

## **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, and 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 2013-15, 2015-17, and 2017-19 reflect the November 2014 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 2017-19 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 November 2014 forecast projects revenue growth of less than 4.5 percent per year in the 2017-19 biennium, the November 2014 Outlook uses the 4.5 percent growth rate.

### Other Enacted Fund Transfers

This category reflects all enacted fund transfers made in the 2013 and 2014 legislative sessions (including special sessions). For more information, see the 2013 and 2014 Legislative Budget Notes at <http://leap.leg.wa.gov/leap/budget/lbns/2014Operating.pdf>

Since the fund transfers were not specified to continue pursuant to the resource criteria adopted by the ERFC on November 6, 2014, no assumption is made regarding the continuation of the fund transfers in the ensuing biennia.

### Transfers to Budget Stabilization Account

Pursuant to a constitutional amendment approved by the voters in 2007, this reflects the transfer of 1 percent of general state revenues for each fiscal year (FY) to the Budget Stabilization Account. This transfer is legally required and estimated transfer amounts are based on the November 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 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 occur to the extent that it exceeds the normal transfer amount into the budget stabilization account.

### **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 2014 supplemental budget appropriation levels, and then reflects adjustments for carryforward level (CFL) and preliminary maintenance level (ML). For more information on the 2014 supplemental Budget, please see [http://leap.leg.wa.gov/leap/budget/index\\_lbns.asp](http://leap.leg.wa.gov/leap/budget/index_lbns.asp)

### Assumed Reversions

The 2013 biennial budget, Chapter 4, Laws of 2013, 2nd sp. sess., Partial Veto (3ESSB 5034) 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 FY 2014 and FY 2015 will be retained in the state general fund. This resulted in \$79.7 million from FY 2014 resources being retained in the state general fund. Reversions from FY 2015 are assumed to be an additional \$70 million. The November 2014 Outlook continues this amount through 2017-19.

### **Carryforward Level Revisions**

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

#### Kindergarten – Grade 12 (K-12) Schools

The total K-12 CFL adjustment for 2015-17 is \$698.3 million. The largest adjustment translates school year costs to FY costs (\$211.5 million). The other larger CFL adjustments include biennialization for inflation (\$122.6 million), 24 credit graduation (\$120.8 million), enrollment/workload (\$77.4 million), transportation funding (\$66.5 million), Local Effort Assistance (\$61.9 million), and class size reduction (\$10.4 million).

#### Low-Income Health Care

The total CFL adjustments for this Outlook area are -\$13.1 million. Some of the larger increases are related to: caseload adjustments (\$70.3 million), utilization changes (\$27.8 million), Presumptive SSI Federal match (\$14.2 million), and managed care inflation (\$12.5 million). The larger decreases in CFL are related to savings from Medicaid expansion (-\$103 million) and Lean efficiency reductions (-\$22.9 million).

#### Mental Health/Long Term Care/ Developmental Disability Services

The total CFL adjustments for this Outlook area are \$111.8 million. Larger items include the Nursing Home Rebase funds (\$31.4 million), In-Home Provider Arbitration (\$25.3 million), caseload adjustments (\$24.2 million), Public Employee Benefit (PEB) rate adjustment (\$18.3 million), mental health assessments (\$15.5 million), and children's mental health settlement (\$15.4 million). Larger decreases are related to Medicaid expansion (-\$41.5 million), efficiency reductions (-\$20.8 million), and electronic medical records (-\$9.7 million).

## Overview of the Methodology for the State Budget Outlook (November 2014)

### Children's/Economic Services

The total CFL adjustments for this Outlook area are \$142.5 million. Some of the larger items include adjustments for caseloads (\$50.8), Child Care Rate adjustments (\$32.5 million), WorkFirst Program changes (\$27 million), PEB health rate adjustments (\$20 million), reversing one-time fund shifts (\$15 million), Family Assessment Response (\$4 million), and Lean Efficiency savings (-\$7.6 million).

### Department of Corrections/ Special Commitment/ Juvenile Rehabilitation

The total CFL adjustments for this Outlook area are \$35 million. The largest item is related to the PEB rate adjustment (\$33.4 million). There are also adjustments related to restoring one-time savings related to under expenditures and fund shifts (\$10.9 million), caseload adjustments (\$4.2 million) and the Lean efficiency savings (-\$10.3 million).

