b>-596</b>

Notes

- Governor's proposal assumes legislation to suspend the four year balanced budget act requirement
- Governor's proposal assumes legislation to require a transfer from the BSA during FY 2017-19 and FY 2019-21 in an amount equal to the required one percent transfer
- Governor's proposal assumes legislation to allow for spending out of the BSA for Washington State Patrol costs related to wildfires

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January 23, 2017

To: Economic Revenue Forecast Council

From: State Budget Outlook Workgroup

Subject: Criteria for use of future biennia resources from an expected federal act

The budget documents for the Governor's proposed FY 2017-19 operating budget included an assumption that the federal government would enact legislation that would result in an increase of Washington State revenue related to internet sales. At the January 17, 2017 Outlook meeting, the ERFC directed the workgroup to exclude this assumption from the outlook being prepared on the Governor's proposed budget. The ERFC requested the workgroup develop options regarding criteria or rules for when new revenue may be reflected in the outlook and present these to the ERFC at the January 23, 2017 meeting.

#### Prior ERFC Agreement

The ERFC has already considered a similar question with respect to treatment of resource redirections or transfers in the outlook and adopted the following criteria at the November 4, 2014 meeting:

“The Outlook may assume a resource related to a revenue redirection or transfer in the ensuing biennium, provided:

- A. Enactment of separate legislation requiring the revenue redirection or transfer in the ensuing biennium, or
- B. Absent separate legislation, the current biennium's budget provides legislative intent language to continue the current budget's revenue redirection or transfer in the ensuing biennium's budget. The revenue redirection or transfer in the ensuing biennium (1) may be assumed only to the extent there is a projected balance in the fund in the ensuing biennium; and (2) must be consistent with and not exceed the policy in the current budget. Fund balance determination in the ensuing biennium must reflect the continuation of the current budget's policy and the official revenue forecast as adjusted to reflect the current budget's policy.”

#### Guiding Statutes

The statute providing guidance to the budget adopted by the legislature (RCW 43.88.055) states:

- “1) The legislature must adopt a four-year balanced budget as follows:
  - (a) Beginning in the 2013-2015 fiscal biennium, the legislature shall enact a balanced omnibus operating appropriations bill that leaves, in total, a positive ending fund balance in the general fund and related funds.

- (b) Beginning in the 2013-2015 fiscal biennium, the projected maintenance level of the omnibus appropriations bill enacted by the legislature shall not exceed the available fiscal resources for the next ensuing fiscal biennium.
- (2) For purposes of this section:
  - (a) "Available fiscal resources" means the beginning general fund and related fund balances and any fiscal resources estimated for the general fund and related funds, **adjusted for enacted legislation**, and with forecasted revenues adjusted to the greater of (i) the official general fund and related funds revenue forecast for the ensuing biennium, or (ii) the official general fund and related funds forecast for the second fiscal year of the current fiscal biennium, increased by 4.5 percent for each fiscal year of the ensuing biennium;
  - (b) "Projected maintenance level" means estimated appropriations necessary to maintain the continuing costs of program and service levels either funded in that appropriations bill or mandated by other state or federal law, and the amount of any general fund moneys projected to be transferred to the budget stabilization account pursuant to Article VII, section 12 of the state Constitution, but does not include in the 2013-2015 and 2015-2017 fiscal biennia the costs related to the enhanced funding under the new definition of basic education as established in chapter 548, Laws of 2009, and affirmed by the decision in *Mathew McCleary et al., v. The State of Washington*, 173 Wn.2d 477, 269 P.3d 227, (2012), from which the short-term exclusion of these obligations is solely for the purposes of calculating this estimate and does not in any way indicate an intent to avoid full funding of these obligations;
  - (c) "Related funds," as used in this section, means the Washington opportunity pathways account and the education legacy trust account.
- (3) Subsection (1)(a) and (b) of this section does not apply to an appropriations bill that makes net reductions in general fund and related funds appropriations and is enacted between July 1st and February 15th of any fiscal year.
- (4) Subsection (1)(b) of this section does not apply in a fiscal biennium in which money is appropriated from the budget stabilization account.”

Emphasis added.

RCW 82.33.060 provides that:

“(5) Each January, the state budget outlook work group shall also prepare, subject to the approval of the economic and revenue forecast council, a state budget outlook for state revenues and expenditures that reflects the governor's proposed budget document submitted to the legislature under chapter 43.88 RCW. Within thirty days following enactment of an operating budget by the legislature, the work group shall prepare, subject to the approval of the economic and revenue forecast council, a state budget outlook for state revenues and expenditures that reflects the enacted budget.”

The statute does not specify when a new revenue stream assumed in the Governor’s budget document can be assumed in the outlook for the Governor’s proposed budget. The statute does require that the budget adopted by the legislature not exceed “available fiscal resources” as defined above. The statute also requires that the methodology for the outlooks must be published and clearly state adjustments made to baseline revenue estimates.

### Additional Discussion

The issue raised by the Governor's revenue assumption is different from previous questions in that it requires a federal act of congress. Previous guidance issued by the council regarding assumed resources is premised on *state* resources, i.e., proposals that are within the legislature's power to enact. The state cannot compel that federal legislation is passed. In addition to defining "available fiscal resources," the outlook statute also states that the outlook must "address major budget and revenue drivers, including trends and variability in those drivers." These assumptions are subject to the approval of the ERFC.

### Options

1. Apply the current ERFC criteria for assuming state revenue redirections and transfers of existing state revenues to assumptions for estimated revenue changes from a federal act.
2. A bill or a back of the budget amendment to broaden the definition of "available fiscal resources" during the current biennium to include estimated revenue from an expected federal act.