

# Outlook: Updated Growth Factors

---

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Growth factors for outlooks prepared during the 2017-19 biennium.

At the request of the council, and as discussed during the April 26, 2016 meeting of the ERFC, the Outlook Work Group has calculated revised growth factors for the Outlook functional areas. These revised growth factors are being presented to the council for their consideration. If adopted, these growth factors would be used for the Outlooks prepared during the 2017-19 biennium, which is from November 2016 through the outlook on the enacted 2018 supplemental budget in the summer of 2018. The growth factors would then be updated during the 2018 interim for the next biennium.

The Workgroup is asking the ERFC to select a methodology related to K-12. For all other areas, the data was updated but the approach mirrors what was done in 2014.

The attached table displays the current growth factors developed in 2014 and revised growth factor rates.

## **Background**

Per statute, the estimated expenditures in the Outlook are to reflect the cost to continue current programs, entitlement program growth, and actions required by law. The cost to continue current programs and growth in entitlement programs is estimated in the Outlook by using the growth factors. Other changes that are required by law, including items with future implementation dates, are generally reflected separately in the Outlook (e.g. Opportunity Scholarship or I-732). The Outlook statute specifically excludes any future costs related to policy items, collective bargaining agreements not approved by the Legislature, or salaries and benefits, unless required by statute.

## **Methodology Overview**

The growth factors were updated through a joint effort by legislative and executive branch staff. The analysis used budgeted appropriations for the three accounts covered by the Outlook from the 2005-07 biennium to the 2015-17 biennium. Generally, the approach compares the fiscal year change within each biennium through Maintenance Level of the budget. Low-income health care and debt service methodologies are averages based on forecasted changes for the 4 years covered by the outlook, FY 2017 to 2022. The specific approach in these areas is described below.

The analysis excluded items related to salaries and benefits, to ensure that growth associated with salary and benefit changes are not reflected in the growth factor. The items that are statutorily required (e.g. pensions and I-732) are calculated and displayed separately in the Outlook; therefore, the growth factors do not include these items.

## Outlook: Updated Growth Factors

---

Given the nature of changes affecting K-12 and size of the K-12 budget, the Workgroup has two approaches for the ERFC to consider: 1) continue the prior approach of using enrollment projection and adjusting for MSOC for IPD and enrollment or 2) use the K-12 model to calculate the costs.

### **Option 1 (current practice updated):**

Initiative 732 K-12 and Community College Staff Increases

Funding for costs associated with providing cost of living increases to K-12 and certain community college staff pursuant to Initiative 732 (I-732) is calculated and displayed separately in the Outlook. The costs are revised in the Outlook with the updated I-732 inflationary factor. For K-12, the K-12 model updates the cost changes.

### Enrollment

The next component is the growth factor to reflect K-12 enrollment. The percentage is based on the most recent K-12 enrollment forecasted growth for the 17-18 school year through the 20-21 school year. The average enrollment growth over this timeframe is 1.03 percent per fiscal year.

### Materials, Supplies and Operating Costs (MSOC)

The remaining component is adjusting the MSOC funding for statutorily required inflation. The Outlook will identify MSOC funding separately and will increase this amount by both the enrollment growth factor (1.03 percent) and the IPD.

### **Option 2 (K-12 model):**

Under this option, K-12 Outlook calculations will utilize the K-12 model. The K-12 model updates the growth and inflationary factors with each forecast. The K-12 model is continually updated for other factors such as levy equalization, student transportation, and staff mix. The calculations derived from the K-12 model are the same that are used for fiscal notes and legislative policy proposals.

### **Low Income Health Care**

The growth for the Health Care Authority Medical Assistance program is based on actual and forecasted expenditures in core Medicaid programs from FY 2012 through FY 2017<sup>i</sup>. Populations (e.g. Medicaid Expansion New Eligibles) and services (e.g. dental) that have been subject to policy changes in the recent past were excluded from the analysis. Some of the major cost components for this area include utilization and medical inflation. The average growth over this timeframe is 3.04 percent per fiscal year.

Impacts of the expiration of the Hospital Safety Net and changes in the Affordable Care Act (ACA) Federal match requirements are calculated separately in the Outlook and not captured in the growth factor percentage.

### **DSHS Mental Health, Long Term Care, and Developmental Disabilities**

The growth for Mental Health, Long Term Care and Developmental Disabilities is based on budget appropriations from the 2005-07 biennium to the 2015-17 biennium. Some of the

## Outlook: Updated Growth Factors

---

major cost components include utilization and severity of client needs. The average growth over this timeframe is 4.12 percent per fiscal year.