### Debt Service

The total CFL adjustments for this debt service is \$337.1 million. The biennial and supplemental budgets included one-time shifts between fiscal years for debt service. This one-time shift is adjusted in CFL (\$235 million). Additional adjustments reflect the debt service for the adopted capital budget (\$102.1 million).

### Higher Education

Total CFL adjustments for higher education total \$90 million. The largest adjustment is \$92.4 million related to the PEB rate. Other large items are related to biennializing funding for financial aid (\$5 million) and aerospace enrollment (\$8 million). Other adjustments are related to scholarships (\$16 million). There are also larger reductions related to reversing the one-time funding for the Washington Opportunity Scholarship Program (-\$25.4 million) and the Lean efficiency savings (-\$12 million).

### Other

The total CFL adjustments related to this outlook area are -\$47.5 million. The larger adjustments are related to zero-basing Special Appropriations (-\$83.6 million). Other larger adjustments are related to Lean efficiency savings (-\$6.2 million). Larger increases are related to the PEB rate adjustment (\$23.8 million), adjusting for one-time program shifts from other fund shifts back to the General Fund-State (GF-S) (\$52.5 million).

### **Maintenance Level Revisions**

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 CFL as a starting point 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 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, 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 2015 Outlook will be updated based on the assumptions, including policy level enhancements, used in the Governor's proposed budget submitted in December 2014.

## Overview of the Methodology for the State Budget Outlook (November 2014)

### K-12 Education

This is based on the most recent enrollment forecast and budget driver information for required K-12 entitlement changes. This estimate will continue to be updated as more information like staff-mix is received from local school districts. The K-12 funding will be adjusted 0.66 percent from FY 2017 each year of the ensuing biennium. The Materials, Supplies, and Operating Costs (MSOC) amount is adjusted by both enrollment and the implicit price deflator (IPD).

Larger adjustments in the 2015-17 ML include: enrollment/workload adjustments (\$219.5 million), Local Effort Assistance (\$61.8 million), K-12 inflation (\$37.9 million), assessment system costs (\$22.5 million), and charter schools (\$18.9 million).

The larger 2015 supplemental items include: student assessment costs (\$16.8 million), enrollment and workload adjustments (\$15.6 million), prior school year adjustments (\$6.9 million), and local effort assistance (\$3.9 million).

### Initiative 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 generally based on the November 2014 Seattle consumer price index (CPI) forecast with projections for a 1.9 percent increase in FY 2016, 1.3 percent increase in FY 2017, 1.8 percent increase in FY 2018, and 2.0 percent increase in FY 2019.

### Higher Education

The largest adjustment is related to the College Bound Scholarship program and is based on the most recent caseload information. Other Higher Education items are related to maintenance and operations and lease adjustments. The cost of College Bound is displayed separately. The remaining Higher Education items are adjusted by 0.3 percent per year from FY 2017.

The larger adjustment in the 2015-17 ML is related to College Bound (\$25.6 million).

### Low-Income Health Care

The amounts depicted reflect the caseload and per capita cost information prepared as part of the agencies budget submittal, as well as other mandatory maintenance level changes. Some of the major cost components include utilization and medical inflation. Assumed future growth is estimated at 3.22 percent per year from FY 2017.

Larger adjustments in the 2015-17 ML are related to caseload and utilization changes (\$103 million).

The larger adjustments in the 2015 supplemental budget is related to caseload and utilization (-23.9 million).

### Hepatitis C

This item reflects costs identified in Health Care Authority, Department of Corrections, Mental Health, and the Special Commitment Center associated with the new Hepatitis C drug treatment.

### Expiration of Hospital Safety Net GF-S Offset

This reflects the GF-S to cover the rate increases that were allowed as a result of the establishment of a hospital safety net assessment (HSNA). The HSNA phases down during FY 16 and FY 17 and is set to expire June 30, 2017. 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).

### DSHS 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, as well as other mandatory maintenance level changes. Some of the major cost components include utilization and severity of client needs. Assumed future growth is estimated at 3.42 percent per year from FY 2017.

