



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

Budget Outlook Meeting

January 27, 2016
10:00 a.m.

- Call to order
- Approval of meeting minutes: January 13, 2015
- Presentation on the Budget Outlook
- Adoption of the Budget Outlook
- Adjourn

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STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

Meeting Minutes

Budget Outlook

January 13, 2016

John A. Cherberg, Hearing Room 4

Economic and Revenue Forecast Council

Members Present

Hans Dunshee, House of Representatives

Terry Nealey, House of Representatives

Vikki Smith, Department of Revenue

David Schumacher, Office of Financial Management

James McIntire, Treasurer (via phone)

Staff

Steve Lerch, Executive Director,
ERFC

Budget Outlook representatives:

Michael Bezanson

Melissa Palmer

Pam Davidson

Call to Order

The meeting was called to order by Director Schumacher at 10:05 a.m.

Presentation on Budget Outlook

Michael Bezanson, Melissa Palmer, and Pam Davidson requested guidance from the council as they prepare the outlook on the Governor's proposed budget.

Governor's Proposed Teacher Recruitment and Retention Funding Proposal

In accordance with RCW 43.88, the Governor submitted his proposed budget document to the legislature on December 17, 2015. The Governor also submitted a Teacher Recruitment and Retention Funding Proposal, which includes appropriations, to the legislature under separate legislation. The Governor intends to propose tax changes that will pay for the Teacher Funding Proposal under separate legislation. The revenue generated from the tax proposals is to be deposited into the Education Legacy Trust Account.

The Governor did not include the Teacher Recruitment and Retention Funding Proposal on his balance sheet that he submitted as part of the budget documents.

Question: Should the Governor's 2016 Proposed Supplemental Budget Outlook include the Teacher Recruitment and Retention Funding Proposal as part of the Outlook?

Motion

Director Smith moved, seconded by Representative Nealey, to include the Teacher Recruitment and Retention Funding Proposal as part of the Budget Outlook. Council approved the motion at 10:15 a.m.

Adjournment

Meeting adjourned at 10:15 a.m.

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Governor's Proposed Budget January 2016

(Near GF-S & Opportunity Pathways Account, Dollars in Millions)

	FY 2016	FY 2017	2015-17	FY 2018	FY 2019	2017-19
Beginning Balance	1,011	878	1,011	264	(388)	264
Current Revenues						
November 2015 Revenue Forecast	18,627	19,288	37,916	20,229	21,098	41,327
Additional Revenue Based on 4.5% Growth Rate Assumption	-	-	-	-	-	-
	18,627	19,288	37,916	20,229	21,098	41,327
Other Resource Changes						
Transfer to BSA	(184)	(190)	(373)	(199)	(207)	(406)
Extraordinary Revenue to BSA	-	(136)	(136)	-	(248)	(248)
Extraordinary Revenue from BSA to GF-S	-	136	136	-	248	248
Prior Period Adjustments	20	20	41	20	20	41
2015 Session Transfers and Other Resource Changes (Net)	96	82	178	51	51	101
Proposed Fund Transfers	22	20	42	-	-	-
Proposed Tax Changes (K-12 Recruit/Retention)	-	101	101	111	115	226
Total Revenues and Resources (Including Beginning Balance)	19,593	20,200	38,915	20,477	20,689	41,554
Enacted Appropriations	18,639	19,580	38,219	20,494	21,036	41,530
2016 Supplemental Maintenance Level	250	270	520	223	214	437
K-12 Education	(6)	(10)	(16)	(9)	(9)	(18)
Local Effort Assistance	10	13	24	(6)	(22)	(29)
Higher Education	(0)	2	2	2	2	5
Dept of Early Learning	0	0	0	0	0	0
Mental Health/Dev. Disabilities/Long Term Care	6	44	50	44	46	90
IP Overtime and Informal Supports	14	40	53	31	32	63
Corrections/JRA/SCC	13	14	27	11	11	22
Children's/Economic Svcs	3	13	16	13	13	27
Low Income Health Care	9	0	9	0	0	0
Hepatitis C Treatment	(22)	5	(16)	(3)	(3)	(6)
Managed Care Rates	65	133	198	137	142	279
Debt Service	(8)	(8)	(15)	(8)	(8)	(17)
All Other	17	22	40	10	10	19
Fires	149	0	149	-	-	-
2016 Supplemental Policy Level	(88)	173	85	235	239	473
K-12 Education	-	2	2	2	2	3
McCleary Fines	16	-	16	-	-	-
Higher Education	-	1	1	1	1	2
Dept of Early Learning	-	5	5	5	5	10
Child Care CBA	-	14	14	14	14	28
Mental Health/Dev. Disabilities/Long Term Care	(13)	(2)	(15)	(0)	(0)	(0)
State Hospitals Enhancement	17	19	36	19	20	38
Community MH Enhancement	-	13	13	12	13	25
Corrections/JRA/SCC	2	3	5	2	2	4
Children's/Economic Svcs	(7)	(3)	(11)	5	5	11
Low Income Health Care	5	12	17	12	12	25
Healthier WA & Waiver Savings Restoration	20	40	59	41	42	83
All Other	5	7	13	5	5	11
Fires	(170)	(21)	(191)	-	-	-
Moore Settlement	36	-	36	-	-	-
Teacher Recruitment and Retention	-	85	85	117	118	234
Actual/Estimated Reversions	(86)	(86)	(173)	(86)	(86)	(173)
Revised Appropriations	18,715	19,937	38,652	20,865	21,402	42,267
Projected Unrestricted Ending Balance	878	264	264	(388)	(714)	(714)
Budget Stabilization Account						
Beginning Balance	513	520	513	716	929	716
Transfer From GFS	184	190	373	199	207	406
Reversions from BSA expenditures	-	0	0	-	-	-
Extraordinary Revenue to BSA	-	136	136	-	248	248
Extraordinary Revenue from BSA to GF-S	-	(136)	(136)	-	(248)	(248)
Appropriations from BSA	(178)	-	(178)	-	-	-
Interest Earnings	1	6	8	14	28	42
Ending BSA Balance	520	716	716	929	1,164	1,164
Combined Near GF-S Total & BSA Ending Balance	1,398	980	980	541	450	450