### **Higher Education**

The growth for Higher Education is based on budget appropriations from the 2005-07 biennium to the 2015-17. The major cost components are changes in central service related charged and maintenance and operation costs for facilities. The average growth over this timeframe is 0.07 percent per fiscal year.

The cost of College Bound, Opportunity Scholarships, and I-732 are calculated separately in the Outlook and are not reflected in this growth rate.

### **Debt Service**

The Debt Service analysis is based on the average annual future growth from the current June 2016 debt service model for the 2017-19 biennium through the 2019-21 biennium (4 fiscal years). The projected average growth is 4.35 percent per year over this timeframe.

### **Department of Corrections, DSHS Juvenile Rehabilitation and Special Commitment Center**

The growth for Corrections, Juvenile Rehabilitation, and the Special Commitment Center is based on expenditures from the 2005-07 biennium to the 2015-17 biennium. A major cost component is the proportion of community and institution population. The average growth is estimated at 1.58 percent per fiscal year.

### **DSHS Children's Administration and Economic Services**

The growth for Children's Administration and Economic Services is based on expenditures from the 2005-07 biennium to the 2015-17 biennium. Some of the major cost components include changes in the caseload and per capita costs for the foster care and adoption support programs, Working Connections Child Care, and TANF WorkFirst caseloads. The average growth over this timeframe is 1.20 percent per fiscal year.

### **Other**

This Outlook area includes general government agencies, judicially agencies, legislative agencies, and other human service agencies. The growth for Other Outlook area is based on expenditures from the 2005-07 biennium to the 2015-17 biennium. Major cost components in this area are related to fire suppression costs, central service charges, lease rate adjustments, and equipment replacement costs. The average growth is estimated at 0.12 percent per fiscal year.

The statutory transfer into the Public Safety Enhancement Account is identified separately in the Outlook and is not captured in the growth factor.

---

<sup>i</sup> The HCA forecast data file history can only be reconciled back to FY 2012 and not for a ten-year period.

## OUTLOOK GROWTH FACTORS

Outlook Groups Excluding K-12 <i>(in millions)</i>	2013-15 Outlook Growth Factor	Current 2015-17 Outlook Growth Factor	Proposed 2017-19 Outlook Growth Factor	Difference	2019-21 Example - Current Growth Factors (based on 2016 Supp. Budget Outlook)	2019-21 Example - Proposed Growth Factors (based on 2016 Supp. Budget Outlook)	Difference (Proposed- Current)
Low income health care	4.32%	3.22%	3.04%	-0.18%	\$4,728	\$4,716	(\$12)
MH, DD, LTC*	2.00%	3.42%	4.12%	0.70%	\$4,832	\$4,882	\$49
Higher Education	0.00%	0.30%	0.07%	-0.23%	\$3,547	\$3,535	(\$12)
Other	0.00%	0.53%	0.12%	-0.41%	\$3,469	\$3,453	(\$15)
Debt Service	6.00%	4.43%	4.35%	-0.08%	\$2,616	\$2,613	(\$3)
DOC, JRA, SCC*	2.00%	3.19%	1.58%	-1.61%	\$2,279	\$2,226	(\$53)
ESA, CA*	2.00%	1.93%	1.20%	-0.73%	\$1,624	\$1,606	(\$17)
<b>Total</b>					\$23,094	\$23,030	(\$64)

K-12 <i>(in millions)</i>	2013-15 Outlook Growth Factor	Current 2015-17 Outlook Growth Factor	Proposed 2017-19 Outlook Growth Factor	Difference	2019-21 Example - Current Growth Factors (based on 2016 Supp. Budget Outlook)	2019-21 Example - Proposed Growth Factors (based on 2016 Supp. Budget Outlook)	Difference (Proposed- Current)
K-12 Enrollment	0.50%	0.66%	1.03%	0.37%	\$17,073	\$17,166	\$93
K-12 MSOC**	0.50%	0.66% +IPD	1.03 + IPD	0.40%	\$3,177	\$3,195	\$18
<b>K-12 Total</b>					\$20,250	\$20,361	\$111
<b>K-12 based on "mega-model"</b>						\$20,439	\$189
<b>NET IMPACT (Current Methodology)</b>							\$46
<b>NET IMPACT (Revised K-12 Methodology)</b>							\$125

*Notes*

\* Weights averages across programs in outlook group based on the program budget size

\*\* MSOC is multiplied by enrollment and updated IPD