Larger adjustments in the 2015-17 ML include: caseload and utilization changes (\$62.2 million) and workload adjustments (\$9.1 million).

### DSHS Children's Services and 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, as well as other mandatory maintenance level changes. Some of the major cost components include foster care and adoption support caseload, eligibility experience and revised growth trends. Assumed future growth is estimated at 1.93 percent per year from FY 2017.

Larger adjustments in the 2015-17 ML are related to caseload adjustments (-\$15.8 million) and funding for a new SNAP EBT vendor (\$3.1 million).

Larger adjustment in the 2015 supplemental budget is related to caseload (\$5.8 million).

### Department of Corrections, DSHS Juvenile Rehabilitation and 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, as well as other mandatory maintenance level changes. A major cost component is the proportion of community and institution population. Assumed future growth is estimated at 3.19 percent per year from FY 2017.

Larger adjustments in the 2015-17 ML include: medical inflation (\$3.3 million), community violator funding (\$2.3 million), and utility rate adjustments (\$2.2 million).

Larger adjustments in the 2015 supplemental ML include: community violator funding (\$3.8) and medical inflation (\$1.6 million).

### Other

This area includes all other agencies not reflected in the proceeding Outlook groups. Many are general government agencies, smaller human service agencies, natural resource agencies, legislative agencies and judicial agencies.

Larger adjustments in the 2015-17 ML include: funding for the presidential primary and voter pamphlet (\$11.5 million), implementing 2SSB 6312 regarding behavioral and medical care purchasing (\$7.8 million), workload adjustments (\$4.1 million), and fire suppression (\$3.9 million).

Larger items in the 2015 supplemental ML include: cost allocation adjustments (\$1.6 million) and workload adjustments (\$1.1 million).

### Special Appropriation Items (Part of Other in the Outlook)

This category reflects the typical special appropriation items that are removed in the development of the CFL, but have historically been restored in the ML. It also includes a few new items associated with recent

## Overview of the Methodology for the State Budget Outlook (November 2014)

legislation or budgetary actions. An itemization is listed in the table below:

### Dollars in Millions

Detail of Items in Special Appropriations	2015-17	2017-19
Governor's Emergency Fund	\$ 1.7	\$ 1.7
K-20 Network	\$ 16.0	\$ 16.0
County Public Health Assistance	\$ 72.8	\$ 72.8
Fire Contingency	\$ 8.0	\$ 8.0
Disaster Response Account	\$14.9	\$14.9
O'Brien Building COP Payment	\$ 5.9	\$ 5.9
SERA Account Repayment	\$ 10.2	\$ 10.2
Common School Construction Account	\$1.2	\$1.2
Real Property Replacement Account	\$0.6	\$0.6
Impaired Driving	\$0.7	\$0.7
Local Public Safety Enhancement Account RCW 41.26.802	\$ 20.0	\$ 50.0
<b>Total</b>	<b>\$ 152</b>	<b>\$ 182</b>

### Policy Items reflected in 2015

The November 2014 Outlook includes items that are in policy in the budget and the costs have been incurred. This includes fire suppression and mobilization, disaster response account funding, and the costs related to the Rekhter decision.

### Other Outlook Items

Initiative 1351 is reflected in this section of the Outlook. The costs are based on the Office of Financial Management fiscal impact statement prepared for the initiative. The actual costs and funding level will be determined through the legislative process.

These are items that are not in CFL or ML but are either statutorily obligated such as the K-12 MSOC phase-in, opportunity scholarship funding, and the Early Childhood Education and Assistance Program (ECEAP). The ECEAP costs reflects the total funding in FY 2019 but does not include phase-in costs before that time.

This section also includes items that were reflected in the Outlook adopted to reflect the enacted 2014 budget, such as the savings related to the Department of Early Learning's new IT system, the Basic Health Plan Account uses.

Public employee health benefit (PEB) costs to maintain the current employee/employer share and benefit package were included in the Outlook for the enacted budget. This amount was updated to reflect the fact that part of the PEB costs are included in CFL. The remaining PEB costs are the difference between the CFL per member per month (PMPM) amount and the revised PMPM to maintain the current benefits and employee/employer share in FY 2016. This PMPM is continued into FY 17, FY 18, and FY 19.