

Methodology for the January 2013 State Budget Outlook Based on Governor Gregoire's December 2012 Budget Proposal for the 2013-15 Biennium

Introduction

According to Chapter 8, Laws of 2012, 1st Special Session (SSB 6636), each January the State Budget Outlook Work Group must prepare a state budget outlook that reflects the governor's proposed budget submitted to the Legislature under chapter 43.88 RCW.

Because Governor Gregoire submitted two 2013-15 budget versions in December, 2012 — an expenditure plan based on currently authorized revenues (as required by law) and an expenditure proposal reflecting new revenues — two separate outlooks are presented for consideration by the Economic and Revenue Forecast Council.

This document outlines the major assumptions for each version of the outlook. General definitions and methodology remain the same as described in November. Dollars are expressed as the sum of the following accounts: state General Fund, the Education Legacy Trust Account, and the Opportunity Pathways Account. All dollar figures are rounded to the nearest million.

Resources

The November 2012 quarterly revenue forecast by the Economic and Revenue Forecast Council (ERFC) remains the most recent forecast and therefore creates the base for both the State Budget Outlook adopted by ERFC last November and Governor Gregoire's December budget proposal.

Governor Gregoire's Current Law Budget ("Book 1")

In addition to the November forecast of available revenues, Book 1 resources include recommendations for \$181 million in transfers from other funds, \$117 million in changes to cost-share with local governments, and \$10 million in budget-driven revenue. Only the budget-driven revenue change (from new revenue auditors), and the elimination of the state's liquor excise tax revenue sharing carry forward into 2015-17.

Governor Gregoire's New Law Budget ("Book 2")

Added in Book 2 are the revenues that require new legislation to implement, primarily: \$63 million for repeal of the tax exemption for the extracted fuel use tax; \$69 million to repeal the sales tax exemption on candy and gum and \$57 million for a tax on carbonated beverages (to fund the home care worker arbitration award); \$534 million to extend the 2010 B&O tax surcharge on service businesses, \$101 million to extend the 2010 beer tax, and \$368 million to impose an excise tax on the wholesale price of fuel (dedicated to fund legislatively enacted basic education enhancements). The B&O and beer tax extensions end on 12/31/16.

Expenditures

Maintenance Level Estimate

The maintenance level estimate for Governor Gregoire's budget reflects costs for mandatory caseload and enrollment, debt service and pension rates that were not yet finalized when the November 2012 state budget outlook was adopted. In addition to these revisions, the maintenance level includes the second-year estimate for health benefit costs, a repayment to the

federal government for incorrect State Children’s Health Insurance Program reimbursement, and various other smaller revisions. This maintenance level is a net \$20 million less than assumed in November.

Policy Items

All expenditure items that follow the maintenance level sub-total in the outlook represent “policy” changes that Governor Gregoire proposed within currently authorized revenues or new revenues. Negative numbers represent reductions to maintenance mevel. Positive numbers are increases.

All policy changes are estimated for 2013-15 at the amount in Governor Gregoire’s budget, and then followed by an estimate of their impact to 2015-17.

Governor Gregoire’s Current Law Budget (“Book 1”)

The current law budget includes savings of approximately \$1 billion and major additions of \$187 million. Major reductions include: \$360 million for suspension of the Initiative 732 K-12 and community college cost-of-living salary increase; \$225 million in savings from Medicaid expansion through implementation of the federal Affordable Care Act (these reductions offset costs in maintenance level to implement the federal Affordable Health Care Act, netting to \$139 million GF-S); a \$100 million reduction of K-12 levy equalization; \$52 million in an across-the-board cut in higher education; and \$40 million in one-time savings from lower caseloads in the WorkFirst program. The primary additions are \$125 million for the home care worker arbitration award; \$35 million for the expected cost of College Bound Scholarships, and \$27 million for state General Fund debt service cost related to new projects proposed in Governor Gregoire’s capital budget. Paid Family Leave implementation is suspended for a savings of \$14 million.

Governor Gregoire’s New Law Budget (“Book 2”)

Based on the assumption of newly authorized revenue, the expenditure plan for Book 2 adds \$1.03 billion to invest in K-12 basic education, \$50 million for additional pre-school enrollment, and \$20 million for targeted higher education enrollment. The K-12 levy equalization and higher education across-the-board cuts from Book 1 are not included. Various other small additions and reductions are also altered to reflect Governor Gregoire’s proposed budget.

Projected Ending Balance

The projected balances represent expected end-of-biennium totals after all expenditures contained in the budget are subtracted from proposed resources. Each biennium’s ending balance is assumed to carry over as a resource for the next biennium.

Budget Stabilization Account Balance (“Rainy Day Fund”)

Governor Gregoire’s budget does not make any use of the Budget Stabilization Account (BSA). The balance includes the effect of new revenues on the BSA transfer to the GF-S, and updated assumptions of interest to the account.