

Budget Outlook Methodology

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 June 2017 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 June 2017 forecast projects revenue growth of less than 4.5 percent per year in the 2019-21 biennium, the legislative budget 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 June 2017 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 will only occur to the extent that it exceeds the normal transfer amount into the budget stabilization account. A transfer of \$925 million in 2015-17 is made from the GF-S into the BSA, based on the June 2017 revenue forecast. An additional \$898M is transferred from GF-S into BSA 2017-19 from revenue changes related to:

- Chapter 10, Laws of 2017, 3rd Special Session PV (ESHB 1677)
- Chapter 11, Laws of 2017, 3rd Special Session (HB 1716)
- Chapter 13, Laws of 2017, 3rd Special Session PV (EHB 2242)
- Chapter 28, Laws of 2017, 3rd Special Session (EHB 2163), and
- Chapter 37, Laws of 2017, 3rd Special Session PV (ESB 5977).

Chapter 29, Laws of 2017 Laws, 3rd Special Session (EHB 2190), increases the transfer amount that the State Treasurer must transfer from the BSA to GF-S from \$550M to \$1.078B. The Outlook shows a transfer of \$898M from BSA to GF-S in 2017-19.

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 Enacted budget assumes additional transfers, after accounting for vetoes, for the 2017-19 biennia as listed below.

Fund Transfers To/From GFS (\$ in millions)	2015-17	2017-19	2019-21
Aerospace Training Student Loan Account		\$1.5	
Child and Family Reinvestment Account		\$7.2	
Criminal Justice Treatment Account		\$8.9	\$8.4
Death Investigations Account		\$1.2	
Disaster Response Account	-\$42.0	\$42.0	
Family Leave Insurance Account			
Firearms Range Account		-\$0.1	
New Motor Vehicle Arbitration Account		\$2.0	
Public Works Assistance Account		\$254.0	\$180.0
State Patrol Highway Account		-\$0.6	
State Treasurer's Service Account		\$12.0	\$12.0
Tobacco Settlement Account		\$2.4	
Total	-\$39.6	\$328.1	\$200.4

Enacted Revenue Legislation

The Enacted Budget proposal assumes revenue changes from five bills. They are listed as follows:

Revenue Legislation (\$ in millions)	2015-17	2017-19	2019-21
Chapter 10, Laws of 2017, 3rd Special Session PV (ESHB 1677)			\$214.3
Chapter 11, Laws of 2017, 3rd Special Session (HB 1716)		-\$19.2	-\$19.2
Chapter 13, Laws of 2017, 3rd Special Session PV (EHB 2242)		\$1,614.2	\$2,493.7
Chapter 28, Laws of 2017, 3rd Special Session (EHB 2163)		\$469.0	\$845.2
Chapter 36, Laws of 2017, 3rd Special Session (ESSB 5939)		-\$5.0	-\$18.8
Chapter 37, Laws of 2017, 3rd Special Session PV (ESB 5977)		-\$12.8	-\$20.8
Total		\$2,046.3	\$3,494.4

Enacted Budget Driven Revenue

The Enacted Budget modified marijuana distributions by directing the increased contributions to local government and the increased amounts for the University of Washington and Washington State University to the GF-S. The Enacted Budget further assumes a new Tobacco Arbitration Settlement award of \$15M during the 2017-19 biennium.

Budget Driven Revenue (\$ in millions)	2015-17	2017-19	2019-21
Liquor Control Board (Liquor)		-0.544	1.786
Liquor Control Board (Marijuana)	-1.593	2.019	2.140
Lottery	0.153	0.827	0.651
Habitat Conserve		-1.377	-1.668
Marijuana Distribution Changes		18.000	28.000
Vessel Renewal Notices		1.000	
Tobacco Arbitration Settlement		15.000	
Total	-1.440	34.925	30.909

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. Adjustments are then made for carryforward (CFL) maintenance level (ML) and policy level (PL) changes. For more information on the 2016 supplemental Budget, please see: <http://leap.leg.wa.gov/leap/budget/lbns/2016LBN.pdf>.