** Totals may not tie fiscal year due to rounding.

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Overview of the Methodology for the State Budget Outlook (January 2015)

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 (GF-S), the Education Legacy Trust Account (ELTA), 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 2015-17, and 2017-19 reflect the November 2015 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. The January 2015 Outlook for the Governor's proposed budget uses the official revenue forecast.

Other Enacted Fund Transfers

This category reflects all enacted fund transfers made in the 2015 legislative sessions (including special sessions). For more information, see the 2015 Legislative Budget Notes at <http://leap.leg.wa.gov/leap/budget/lbns/2015LBN.pdf>

Proposed Fund Transfers and Resource Redirections

The Governor's proposed transfers total \$41.8 million, including \$10 million from the Performance Audit Account, \$10 million from the Public Works Assistance Account, and \$14 million from the Dedicated Marijuana Account. The amounts transferred from the GF-S to the ELTA related to McCleary penalty are not shown as part of the available balance in the ELTA.

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 (BSA). 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

Overview of the Methodology for the State Budget Outlook (January 2015)

revenue growth (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 occur to the extent that it exceeds the normal transfer amount into the budget stabilization account.

Chapter 2, Laws of 2015, 3rd sp. sess. (EHB 2286) directs the State Treasurer to transfer amounts attributable to extraordinary revenue growth that were deposited into the BSA to the state General Fund. The transfer amounts were capped at \$75 million for 2015-17 and \$550 million for 2017-19. The Governor's budget includes an ERG transfer to the GF-S of \$135.9 million and proposes to amend the statutory cap established in EHB 2286.

Expenditures

As the starting point for the expenditure projection, the January 2016 Outlook utilizes the most recently enacted 2015-17 budget and Outlook adopted in July 2015 for the enacted budget. For more information on the 2015-17 supplemental Budget, please see http://leap.leg.wa.gov/leap/budget/index_lbns.asp

Assumed Reversions

Reversions are assumed to continue at \$86 million per year in FY 2016 and beyond.

Maintenance Level Revisions

In this section, additional adjustments are made to reflect the costs of continuing to comply with current law provisions. This is often referred to as Maintenance Level (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.

K-12 Education

This is based on the most recent enrollment forecast and budget driver information for required K-12 entitlement changes. The K-12 funding is 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 ML include: Local Effort Assistance (\$23.5 million), nation board bonus costs (\$7.9 million), assessment adjustment (-\$2.3 million), enrollment/workload adjustments (-\$15.5 million), and K-12 staff mix (-\$23 million).

Higher Education

Higher Education adjustment are related to the College Bound Scholarship program and to maintenance and operations and lease adjustments. Higher Education items are adjusted by 0.3 percent per year from FY 2017.

The larger adjustment in ML is related to worker compensation rate changes (\$1.9 million).

