

Overview of the Methodology for the State Budget Outlook (January 2024)

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 (GF-S), the Education Legacy Trust Account (ELTA), the Opportunity Pathways Account (OPA), and the Workforce Education Investment Account (WEIA). These funds are sometimes referred to as the Near General Fund Outlook (NGF-O) funds.

During the 2021 legislative session the Fair Start for Kids Account (FSKA), was added to the NGF-O definition (Chapter 199, Laws of 2021). The Governor's 2024 supplemental operating budget proposal does not propose any resources or expenditures into or out of the account and, as such, it is not reflected in the Outlook.

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 Fiscal Years (FY) is equal to the projected ending balance for the previous FY.

Revenue Forecast

The amounts for the 2023-25 and 2025-27 biennia reflect the adopted November 2023 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 revenue (in this instance, the 2025-27 biennium) to be 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.

The November 2023 forecast projected revenue growth of less than 4.5 percent per year in the 2025-27 biennium. Given the November 2023 forecast projects revenue growth of less than 4.5 percent per year in the 2025-27 biennium, the Outlook includes an adjustment for estimated FY 2026 and FY 2027 revenues. The adjustment for ensuing biennium revenues increases estimated resources in the Outlook by \$1.220 billion.

Transfers to Budget Stabilization Account (BSA)

Pursuant to a constitutional amendment approved by the voters in 2007 (Article VII, section 12(1), of the Constitution), this reflects the transfer of one percent of general state revenues (GSR) for each FY to the Budget Stabilization Account (BSA). 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 GSR is based on the November 2023 revenue forecast adjusted for the estimated revenue impacts of the Governor's proposed revenue changes. The Outlook assumes BSA 1% transfers each biennium to include \$640 million in the 2023-25 biennium and \$684 million in the 2025-27 biennium.

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Extraordinary Revenue Growth

Pursuant to a constitutional amendment approved by the voters in 2011 (Article VII, section 12 of the Constitution), this reflects the transfer of three-quarters of extraordinary revenue growth (ERG) into the BSA. 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 amount into the BSA and that no ERG transfer shall occur in a fiscal biennium following a fiscal biennium in which annual average state employment growth averaged less than one percent per fiscal year. The adopted November 2023 revenue forecast does not project ERG for the 2023-25 or 2025-27 biennia.

Prior Period Adjustments

The Outlook assumes NGF-O prior period adjustments of \$40.8 million in the 2023-25 biennium and \$40.8 million in the 2025-27 biennium, totaling \$81.6 million over the Outlook period.

Enacted Fund Transfers

This category reflects all enacted NGF-O fund transfers made through the 2023 legislative session (including special sessions) after accounting for vetoes. For more information, see the 2023 Legislative Budget Notes: <https://fiscal.wa.gov/lbns/2023LBN.pdf>.

Governor's Proposed Resource Changes

Fund Transfers

The Governor's budget proposes the following NGF-O transfers.

Transfers Proposed in the Governor's 2024 Supplemental Budget (\$'s in 1,000's)		
	2023-25	2025-27
From the GFS to the Disaster Response Account	\$(26,461)	\$0
From the GFS to the Wildfire Response, Forest Restoration, & Community Resilience Account	\$(19,143)	\$0
From the GFS to the Agricultural Pest and Disease Response Account	\$(2,000)	\$0
From the Long-Term Services & Supports Trust Account to the GFS	\$1,719	\$0
Total	\$(45,885)	\$0
Notes		
1. Positive numbers reflect a transfer from a non NGF-O account to a NGF-O account.		
2. Negative numbers reflect a transfer from a NGF-O account to a non NGF-O account.		

Transfers from the Washington Rescue Plan Transition Account

In addition to the proposed fund transfers shown above, the Governor's budget also proposes transferring the balance of \$798 million from the Washington Rescue Plan Transition Account (WRPTA) to the General Fund in FY 2025.

Proposed Revenue Changes

The Governor is proposing one piece of legislation that will affect NGF-O revenues if enacted:

Governor's Revenue Proposals (\$'s in 1,000's)		
	2023-25	2025-27
WSP Agency Request, Fire Service Training (HB 2402/ SB 6087)	\$(1,338)	\$(2,676)
Total	\$(1,338)	\$(2,676)

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Budget Driven Revenue Adjustments

Adjustments are made to reflect the difference between assumed transfers of cannabis, liquor, and lottery revenue to the General Fund in the November 2023 forecast and what is estimated to be available after adjusting for the Governor's proposed spending levels.