Estimating Costs for the Subsequent Fiscal Biennium

Per statute, the estimated expenditures in the Outlook are to reflect the cost to continue current programs, entitlement program growth, and actions required by law in the subsequent fiscal biennium (e.g. FY 2019-21). The general approach to estimating the cost to continue current programs and growth in entitlement programs is by applying a historical growth factor to the fiscal year cost or savings associated with a budget item. The historical growth factors used to estimate increased costs in the subsequent fiscal biennium are updated each biennium through a joint effort by legislative and executive branch staff and ultimately adopted by the ERFC. Additional information on the calculation of the historical growth factors adopted by the ERFC

for the current outlook can be found in the following document available on the ERFC website: September 2016 Growth Factor Update.

There are some cases in which simply applying the growth factor to the cost or savings of a budget item is not used to estimate costs in the subsequent fiscal biennium. These include the following situations.

- **K-12 Education.** K-12 Outlook calculations utilize the K-12 model, which updates the growth and inflationary factors with each forecast. The K-12 model is continually updated for other factors such as levy equalization, student transportation, and staff mix. The calculations derived from the K-12 model are the same that are used for fiscal notes and legislative policy proposals.
- **Custom adjustments.** Custom adjustments are used when the estimated annual costs in the subsequent fiscal biennium are expected to be significantly different from the 2nd fiscal year of the current biennium. This occurs primarily when a policy is being phased in during the second year of a biennium or may be delayed until the subsequent fiscal biennium. In most cases, the growth factor is applied after a custom adjustment is made to reflect the phase in for the policy item. In a small number of cases, the custom adjustment already accounts for the types of growth captured by the growth factor and so the growth factor is not applied.
- **One-Time costs.** Certain items in the budget are one-time for the current biennium and therefore the related costs or savings are not carried forward into the subsequent biennium.
- **Compensation items.** Because the Outlook statute specifically excludes any additional future costs related to collective bargaining agreements not approved by the Legislature, or salaries and benefits, no growth factor is applied to compensation related items. However, a custom adjustment is applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.
- **Transfers.** The growth factor is not applied to policy changes where funding from one agency is simply shifted to another agency with no net change in spending. If the transfer includes other related policy steps, where there are increased costs or savings, the specific policy items related to the increased cost or savings will include a growth factor adjustment.

Carryforward Level Revisions

The Outlook then adjusts the most recently enacted spending level (2015-17 including the 2016 Supplemental) to the CFL. The CFL is a relatively mechanical calculation based on the removal of any one-time items and adjusting for the bow wave impact of items assumed in existing appropriations (costs or savings). In many instances, this means simply biennializing to the second year enacted funding levels. CFL adjustments total \$935 million in 2017-19 and -\$264 million in 2019-21. The 2019-21 adjustments includes application of the growth factor methodology adopted by the ERFC.

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. ML adjustments total \$2.248 billion in 2017-19 and \$6.430 billion in 2019-21.

Kindergarten – Grade 12 (K-12) Schools & Initiative 1351

The updates are based on the February 2017 enrollment forecast and budget driver information for required K-12 entitlement changes. 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 are related to K-3 class size reductions, enrollment/workload adjustments, Materials Supplies and Operating Cost (MSOC) inflation, and pupil transportation.

ML adjustments total \$908 million in 2017-19 and \$1.506 billion in 2019-21. In addition to this, adjustments are shown separately for the costs of implementing provisions of Initiative 1351 (I-1351) related to class sizes and staffing formulas, which was required to be implemented during the FY 2019-21 biennium. The ML budget adjustment for Initiative 1351 is \$1.914 billion in FY 2019-21.

Initiative 732 K-12 and Community College Staff Increases

Adjustments are made to reflect the costs associated with cost of living increases to K-12 and certain community college staff pursuant to Initiative 732 adopted in the November 2000 election. The costs are generally based on the February 2017 Seattle consumer price index (CPI) forecast with projections for a 2.3 percent increase in FY 2018, 2.7 percent increase in FY 2018, and a 2.1 percent increase in FY 2019 and FY 2021. These costs total \$376 million in FY 2017-19 biennium and \$971 million in FY 2019-21.

Low-Income Health Care & the Hospital Safety Net Expiration

The amounts depicted reflect caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. The adjustments are based on the FY 2017 caseload forecast and budget driver information for entitlement changes. The growth factor for FY 2019-21 is 3.04 percent.

