2024 Growth Factor Update

09/13/2024

State Budget Outlook Work Group

Presentation to the Economic Revenue and Forecast Council

Outlook statute background

- Estimated expenditures in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law
- The cost to continue current programs and reflect growth in entitlement programs in some areas is estimated in the Outlook by using growth factors
- Other changes that are required by law (including items with future implementation dates) are generally reflected separately or accounted for by custom adjustments in the Outlook
- The Outlook statute specifically excludes any future costs related to policy items (including collective bargaining agreements that have not been approved by the Legislature) unless required by statute

How are the Outlook growth factors used?

- Growth rates applied to budget items for purposes of meeting Outlook balanced budget requirements
- Used to create an estimate of ensuing biennium Maintenance Level (ML) expenditures
  - When calculating the Outlook for operating budgets written for the 2025-27 biennium, the growth factors will be applied to estimate growth in the 2027-29 biennium (e.g. fiscal year 2028 and fiscal year 2029)
  - Reflected in the ensuing biennium amounts in the Outlook document

How are the current growth factors calculated?

- Typically, in most cases, percent change in NGF-O expenditures through ML from first to second year of a biennium, averaged over five most recent biennia
- Grouped by category
  - Corrections
  - DSHS
  - Higher Education
  - Low Income Health Care & Community BH
  - All Other (Including DCYF)
- Exceptions:
  - K-12 (growth calculated K-12 Model)
  - Debt Service (growth calculated by the bond model)
  - Low Income Health Care & Community BH- customized approach for portion of LIHC budget to adjust for atypical Affordable Care Act (ACA) implementation impacts in the 2013-15 biennium
  - Higher education- custom approach used for financial aid portion of the budget utilizing projected tuition and population factors
- Adjustments- Custom adjustments are made to remove future growth on collective bargaining steps that have not been approved by the Legislature and control for atypical anomalies in first year to second year spending (e.g. $100m Trueblood Contempt Fine in FY 2024.)

COVID-19 Fiscal Considerations

- Significant swings between first and second fiscal years in the 2021 supplemental and 2021-23 biennial budgets
- Caseload impacts from pandemic and public health emergency created atypical changes from year 1 to year 2 spending in both the 2019-21 and 2021-23 biennia
- In 2022, as recommended by the work group, the ERFC opted to continue using the growth factors calculated in 2020 for budgets prepared in the 2023-25 biennium because of the Covid-19 fiscal impacts noted above

Changes Proposed for 2025-27 Growth Factor Methodology

- Use the average changes for the 2015-17; 2017-19, and 2023-25 biennia to avoid atypical impacts resulting from the pandemic and public health emergency
- Customized approach for portion of Low Income Health Care budget no longer needed as calculations no longer include the 2013-15 biennium impacted by the Affordable Care Act implementation

2024 Growth Factor Update Results

Default Growth Rate Category	Current Growth Factor	Proposed 2024 Growth Factor
All Other (Including CYF)	0.00%	1.02%
Corrections	1.53%	1.49%
Debt Service	Use Bond Model	Use Bond Model
DSHS	3.31%	3.09%
Higher Education	0.69%	1.17%
K-12	Use K12 Model	Use K12 Model
Low Income Health Care & Community Behavioral Health	2.86%	2.83%

Note: Proposed growth factor is based on 3 biennia (2015-17; 2017-19, and 2023-25 biennia) average of the change in spending through maintenance level from fiscal year 1 to fiscal year 2.

Fiscal Impact of Options on Four-Year CFL

(NGF-O, Dollars in Millions)

	FY 2027-29 Estimated CFL Expenditures With GFs Applied		
Category	**Proposed GFs**	**Current GFs**	**Difference**
All Other	9,258	9,118	140
Corrections	3,139	3,141	-2
Debt Service- Debt Model	2,946	2,946	0
Higher Education	6,065	6,021	43
K-12 Education- K12 Model	32,241	32,241	0
Low Income Health Care & Comm Behavioral Health	8,557	8,561	-4
Social & Health Services	11,356	11,392	-37
Total	**73,561**	**73,420**	**141**

Note: The impact of applying the proposed updated growth factors to the Carry-Forward Level (CFL) budget is a $141m increase in estimated spending when compared to applying the current growth factors for an overall difference of 0.2%.

Question for the ERFC?

Does the ERFC want the State Budget Outlook Work Group to use the new proposed growth factor methodology for preparing Outlooks during the 2025-27 biennia or should any changes be made to the proposed methodology?

Appendix: Proposed Growth Factors for the 2025 and 2026 Legislative Sessions

K-12 Public Education
The growth for K12 public education will be based on the K12 model, as previously approved by the Council.

The Department of Social and Health Services
The growth for the Department of Social and Health Services is based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. Some of the major cost components include caseload, utilization, and severity of client needs. The average projected growth for Social and Health Services is estimated at 3.09 percent per Fiscal Year.

Low Income Health Care and Community Behavioral Health
The growth for low income health care and community behavioral health is based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. Some of the major cost components include caseload, utilization, and mandatory actuarially driven managed care rate adjustments. The average projected growth for low income health care and community behavioral health is estimated at 2.83 percent per Fiscal Year.

Higher Education
The growth for higher education is calculated through a weighted hybrid approach. Growth for non-financial aid, which accounts for roughly 80% of expenditures, is calculated based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. Growth for financial aid, which accounts for roughly 20% of expenditures, is calculated based on historical average tuition changes over the past seven years and forecasted population changes for persons between the ages of 18 and 24. The average projected growth for Higher Education using this hybrid approach is estimated at 1.17% percent per Fiscal Year.

Appendix: Proposed Growth Factors for the 2025 and 2026 Legislative Sessions (cont'd)

Debt Service
Growth for debt service will continue to be calculated using the bond model as previously directed by the Council. Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2027-29 biennium bond bill and capital budget.

Department of Corrections
The growth for the Department of Corrections is based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. A major cost component is the relative proportions of community and institutional populations. The average projected growth for Corrections is estimated at 1.49 percent per Fiscal Year.

All Other
This includes general government agencies, judicial agencies, legislative agencies, the Department of Children, Youth, and Families, and other human service agencies. The growth for all other is based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. Major cost components in this area are related to childcare, early learning, juvenile rehabilitation, fire suppression costs, central service charges, lease rate adjustments, and equipment replacement costs. The average projected growth for all other programs is estimated at 1.02 percent per Fiscal Year.