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Overview of the Methodology for 4-Year Budget Projections (November 2012)

Introduction

The purpose of this document is to provide an overview of the methodology used to develop the 4 year budget projections pursuant to Chapter 8, Laws of 2012, and 1st sp.s. (SSB 6636). While this document will summarize the major components of the projection and describe the overall approach, more information on the assumptions can be found in the actual outlook document and in other referenced material.

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.s. (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 reflect the most recently adopted quarterly revenue forecast by the Economic and Revenue Forecast Council. For this outlook, it is based on the November 2012 forecast.

Because the provisions of Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636) call for the ensuing biennium (in this instance the 2015-17 biennium) to be balanced based on the greater of (1) the official revenue forecast for the ensuing biennium; or (2) an assumed revenue increase of 4.5 percent per year for that ensuing biennium. Since the current forecast calls for revenue growth in the ensuing biennium of less than 4.5 percent per year, a second outlook is also prepared, but using the 4.5 percent growth rate. It is this outlook that would be the basis for determining compliance with the ensuing biennium balanced budget requirements.

Other Enacted Fund Transfers

This category reflects all enacted fund transfers made in the 2011 and 2012 legislative sessions (including special sessions). For more information, see the 2011 and 2012 Legislative Budget Notes at http://leap.leg.wa.gov/leap/budget/index_lbns.asp. Since the fund transfers are one-

time, no assumption is made regarding the Legislature deciding to make additional fund transfers after the 2011-13 biennium.

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 to the Budget Stabilization Account. See more information on the Budget Stabilization Account below.

Working Capital Reserve

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

Expenditures

As the starting point for the expenditure projection, the outlook utilizes the most recently enacted budget. In this case, this is based on the 2012 supplemental budget appropriation levels (including December 2011 “early action”). For more information, please see http://leap.leg.wa.gov/leap/budget/index_lbns.asp

Assumed Reversions

The 2012 supplemental budget, Chapter 7, Laws of 2012, 2nd sp.s., Partial Veto (3ESHB 2127) made changes to the way agency underspending is handled. Rather than being distributed to the Education Savings Account, Savings Incentive Account, and various other smaller accounts, the amounts that remain unspent at the end of fiscal years 2012 and 2013 will be retained in the state general fund. This resulted in \$95 million from fiscal year 2012 resources (net reversions) being retained the state general fund. Reversions from fiscal year 2013 are assumed to be an additional \$60 million. It is possible that there will be agency reversions in subsequent years, but since legislative expectations have not been established for these time periods and, under current law, those savings would not be retained in the general fund, no on-going assumption is made.

Carry Forward Level

The outlook then adjusts the most recently enacted spending level to the Carry Forward Level. In short, the Carry Forward Level 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. Some examples of the larger Carry Forward Level adjustments are:

Remove One-Time K-12 Apportionment Delay

In fiscal year 2011, \$128 million in K-12 apportionment payments were delayed until fiscal year 2012. This caused the need to add \$128 million in fiscal year 2012 to pay for the extra payments. Since the K-12 apportionment payments were returned to their normal payment schedule in fiscal year 2013, this funding is removed.

Restore K-12 Salary Reduction

For both school years of the 2011-13 biennium, allocations to school districts for K-12 employee salaries were reduced by 1.9 percent for certificated instructional and classified staff and 3.0 percent for administrative staff. Since the Legislature assumed these were one-time, this funding is restored.

Restore One-Time Bus Depreciation, National Board & Safety Net

As a one-time savings mechanism, the timing of payments for K-12 school bus depreciation/replacement, National Board bonuses, & safety net were adjusted. These steps adjust enacted funding levels based on the on-going need to accommodate the revised payment schedule.

Restore 3% Salary Reduction

For both fiscal years of the 2011-13 biennium, funding was reduced to reflect a 3 percent cost savings in state and higher education employee salaries, with several exclusions, including those earning less than \$2,500 per month. Since the Legislature assumed these were temporary reductions for the 2011-13 biennium, this funding is restored.

Children's Health Insurance Program Reauthorization Act (CHIPRA) Bonus

Under the federal Children's Health Insurance Program Reauthorization Act (CHIPRA), states receive annual performance bonuses for efforts to increase the number of children enrolled in state/federal medical and dental coverage. Since it is uncertain whether these payments will continue, the bonus payments are removed.

Biennialize Debt Service

Changes in debt service funding were biennialized.

Changes from Carryforward Level

In this section, additional adjustments are made to reflect the expenditure level based on the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated by using the Carry Forward Level and making adjustments for the forecasted changes in the entitlement caseload/enrollment and other mandatory expenses. The distinction is that this reflects the costs of continuing to comply with current law provisions. This is often referred to as the Maintenance Level. Pursuant to the provisions of Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636), this excludes the costs of policy enhancements, including new collective bargaining agreements not approved by the Legislature, other proposed compensation increases, costs of any adverse court rulings within 90 days of each respective legislative session, and the phase-in of K-12 McCleary related funding.

Note: The January 2013 outlook will be updated based on the assumptions, including policy level enhancements, used in the Governor's proposed budgets submitted in December 2012.

Some of the larger items included in this outlook are:

K-12 Enrollment

This is based on the most recent enrollment forecast and budget driver information based on the required K-12 entitlement changes. This assumes K-12 enrollment growth of: X.X percent in FY 2014, X.X percent in FY 2015, X.X percent in FY 2016, and X.X percent in FY 2017.