The ML budget adjustment for Low Income Health Care is \$232 million in FY 2017-19 and \$679 million in FY 2019-21. The larger adjustments are related to changes in caseload, utilization, federal match rates, required state costs for dual eligible Medicaid and Medicare clients, federal rules for individuals residing in Institutions for Mental Diseases (IMDs), and federally required managed care rate adjustments

In addition to this, adjustments are shown separately for the costs associated with the sunset of the Hospital Safety Net Assessment program (HSNA). The Hospital Safety Net Assessment program (HSNA) allows the Health Care Authority (HCA) to collect

assessments from Washington State hospitals and use the proceeds for payments to hospitals. The program was previously set to expire in July 2019. The ML budget adjustment for the HSNA is \$292 million in FY 2019-21.

Developmental Disabilities and Long Term Care Services

The amounts depicted reflect caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. The adjustments are based on the FY 2017 caseload forecast and budget driver information for entitlement changes. The growth factor for FY 2019-21 is 4.12 percent. Some of the major cost drivers include utilization and severity of client needs.

The ML budget adjustment for Developmental Disabilities and Long Term Care Services is \$110 million in FY 2017-19 and \$205 million in FY 2019-21. The larger adjustments are related to caseload, workload, utilization changes, and statutorily required nursing home rebasing.

Behavioral Health/Mental Health Services

The amounts depicted reflect caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. The adjustments are based on the FY 2017 caseload forecast and budget driver information for entitlement changes. The growth factor for FY 2019-21 is 4.12 percent. Some of the major cost drivers include utilization and severity of client needs.

The ML budget adjustment for Behavioral Health/Mental Health Services is \$113 million in FY 2017-19 and \$167 million in FY 2019-21. The larger adjustments are related to caseload, workload, utilization changes, federal rules for individuals residing in Institutions for Mental Diseases (IMDs), federally required managed care rate adjustments, and federal match rates.

Children's/Economic Services

The amounts depicted reflect caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. The adjustments are based on the FY 2017 caseload forecast and budget driver information for entitlement changes. The growth factor for FY 2019-21 is 1.20 percent. Some of the major cost drivers include caseload and per capita cost increases and revised growth trends.

The ML budget adjustment for Children's and Economic Services is -\$65 million in FY 2017-19 and -\$53 million in FY 2019-21. The larger adjustments are related to mandatory caseload changes.

Early Learning & ECEAP Entitlement

The amounts depicted reflect caseload and cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level

changes. The adjustments are based on the FY 2017 caseload forecast and budget driver information for entitlement changes. The growth factor for FY 2019-21 is 0.12 percent.

The ML budget adjustment for Early Learning services is \$5 million in FY 2017-19 and \$8 million in FY 2019-21. The larger adjustments are related to caseload driven mandatory-tiered reimbursement costs.

In addition to this, adjustments are shown separately for the costs associated with the Early Childhood Education Assistance Program entitlement. The program was previously set to become an entitlement in FY 2021. The ML budget adjustment associated with the caseload growth for ECEAP becoming an entitlement in FY 2021 is \$54 million.

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. The adjustments are based on the FY 2017 caseload forecast. The growth factor for FY 2019-21 is 1.58 percent. The major cost component is the census and proportion of community and institution populations.

The ML budget adjustment for Children's and Economic Services is \$48 million in FY 2017-19 and \$47 million in FY 2019-21. The larger adjustments are related to caseload and workload changes, and equipment and facility maintenance.

Debt Service

The amounts depicted reflect the cost of debt service for the capital budget. The growth factor for FY 2019-21 is 4.35 percent. The ML budget adjustment for Debt Service is \$22 million in FY 2017-19 and \$57 million in FY 2019-21.

Higher Education

The amounts depicted reflect the most recent enrollment information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. The adjustments are based on the FY 2017 caseload forecast. The growth factor for FY 2019-21 is 0.07 percent.

The ML budget adjustment for Higher Education is \$11 million in FY 2017-19 and \$30 million in FY 2019-21. The larger adjustments are related to enrollment changes in the College Bound Scholarship program, statutorily required inflation adjustments for tuition backfill, and facility maintenance and operations costs.