Governor's Budget Driven Revenue (\$'s in 1,000's)		
	2023-25	2025-27
Liquor & Cannabis Board (Marijuana)	\$1,553	\$2,522
Liquor & Cannabis Board (Liquor)	\$(1,696)	\$37,881
Lottery	\$(40)	\$167
Marijuana Distribution Changes	\$(243)	\$(395)
Total	\$(426)	\$40,175

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget (the 2023-25 Biennial budget). It is based on these 2023-25 budget appropriation levels.

For more information on the 2023-25 biennial budget, please see:

<https://fiscal.wa.gov/lbns/2023LBN.pdf>.

Adjustments are then made for the Governor's Maintenance Level (ML) and the Governor's Policy Level (PL) changes.

Estimating Costs for the 2025-27 Fiscal Biennia

Per statute, the estimated expenditures in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law in the subsequent fiscal biennium (i.e. the 2025-27 biennium). 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 FY 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. Per direction by the ERFC on November 4, 2022, the growth factors adopted on November 18, 2020 will continue to be used for Outlooks prepared during the 2023-25 biennium.

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:

<https://erfc.wa.gov/sites/default/files/public/documents/forecasts/rev20201118.pdf>

The current ERFC adopted growth rates are shown below:

2022 Outlook Growth Rates Summary Table	
Default Growth Rate Category	Adopted 2022 Growth Factors
All Other	0.00%
Corrections	1.53%
Debt Service	Use Bond Model
Department of Social and Health Services	3.31%
Higher Education	0.69%
K-12 Education	Use K-12 Model
Low Income Health Care & Community Behavioral Health	2.86%

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There are some cases whereby 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 are derived from the K-12 model, which is updated quarterly based on the caseload forecast for growth and inflationary factors. The K-12 model is periodically updated for other factors such as levy equalization and student transportation.
- **Debt Service.** Debt service calculations are derived from the debt service model. 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." Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2025-27 biennium bond bill and capital budget.
- **Custom adjustments.** Custom adjustments are used when the estimated annual costs in the subsequent fiscal biennium are expected to be significantly different from the second FY of the current biennium. This occurs primarily when a policy is being phased in during the second FY 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 (CBAs) 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.

Maintenance Level Revisions

In this section, additional adjustments are made to reflect the NGF-O costs of continuing to comply with current law provisions. This is often referred to as 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 CBAs not approved by the Legislature, other proposed compensation increases, and costs of any adverse court rulings within 90 days of each respective legislative session.

The Governor's total statewide ML change estimate, by biennial period:

- ❖ 2023-25 biennial estimate: \$870 million increased costs, and
- ❖ 2025-27 biennial estimate: \$1.308 billion increased costs.

These estimates are total impacts. These amounts are based on the Governor's budget and will change prior to the enacted FY 2024 Supplemental budget.

Kindergarten – Grade 12 (K-12) Education

The amounts depicted reflect the November 2023 caseload and 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 periodically updated for other factors such as levy equalization and student transportation.

- ❖ ML adjustments total increased costs of \$190 million in the 2023-25 biennium and \$424 million in the 2025-27 biennium.

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The larger increases are related to enrollment and workload adjustments for special education and bilingual instruction, special education safety net adjustments, and costs related to updated School Employee Benefits Board (SEBB) health benefit funding rates. The largest savings in this category are related to enrollment and workload adjustments for the basic K-12 student population.

Low-Income Health Care and Community Behavioral Health

The amounts depicted reflect the caseload and per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include utilization, caseload, and medical inflation. The average growth factor for this grouping is 2.86 percent per FY from FY 2025 levels.

- ❖ ML adjustments total increased costs of \$318 million in the 2023-25 biennium and \$372 million in the 2025-27 biennium.

The larger state costs are related primarily to changes in adjusted rates for certain Medicaid-eligible clients, Medicare Part D claw back, and increases in mandatory caseload costs. Larger state savings are related to projected reductions in utilization of medical services by some Medicaid-eligible clients.

Social and Health Services

The amounts depicted reflect caseload and per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include caseload, utilization, and severity of client needs. The average growth factor for this grouping is 3.31 percent per FY from FY 2025 levels.

- ❖ ML adjustments total increased costs of \$213 million in the 2023-25 biennium and \$276 million in the 2025-27 biennium.

The larger increases are due to utilization and cost increases related to nursing homes and home and community-based services, a forecasted mandatory caseload adjustment for populations receiving certain types of cash and food assistance, and changes in Washington State's federal Disproportionate Share Hospital (DSH) grant which under current federal law will result in reductions that will need to be backfilled with state funds to maintain services at Eastern State Hospital. The larger savings are due to forecasted mandatory caseload adjustments for clients receiving long-term care services.

Higher Education

Higher Education adjustments are generally related to the Initiative 732 cost of living adjustments, the Washington College Grant program, and to maintenance, operations, and lease adjustments. The average growth factor for this grouping is 0.69 percent per FY from FY 2025 levels.