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

Overview of the Methodology for the State Budget Outlook (January 2015)

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 ML include: funding for IP overtime and informal supports (\$53.4 million), caseload, workload, and utilization changes (\$43.8 million), nursing home rebasing (\$6.9 million) and hospital revenue adjustments (\$5.9 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 ML include: mandatory caseload and workload adjustments (\$21.7 million), community violator funding (\$2.3 million), and equipment and facility maintenance (\$4.4 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 caseload and per capita cost increases and revised growth trends. Assumed future growth is estimated at 1.93 percent per year from FY 2017.

Larger adjustments in ML are related to caseload adjustments (\$20.8 million) and funding for Medicaid cost allocation adjustments (\$1.1 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, caseload, and medical inflation. Assumed future growth is estimated at 3.22 percent per year from FY 2017.

Larger adjustments in ML are related to managed care rates (\$197.6 million) and Medicare cost share changes (\$65.6 million), Individual and Family Services program (\$10.1 million), CPE adjustments (\$6.9 million) caseload and utilization changes (-\$70.1 million).

Hepatitis C

This item reflects savings from the initial cost estimates associated with the new Hepatitis C drug treatment (-\$16.3 million).

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. Assumed future growth is estimated at 0.53 percent per year from FY 2017.

Larger adjustments in ML include: funding to reflect shifting the Lean Savings from the back of the budget into specific agencies (\$11.3 million), however this item nets to zero across the whole budget), funding adjustments for Washington State Patrol cost allocation (\$2.3 million) and savings related to COP repayments adjustments (-\$5.9 million)

Fires

The Governor's budget includes the costs of responding to fires in ML (\$148.9 million). Agencies impacts are Department of Natural Resources, Fish and Wildlife Service, Washington State Patrol, and the Military Department.

Policy Level Revisions

In this section, adjustments are made to reflect the policy level expenditures included in the Governor's proposed budget.

K-12 Education

Enhancements in PL for K-12 total \$1.9 million.

Higher Education

Enhancements in PL for higher education total \$855,000.

Early Learning

The Governor's budget includes funding for the ECLIPSE program (\$2.2 million), Seasonal Child Care 12-month eligibility funding (\$1.7 million), and funding for health and safety work (\$1.1 million).

Child Care Collective Bargaining Agreement (CBA)

The Governor's budget includes funding for the reopener for the SEIU 925 CBA, which includes increased tiered reimbursement rates, a base rate increase, and funding for training (\$13.5 million).

DSHS Mental Health, Developmental Disabilities and Long Term Care

The Governor's budget includes funding for enhancements to the state hospitals (\$35.7 million), community mental health (\$13 million), one-time mental health savings (-\$8.6 million), Health Home savings (-\$5.9 million), and Residential Center Service fees (-\$2 million).

Department of Corrections, DSHS Juvenile Rehabilitation Administration and Special Commitment Center

The Governor's budget includes funding for high acuity client interventions and services (\$3.2 million) and relocation costs (\$1.2 million).

DSHS Children's Administration and Economic Services

The Governor's budget includes funding for disaster recovery (\$2 million), child protective service (\$1.9 million), Braam compliance (\$1.7 million), and one-time savings in WorkFirst/TANF (-\$20.5 million).

Low-Income Health Care

The Governor's proposed budget includes funding for Healthier WA and waiver savings restorations (\$42.7 million), Individual and Family Services program costs (\$15.1 million), and Medically Intensive Care program rates (\$3.1 million).

All Other

Funding is provided for the Moore Settlement (\$36 million), McCleary fines (\$16.4 million), a shortfall in the IT Systems Development Account (\$9.7 million), and shifting funding from the Judicial Information system account to the state General Fund (\$5.3 million).

Fires

The Governor's budget shifts the fire suppression related items funded in ML from state General Fund to the BSA (\$148.9 million) and shifts fire suppression funding in the underlying budget from the state General Fund to the BSA (\$29.5 million). The Governor's budget shifts an additional \$20.5M in pre-funded fire suppression costs for FY 2017 in the underlying budget to the Disaster Response Account.

K-12 Teacher Recruitment and Retention

Per the ERFCs direction, the Outlook includes both the revenue changes and expenditure related to the Governor's K-12 recruitment and retention proposal. The tax changes affecting extracted fuels, sales tax, bottled water, and REET foreclosure exemption are estimated to result in \$328 million from FY 2017 through FY 2019. The expenditures total \$319 million from FY 2017 through FY 2019.