Pensions

The amounts depicted reflect the cost of maintaining pension obligations. A custom adjustment is made to calculate the cost in FY 2019-21 so no growth rate is applied. The ML budget adjustment for Pensions is \$246 million in FY 2017-19 and \$311 million in FY 2019-21.

Other

This area includes all other agencies not reflected in the preceding Outlook groups. Many

are general government agencies, smaller human service agencies, natural resource agencies, and legislative and judicial agencies. The growth factor for FY 2019-21 is 0.12 percent.

The ML budget adjustment for other agencies is \$244 million in FY 2017-19 and \$242 million in FY 2019-21. The larger adjustments include a transfer to the local public safety enhancement account required under RCW 41.26.802, restoration of a number of statutorily required special appropriation items that are removed in the development of the CFL budget, and alcohol and substance abuse related caseload, workload, utilization and federal funding adjustments.

Policy Level Revisions

In this section, adjustments are made to reflect the policy level expenditures included in the enacted budget. This is referred to as Policy Level (PL). PL adjustments total \$2.072 billion in 2017-19 and \$3.362 billion in 2019-21.

Kindergarten – Grade 12 (K-12) Schools, McCleary Compensation, and Initiative 1351

The largest adjustments in K-12 education are related to compensation and other changes related to the McCleary court decision which total \$1.812 billion in 2017-19 and \$5.196 billion in 2019-21. Under Chapter 13, Laws of 2017, 3rd Special Session PV (EHB 2242), the increased school staffing ratios in I-1351 are re-established outside the program of basic education. If and to the extent that the Legislature specifically funds any of the enriched staffing ratios in the future, the funded units become part of the prototypical school formula and part of the state's program of basic education. The I-1351 implementation schedule is repealed resulting in savings of \$1.914 billion. A variety of other K-12 policy changes result in a net savings of \$8 million in the 2017-19 and \$17 million in 2019-21. Growth and inflationary impacts of PL items in FY 2019-21 are calculated through the K12 model.

Low-Income Health Care & the Hospital Safety Net

The PL budget adjustment for Low Income Health Care is -\$31 million in FY 2017-19 and -\$84 million in FY 2019-21. The larger adjustments include court ordered expansion of access to medications for treatment of Hepatitis C, savings initiatives for prescription drugs, dental services, an assumed waiver allowing for increased federal match in IMDs beginning in FY 2019, and caseload reductions expected from implementation of Initiative 1433, which raises the state minimum wage. The growth factor for FY 2019-21 is 3.04 percent.

In addition to this, adjustments are shown separately for the savings associated with delaying the sunset of the HSNA and utilization of increased marijuana revenues for provision of low-income health care services. Legislation that delays the expiration of the HSNA program from July 2019 to July 2021 results in a PL savings \$292 million in FY 2019-21. The use of increased marijuana revenues to pay for core low income health services results in a savings of \$31 million in FY 2017-19 and \$84 million in FY 2019-21.

Developmental Disabilities and Long Term Care Services

The PL budget adjustment for Developmental Disabilities (DD) and Long Term Care (LTC) Services is \$90 million in FY 2017-19 and \$111 million in FY 2019-21. The

larger adjustments include vendor rate increases, enhanced community placements for DD and LTC patients being discharged from state hospitals, and a one-time savings related to underspend of funds provided for employment services. The growth factor for FY 2019-21 is 4.12 percent.

Behavioral Health/Mental Health Services

The PL budget adjustment for Mental Health services is \$84 million in FY 2017-19 and -\$83 million in FY 2019-21. There is a one-time savings of \$146 million assumed in FY 2019-21 in relation to the return of Behavioral Health Organization reserves upon implementation of statutorily mandated full integration in fiscal year 2020. Large expenditure items include increases for state hospital compliance and overspend, BHOs and psychiatric hospital rates, competency restoration beds, and community alternatives for state hospital patients. In addition, savings are also assumed from reduced future demand at the state hospitals upon phase in of community alternatives, an assumed waiver allowing for increased federal match in IMDs beginning in FY 2019, elimination of specific funds that have been underspent the past two years, and caseload reductions expected from implementation of Initiative 1433 which raises the state minimum wage. The growth factor for FY 2019-21 is 4.12 percent.