Medical Assistance

The amounts depicted reflect the most recent caseload and per capita cost information prepared through joint effort by legislative and executive branch staff. Some of the major cost components include: (1) X; (2) Y; and (3) Z.

Hospital Safety Net

The rate increases which were allowed as a result of the establishment of a hospital safety net assessment pursuant to Chapter 30, Laws of 2010, 1st sp.s (E2SHB 2956) are set to expire on June 30, 2013. For most hospitals, this would result in an average X.X percent reduction in inpatient rates and X.X percent reduction in outpatient rates. Based on legislative expectations, funding is adjusted assuming the replacement of a portion of the hospital safety net assessment revenue with state funds (consistent with statute).

Mental Health, Long Term Care, and Developmental Disabilities

The amounts depicted reflect the most recent caseload and per capita cost information prepared through joint effort by legislative and executive branch staff. Some of the major cost components include: (1) X; (2) Y; and (3) Z.

Children's Services & 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. Some of the major cost components include: (1) X; (2) Y; and (3) Z.

Department of Corrections, Juvenile Rehabilitation & Special Commitment Center

The amounts depicted reflect the most recent caseload and per capita cost information prepared through joint effort by legislative and executive branch staff. Some of the major cost components include: (1) X; (2) Y; and (3) Z.

Involuntary Treatment Act (ITA)

In December 2011, the Legislature delayed the implementation of Chapter 6, Laws of 2011, 2nd sp.s. (SHB 2131) which broadened the criteria used for detaining or committing individuals with mental disorders under the ITA. These provisions will now become effective in July 2015. This step provides the estimated funding for the implementation of that legislation under the revised date.

Debt Service

This adjusts total debt service funding to reflect the estimated cost of all currently authorized bonds (including those already issued). In addition, an amount is added to reflect historical growth in payments.

I-732 K-12 and Community College Staff Increases

Funding is provided for costs associated with providing cost of living increases to K-12 and certain community college staff pursuant to Initiative 732. The costs are based on the November 2012 Seattle CPI forecast with projections for a X.X percent increase in FY 2014, X.X percent increase in FY 2015, X.X percent increase in FY 2016, and X.X percent increase in FY 2017.

Collectively Bargained Additional Step Increase

The 2011-13 collective bargaining agreement approved by the Legislature created an additional salary step on state salary schedule beginning in the 2013-15 biennium.

Federal Health Reform

The amounts depicted reflect the estimated impact to the state from federal health reform apart from any decision to expand Medicaid coverage. Because the exchange will refer clients who meet current Medicaid eligibility standards to Medicaid, there is expected to be an increased caseload effect regardless of whether Washington state chooses to expand eligibility. The estimates are primarily based on executive and legislative staff branch analysis. It should be noted that there remains a fair degree of uncertainty regarding the state impacts and any cost impacts (both up and down) of any expansion are not included in this analysis.

Paid Family Leave

In 2011, the Legislature further delayed implementation of a paid family leave insurance program which was originally enacted in 2007. Under the revised timetable, benefits (\$250 per week for five weeks) are payable beginning October 1, 2015. The amounts depicted reflect the estimated administrative and benefit costs of the program.

Preliminary Pension Rate Changes

The amounts depicted are based on the most recent pension rate estimates prepared by the State Actuary. The rate increases involve two impacts; (1) the projected actuarial increases associated with current and future Plan 2 and 3 participants; and (2) additional actuarial increases associated with unfunded liabilities in two of the older pension plans (PERS 1, TRS 1) closed in 1977.

Wildland Fire Suppression

The amounts depicted reflect additional costs beyond an average wildland fire suppression season. These amounts will likely vary in the actual year that they are incurred.

Special Appropriation Items

This category reflects the typical Special Appropriation items that are removed in the development of the Carry Forward Level, but have historically been restored in the Maintenance Level. It also includes a few new items associated with recent legislation or budgetary actions. These include: (1) the continuation of county public health backfill resources originally established after the passage of Initiative 695; (2) a transfer to the Local Public Safety

Enhancement Account required by Chapter 99, Laws of 2008 (ESSB 6573); (3) continued funding for the operations of the K-20 network; (4) the GF-S portion of debt service associated with the new State Data Center; (5) repayments for the financing of recent facility closures; and (6) the typical amount provided for fire mobilization contingency funds.

Potential Policy Enhancements

Unless otherwise directed, this outlook will not include estimates for items like:

- Implementation of HB 2776 (Basic Education) or other McCleary related items
- Increases to keep State Need Grant funding indexed to tuition
- Collective bargained agreements (and those awarded through arbitration) for employees and certain categories of contracted providers
- Funding for health benefit funding rate increases
- Salary increases for non-represented employees
- Other potential policy changes

Unrestricted Ending Reserves

This reflects the projected combined Near General Fund and Opportunity Pathways Account balance at the end of each respective fiscal year and is calculated by taking the beginning fund balance, adding resources and subtracting expenditures.

Budget Stabilization Account (BSA) Balance

This balance is calculated by taking the beginning balance, adding the mandated transfers from the state general fund and subtracting any appropriations made from the BSA.

Mandated transfers from the state general fund include 1% of general state revenues plus a portion of any “extraordinary revenue growth.” Based on current revenue forecasts, no transfers triggered by “extraordinary revenue growth” are expected for the time period covered by the outlook.

While the provisions of Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636) specifically exclude the BSA balance in determining compliance with balanced budget requirements, it is displayed for information purposes in this document.