

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, 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. Final accounting adjustments for fiscal year 2017 made subsequent to the outlook adopted in November 2017 changed the beginning fund balance from \$785 million to \$1.15 billion.

Revenue Forecast

The amounts for 2017-19 and 2019-21 reflect the November 2017 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 revenue (in this instance, the 2019-21 biennium) to be 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 2017 forecast projects revenue growth of less than 4.5 percent per year in the 2019-21 biennium, this Outlook uses the 4.5 percent growth rate.

Transfers to Budget Stabilization Account

Pursuant to a constitutional amendment approved by the voters in 2007, this reflects the transfer of one percent of general state revenues for each fiscal year (FY) to the Budget Stabilization Account. The estimated transfer amounts are based on the calculation of estimated general state revenues as defined in Article VIII, section 1, of the Constitution. The calculation of estimated general state revenues is based on the November 2017 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 (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

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provides that the transfer only occurs to the extent that it exceeds the normal transfer amount into the Budget Stabilization Account. A transfer of \$1.304 billion in 2017-19 is reflected from the GF-S into the BSA, based on the November 2017 revenue forecast.

Chapter 29, Laws of 2017, 3rd Special Session (EHB 2190) directs that the State Treasurer must transfer from the BSA to GF-S \$1.078 billion in the 2017-19 Biennium.

Enacted Fund Transfers

This category reflects all enacted fund transfers made in the 2017 legislative session (including special sessions) after accounting for vetoes. For more information, see the 2017 Legislative Budget Notes at: <http://fiscal.wa.gov/BudgetOBillsLBNs.aspx>.

Transfers for the FY 2019-21 biennia are only included to the extent they are either statutorily required or there was intent language adopted to maintain the transfers in the FY 2019-21 biennium. In accordance with prior ERFC guidance, transfers are not assumed in cases in which the Governor vetoed a transfer or the intent language to continue the transfer in the FY 2017-19 biennium.

Governor's Proposed Resource Changes

Fund Transfers

The Governor's budget proposes additional transfers as listed below.

Transfers Proposed in the Governor's 2018 Supplemental Budget		
	2017-19	2019-21
From General Fund to Death Investigations Account	\$(1.2) M	
From the Flood Control Assistance Account	\$2.0 M	
From School Employee Benefits		\$22.0 M
From Budget Stabilization (return 1% transfer)		\$476.0 M
From Carbon Pollution Control Account (proposed)		\$1500.0 M
Total	\$0.8 M	\$1,998.0 M

The transfer from the budget stabilization account is included in Governor request legislation- House Bill 2470 and Senate Bill 6174 (Budget Stabilization Account Transfers).

Other Proposed Revenue Changes

The Governor is proposing two additional pieces of legislation that affect revenues:

Governor Inslee's Revenue Proposals		
	2017-19	2019-21
Tobacco and Vapor Products age-related sales (HB 1054/SB 5025)	\$(5.0) M	\$(23.0) M
Renewable Gas Incentives(HB 2580/SB 6449)	\$(0.1) M	\$(0.2) M
Total	\$(5.1) M	\$(23.2) M

Budget Driven Revenue Adjustments

Adjustments are made to reflect the difference between assumed transfers of cannabis revenue to the General Fund in the November forecast and what is estimated to be available after adjusting for the Governor's proposed spending levels.

Governor Inslee's Budget Driven Revenue		
	2017-19	2019-21
Liquor Control Board (Marijuana)	\$ (4.7) M	\$ (2.2) M
Total	\$ (4.7) M	\$ (2.2) M

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget. It is based on the 2017-19 budget appropriation levels, and then reflects adjustments for preliminary Maintenance Level (ML) estimates. For more information on the 2017-19 Budget, please see: http://leap.leg.wa.gov/leap/budget/index_lbns.asp.

Assumed Reversions

Reversions for fiscal year 2017 have been updated to reflect actuals. Reversion assumptions for other years are the same as what was included in the Outlook adopted for the enacted budget.

Estimating Costs for the Subsequent Fiscal Biennium

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 in the subsequent fiscal biennium (e.g. FY 2019-21). The general approach to estimating the cost to continue current programs and growth in entitlement programs is by applying a historical growth factor to the fiscal year cost or savings associated with a budget item. The historical growth factors used to estimate increased costs in the subsequent fiscal biennium are updated each biennium through a joint effort by legislative and executive branch staff and ultimately adopted by the ERFC. Additional information on the calculation of the historical growth factors adopted by the ERFC for the current outlook can be found in the following document available on the ERFC website:

http://erfc.wa.gov/sites/default/files/public/documents/budget/20160921_BudgetOutlook.pdf

There are some cases in which simply applying the growth factor to the cost or savings of a budget item is not used to estimate costs in the subsequent fiscal biennium. These include the following situations.

- **K-12 Education.** K-12 Outlook calculations utilize the K-12 model, which 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.