Children's/Economic Services

The PL budget adjustment for Children's and Economic Services is -\$56 million in FY 2017-19 and -\$24 million in FY 2019-21. The larger adjustments include increased funding for childcare center rates, a one-time state savings from using an excess Workfirst fund balance, a one-time savings related to underspending on staff in the Children's Administration, and ongoing savings assumed from policy changes and reductions in overpayments for the Working Connections Child Care Program (WCCC). The growth factor for FY 2019-21 is 1.20 percent.

In addition to this, adjustments are shown separately for the costs associated with the creation of a new Department of Children, Youth and Families in accordance with Chapter 6, Laws of 2017, 3rd sp. s. (2E2SHB 1661). This item included transfer of funding from the Department of Social and Health Services (DSHS) and the Department of Early Learning (DEL). The transfer nets to zero across all entities. Beyond these transfers, there were some policy investments for the new Department that totaled \$5 million in FY 2017-19 and \$10 million in FY 2019-21.

Early Learning & ECEAP Entitlement

The PL budget adjustment for Early Learning Services is \$25 million in FY 2017-19 and \$44 million in FY 2019-21. The larger adjustments include expansion of ECEAP slots, increased rates for ECEAP providers and childcare centers, and a reduction of funds for the Early Achiever's Quality Rating and Improvement System. The growth factor for FY 2019-21 is 0.12 percent.

The Department of Early Learning becomes part of the new Department of Children, Youth and Family Services described in the section above. In addition, adjustments are shown separately for the savings associated with delaying the entitlement for ECEAP

until the 2022-2023 school year in accordance with Chapter 22, laws of 2017. 3rd sp. s. (SSB 5901). The savings associated with the delay in the entitlement for ECEAP is \$54 million in FY 2019-21.

Department of Corrections/ Special Commitment/ Juvenile Rehabilitation

The PL budget adjustment for Corrections, Juvenile Rehabilitation, and the Special Commitment center is \$4 million in FY 2017-19 and \$1 million in FY 2019-21.

The larger adjustments include increased access for offenders to Hepatitis C treatment, savings based on historical underspend and reversions, and savings assumed for implementation of Substitute Senate Bill 5934 (convicted persons) which did not pass. The growth factor for FY 2019-21 is 1.58 percent.

Debt Service

The PL budget adjustment for Debt Service is \$47 million in FY 2017-19 and \$100 million in FY 2019-21, based on the assumed passage of a bond bill for the capital budget. The growth factor for FY 2019-21 is 4.35 percent.

Higher Education

The PL budget adjustment for Higher Education is \$91 million in FY 2017-19 and \$93 million in FY 2019-21. The larger adjustments include maintaining and expanding the state need grant, state match for the Opportunity Scholarship program, support for medical education at Washington State University and the University of Washington, and savings from continuing to suspend programs that have been suspended since the FY 2011-13 biennium. The growth factor for FY 2019-21 is 0.07 percent.

Employee Compensation, Provider CBAs, and Parity

The PL budget adjustment for employee compensation is \$454 million in FY 2017-19 and \$681 million in FY 2019-21. The PL adjustment for non-employee provider collective bargaining agreements (CBAs) and agency provider parity steps is \$143 million in FY 2017-19 and \$235 million in FY 2019-21. There is no growth factor applied to these items although custom adjustments are applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.

Pensions

The PL budget adjustment for pensions is -\$463 million in FY 2017-19 and -\$463 million in FY 2019-21. The savings is achieved by depositing extraordinary revenue in the budget stabilization account into the pension funding stabilization account and using this funding for pension contributions in lieu of general fund-state.

Other

The PL budget adjustment for all other areas is -\$32 million in FY 2017-19 and -\$98 million in FY 2019-21. The larger increases in this area include staff support for implementation of 2017 revenue legislation, legal services, statewide expansion of the parents representation program, state funding enhancements for the fish and wildlife program, one-time increased funding for local health jurisdictions, and one-time funding for lease cost and information technology pools. The larger savings in this area include suspension of statutorily required transfers into the local public safety account, an assumed waiver allowing for increased federal match in alcohol and substance abuse

IMDs beginning in FY 2019, state agency management reductions, and caseload reductions expected from implementation of Initiative 1433, which raises the state minimum wage.