

June 6, 2019

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the June 2019 Outlook

The State Budget Outlook Work Group (work group) poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the June 2019 Outlook.

Debt Model. In 2018, the ERFC adopted the use of the debt service model for calculation of debt service growth in the ensuing biennium rather than applying a growth factor. To estimate debt capacity, the bond model assumes the enactment of future bond bills in ensuing biennia. The Outlook statute specifies that *"estimates of ensuing biennium expenditures must exclude policy items including, but not limited to, legislation not yet enacted by the legislature."*

The debt service model used to calculate operating budget and ensuing biennium costs for the 2019-21 as passed legislature budget and supporting Outlook did not assume the costs from passage of a 2021-23 bond bill. This approach differed from the approach used for previous Outlooks, and reduces the estimated ensuing biennia costs by approximately \$50 million.

Question 1: Does the ERFC want the estimates for ensuing biennium costs for the enacted Outlook being prepared by the work group to assume a 2021-23 capital budget and bond bill that have yet to be enacted?

Reversions. The Outlook being prepared for the enacted budget assumes the 0.5% reversion assumption that has been previously approved by the ERFC. There are additional adjustments where the work group seeks direction.

- a) K-3 Compliance - Funding for the average K-3 class size is 17 full time equivalent students per teacher. Beginning September 1, 2019, funding for average K-3 class sizes may be provided only to the extent of, and proportionate to, the school district's demonstrated actual class size in grades K-3, up to the funded class size.
 - In the FY2018 Supplemental enacted Outlook approved by the ERFC, an assumption was made around additional K-3 reversions totaling \$36 million
 - In the 2019-21 as passed legislature supporting Outlook, the K-3 additional reversion assumption was updated and totals \$124 million over 4 years, declining each fiscal year, as schools continue to move towards compliance with K-3 class size requirements, per RCW 28A.150.260(4)(b).

Question 2: Does the ERFC want the enacted Outlook being prepared by the work group to assume K-3 reversions as reflected in the 2019-21 as passed legislature supporting Outlook?

- b) Governor vetoes - The Governor vetoed spending reductions made by the legislature for FY2019. In the veto message, the Governor directed that the \$2.6 million freed up be placed in unallotted status and also said that it may be needed. In the past, the ERFC has directed that amounts placed into reserve be added to the reversion assumptions. The veto language this time is less declarative. Veto language is provided below for reference.

Question 3: Does the ERFC want the enacted Outlook being prepared by the work group to assume that the amounts placed in reserve will be additional reversions?

Section 1118(3), page 649, lines 12-13, Department of Children, Youth and Families, Children and Families Services Program, General Fund-State Appropriation

The 2019 supplemental appropriation from the General Fund-State for the Children and Families Services Program was reduced by \$1,126,000. Additional spending authority may be necessary to cover rising costs due to parent and child visits and central service expenditures. I have vetoed this reduction to maintain the original spending authority. I am directing the Office of Financial Management to retain the entire \$1,126,000 in unallotted status and that the additional authority only be used if necessary to close fiscal year 2019, with approval from the director of the Office of Financial Management. For this reason, I have vetoed Section 1118(3), page 649, lines 12-13.

Section 1118(4), page 656, lines 16-17, Department of Children, Youth and Families, Early Learning Program, General Fund-State Appropriation

The 2019 supplemental appropriation from the General Fund-State for the Early Learning Program was reduced by \$1,481,000. Additional spending authority may be necessary to cover rising costs due to parent and child visits and central service expenditures. I have vetoed this reduction to maintain the original spending authority. I am directing the Office of Financial Management to retain the entire \$1,481,000 in unallotted status and that the additional authority only be used if necessary to close fiscal year 2019, with approval from the director of the Office of Financial Management. For this reason, I have vetoed Section 1118(4), page 656, lines 16-17.

The link to the full veto message can be found here:

<https://www.ofm.wa.gov/sites/default/files/public/budget/statebudget/2019-21biennial/documents/19-21Operating1109VetoLetter.pdf>

State Institution Bed Closures and Community Investments. The 2019-21 enacted budget included investments in a variety of community placements as alternatives for care at civil state hospital wards and residential habilitation centers (RHCs). The supporting Outlook for the as passed legislature budget assumed that in the 2021-23 biennium there would be additional investments in alternative community placements and reductions in western state hospital (WSH) and RHC beds as follows:

- An increase of 369 beds/placements in a variety of community settings, including 90/180 day commitment beds in community settings, enhanced resources for long term care and

developmental disabilities patients being transitioned from state hospitals, and other mental health diversion and residential beds.

- A reduction of 180 beds at WSH, totaling \$59 million.
- A reduction of an estimated 20-32 beds through closure of two RHC cottages, totaling \$6 million.

The net impact of assuming these increased placements and bed closures was a Near General Fund - Outlook cost of \$6 million. Additional increases in community placements and reductions of state hospital beds or RHC cottages will be policy level decisions when writing the 2021-23 biennial budget.

Question 4: Does the ERFC want the enacted Outlook being prepared by the work group to assume the costs and savings associated with further increases in community resources and reductions in state hospital and RHC beds that were assumed in the Outlook prepared to support the conference budget?