- ❖ ML adjustments total increased costs of \$44 million in the 2023-25 biennium and \$76 million in the 2025-27 biennium.

The larger increases are related to caseload adjustments in the Washington College Grant program. The larger savings are due to adjustments to Public Employee Benefits Board (PEBB) health benefit funding rates and caseload adjustments for the Washington College Bound Scholarship.

Corrections

The amounts depicted reflect caseload, as well as other mandatory maintenance level changes. The average growth factor for this grouping is 1.53 percent per FY from FY 2025 levels.

- ❖ ML adjustments total increased costs of \$60 million in the 2023-25 biennium and \$49 million in the 2025-27 biennium.

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The larger increases are related to costs associated with the male offender caseload forecast. The larger savings are due to changes in the female offender caseload forecast and adjustments to Public Employee Benefits Board (PEBB) health benefit funding rates.

All Other

This area includes all other agencies not reflected in the preceding Outlook groups. Many are general government agencies, smaller human service agencies, the department of children, youth and families (DCYF), natural resource agencies, legislative agencies, and judicial agencies. The average growth factor for this grouping is zero percent per FY from FY 2025 levels.

- ❖ ML adjustments total increased costs of \$118 million in the 2023-25 biennium and \$143 million in the 2025-27 biennium.

The larger increases are related to forecasted caseload adjustments for the Working Connections Child Care program the foster care program. The larger savings are due to funding adjustments related to the forecasted costs for the Working Families Tax Credit program.

Debt Service

The amounts depicted reflect the cost of the debt on all capital budget bonds that were authorized through the 2023 session using the bond model to calculate estimated costs for the 2025-27 biennium.

- ❖ ML adjustments total savings of \$71 million in the 2023-25 biennium and savings of \$31 million in the 2025-27 biennium.

Policy Level Items

In this section, adjustments are made to reflect the policy level (PL) expenditures included in the Governor's proposed budget. Growth in the ensuing biennium is calculated using the same growth factors and methodologies as outlined above.

The Governor's total statewide PL change estimate, by biennial period:

- ❖ 2023-25 biennial estimate: \$1.085 billion increased costs,
- ❖ 2025-27 biennial estimate: \$1.241 billion increased costs.

Kindergarten – Grade 12 (K-12) Education

The Governor proposes to increase funding for K-12 Schools by \$142 million in the 2023-25 biennium and by \$304 million in the 2025-27 biennium. The major components of this increase are:

- ❖ Paraeducator compensation;
- ❖ The Community Eligibility Provision program which provides no cost meals to students; and
- ❖ An increase to the special education funding cap.

Low-Income Health Care and Community Behavioral Health

The Governor proposes to increase funding for Low Income Health Care and Community Behavioral Health by \$273 million in the 2023-25 biennium and by \$451 million in the 2025-27 biennium. The major components for Low Income Health Care and Community Behavioral Health are:

- ❖ Restoration of assumed program integrity savings that are not expected to be achieved;
- ❖ Implementation of a new 1915i state plan that will provide tiered enhanced payments to assisted living facilities and adult family homes serving individuals with complex behavioral health needs; and
- ❖ Increased reimbursement rates for long-term involuntary civil commitment providers.

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Social and Health Services

The Governor proposes to increase funding for DSHS programs by \$362 million in the 2023-25 biennium and by \$233 million in the 2025-27 biennium. The major components for DSHS are:

- ❖ Olympic Heritage Behavioral Health, adds 72 additional inpatient psychiatric beds;
- ❖ Trueblood contempt fines; and
- ❖ Disproportionate Share Hospital (DSH) reduction delay, savings result from an assumed further delay in the reduction of DSH payments from the federal Medicaid program.

Higher Education

The Governor proposes to increase funding for Higher Education by \$92 million in the 2023-25 biennium and by \$29 million in the 2025-27 biennium. The major components for Higher Education are:

- ❖ University of Washington hospital support for continued operations and teaching activities;
- ❖ University of Washington Behavioral Health Teaching Facility (BHTF) to operate 75 long-term beds; and
- ❖ Career Launch program enrollment at community and technical colleges.

Corrections

The Governor proposes to increase funding for the Department of Corrections (DOC) by \$108 million in the 2023-25 biennium and by \$159 million in the 2025-27 biennia. The major components for DOC are:

- ❖ Phase out of solitary confinement;
- ❖ Transgender medical and health care; and
- ❖ Reducing mandatory overtime to create safer conditions for staff and incarcerated individuals.

All 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, legislative agencies, and judicial agencies. Other PL changes increase funding by \$246 million in the 2023-25 biennium and increase funding by \$53 million in the 2025-27 biennium. The major components are:

- ❖ Department of Children, Youth & Families: Settlement payouts for legal costs for two cases;
- ❖ Department of Children, Youth & Families: Caregiver supports correction, to restructure foster care maintenance payments and provide support to all caregivers;
- ❖ Department of Children, Youth & Families: Early Childhood Education and Assistance Program (ECEAP) rate increases;
- ❖ Special Appropriations to the Governor: Information technology pool, the Office of Financial Management will allocate funds from the IT pool to state agencies for selected projects;
- ❖ Department of Health: Public health cloud technology; and
- ❖ Department of Commerce: Funding is shifted from the operating budget to the capital budget for solar resilience hubs, community solar, and electric vehicle (EV) charging.

Federal Funds Shift

The Governor proposes to swap the remaining \$145 million unappropriated Federal Coronavirus State Fiscal Recovery Funds (CSFRF) for items that were previously being paid for with GF-S in order to ensure that the use of these federal funds are maximized prior to the December 31, 2026 expiration date. The budget item that was swapped is for the Health Care Authority: Behavioral health services and other wrap around services for non-Medicaid clients.

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Compensation and Benefits

The Governor's proposed spending reflects the impacts associated with three collective bargaining agreements (CBAs) that specifically address:

- ❖ The Body Worn Camera Program for the Fish and Wildlife Officers Guild and Teamsters Local 760;
- ❖ A non-state employee union negotiated agreement with the Adult Family Home (AFH) Council; and
- ❖ One higher education agreement related to the formation of a collective bargaining unit for Campus Police Officers & Sergeants.

The details associated with the major elements of these agreements are provided in OFM Document 2024-4 that is available here: [OFM Document 2024-4 Collective Bargaining Agreements dated December 13, 2023 \(wa.gov\)](#).

The Governor also proposes an increase to the funding rates for state employee health insurance benefits related to the retiree health insurance subsidy. The monthly cap is increased from \$183 to \$193, additional funding is also included to raise the base percentage covered from 50% to 60%. Funding is also provided for two pension bills, one related to payment through the end of the month in which the retiree or beneficiary dies, and the other of which would shift staff at certain facilities from the Public Employees' Retirement System (PERS) to the Public Safety Employees' Retirement System (PSERS).

- ❖ Total PL adjustments for compensation and benefits total additional costs of \$7 million in the 2023-25 biennium and \$13 million in the 2025-27 biennium.

Assumed Reversions

Reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation. Consistent with ERFC guidance provided on January 11, 2024, reversions are estimated at approximately 1.2 percent of GF-S appropriations for FY 2024 and FY 2025 and approximately 0.5 percent of GF-S appropriations for FY 2026 and FY 2027. Additional adjustments to reversions are made in accordance with prior direction from the ERFC.

The total reversions assumed are \$859 million savings in the 2023-25 biennium and \$375 million savings in the 2025-27 biennium. Reversions total \$1.234 billion in savings over the Outlook period.

Reversion totals include:

- ❖ 1.2 percent of GF-S appropriation reversions of \$394 million savings in FY 2024 and \$421 million savings in FY 2025, totaling \$815 million savings in the 2023-25 biennia.
- ❖ 0.5 percent GF-S appropriation reversions of \$176 million savings in FY 2026 and \$179 million savings in FY 2027, totaling \$355 million savings in the 2025-27 biennia.
- ❖ Additional K-3 reversion assumption of \$44 million savings in the 2023-25 biennium and \$20 million savings in the 2025-27 biennium, totaling \$64 million savings over the Outlook period.

Budget Stabilization Account

Per Article VIII, section 12(2)(d), of the Constitution, money may be withdrawn and appropriated from the Budget Stabilization Account (BSA) if the Governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safety, then for that fiscal year money may be withdrawn and appropriated from the BSA, via separate legislation setting forth the nature of the emergency and containing an appropriation limited to the authorized purposes

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as contained in the declaration, by a favorable vote of a majority of the members elected to each house of the Legislature.

On August 19, 2023 the Governor issued Emergency Proclamation 23-05 related to 2023 Wildfires: <https://governor.wa.gov/sites/default/files/proclamations/23-05%20-%202023%20Wildfires.pdf>.

The Governor proposes to use BSA funds to pay for qualified wildfire suppression costs as described in HB 2170 / SB 6100.

- ❖ Total PL appropriations from the BSA are \$19 million in the 2023-25 biennium.

Total Reserves

Pursuant to the direction of the ERFC, the summary document for the Outlook shows reserves in the NGF-O Accounts, the Washington Rescue Plan Transition Account (WRPTA) created in Chapter 334, Laws of 2021 (ESSB 5092), and the Budget Stabilization Account. To calculate percentage of reserves to revenues and other resources, ending balances are divided by the sum of forecasted revenues and total resource changes. Beginning fund balances are not included in the percentage calculation.