- Custom adjustments. Custom adjustments are used when the estimated annual costs in the subsequent fiscal biennium are expected to be significantly different from the 2nd fiscal year of the current biennium. This occurs primarily when a policy is being phased in during the second year of a biennium or may be delayed until the subsequent fiscal biennium. In most cases, the growth factor is applied after a custom adjustment is made to reflect the phase in for the policy item. In a small number of cases, the custom adjustment already accounts for the types of growth captured by the growth factor and so the growth factor is not applied.
- One-Time costs. Certain items in the budget are one-time for the current biennium and therefore the related costs or savings are not carried forward into the subsequent biennium.
- Compensation items. Because the Outlook statute specifically excludes any additional future costs related to collective bargaining agreements not approved by the Legislature, or salaries and benefits, no growth factor is applied to compensation related items. However, a custom adjustment is applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.

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, and costs of any adverse court rulings within 90 days of each respective legislative session. The Governor's 2018 supplemental budget ML adjustments total \$82 million in 2017-19 and \$123 million in 2019-21.

Kindergarten – Grade 12 (K-12) Schools

The updates are based on the most recent enrollment forecast and budget driver information for required K-12 entitlement changes. The K-12 funding is adjusted each year of the ensuing biennium using the K-12 model which updates the growth and inflationary factors with each forecast. The K-12 model is also continually updated for other factors such as levy equalization, student transportation, and staff mix.

ML adjustments total \$32 million savings in 2017-19 and \$166 million savings in 2019-21. The larger adjustments are related primarily to enrollment and workload changes, K-3 class size adjustments, and prior school year adjustments.

Low-Income Health Care

The amounts depicted reflect the most recent caseload and per capita cost information prepared as part of the agencies budget submittal, as well as other mandatory ML changes. Some of the major cost components include utilization, caseload, and medical inflation. The growth factor for 2019-21 is estimated at 3.04 percent per year from FY 2019 levels.

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ML adjustments total \$73 million in 2017-19 and \$101 million in 2019-21. This includes an adjustment related to a premium tax established under the Affordable Care Tax that must be paid by most of the managed care plans serving Medicaid clients. This tax has previously been suspended at the federal level but is now scheduled to take effect in 2018. Other large adjustments are related primarily to caseload reductions, increased managed care rates, an increase in the state's responsibility for the its share of costs for dually eligible clients, and savings resulting from lower costs related to medications used for the treatment of Hepatitis C.

The Governor's proposed ML does not include funding related to the expiration of the federal Children's Health Insurance Program (CHIP) which has not yet been re-authorized by the federal government. The Governor's proposal assumes that the CHIP program will be reauthorized so there will be no need to offset a loss of federal revenues with state funds.

Mental Health Services

The amounts depicted reflect the most recent caseload and per capita cost information prepared as part of the agencies budget submittal, as well as other mandatory ML changes. Some of the major cost components include utilization and severity of client needs. Assumed future growth is estimated at 4.12 percent per year from FY 2019.

ML adjustments total \$50 million in 2017-19 and \$114 million in 2019-21. The largest adjustments are related to increased managed care rates for behavioral health organizations, adjustments for caseload, and revised estimates for federal revenue available to support operations at the state hospitals.

Long Term Care/ Developmental Disability Services

The amounts depicted reflect the most recent caseload and per capita cost information prepared as part of the agencies budget submittal, as well as other mandatory ML changes. Some of the major cost components include utilization and severity of client needs. Assumed future growth is estimated at 4.12 percent per year from FY 2019.

ML adjustments total \$ 6 million savings in 2017-19 and \$21 million in 2019-21. The larger adjustments are related to caseload and workload changes, utilization changes,

Children's/Economic Services

The amounts depicted reflect the most recent caseload and per capita cost information prepared as part of the agencies budget submittal, as well as other mandatory ML changes. Some of the major cost components include caseload and per capita cost increases and revised growth trends. Assumed future growth is estimated at 1.20 percent per year from FY 2019.

ML adjustments total \$19 million in 2017-19 and \$12 million in 2019-21. The larger adjustments are related to caseload changes and a reduction in the amount of federal funding available to support field staff and administrative costs.

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Department of Corrections/ Special Commitment/ Juvenile Rehabilitation

The amounts depicted reflect the most recent caseload and per capita cost information prepared as part of the agencies budget submittal, as well as other mandatory ML changes. A major cost component is the proportion of community and institution population. Assumed future growth is estimated at 1.58 percent per year from FY 2019.

ML adjustments total \$37 million in 2017-19 and \$28 million in 2019-21. The larger adjustments are related to caseload changes and restoration of funding for savings included in the current operating budget that assumed new legislation which was never enacted.

Early Learning

Early Learning adjustments are generally related to the program and to maintenance and operations and lease adjustments. Early Learning items are adjusted by 0.12 percent per year from FY 2019.

ML adjustments total \$4 million in 2017-19 and \$33 million in 2019-21. The largest adjustment is for the ongoing implementation of Tiered Reimbursement adjustments.

Debt Service

The operating budget enacted in 2017 included funding for increased debt service related to assumed passage of a capital budget which had not been enacted at the time the proposal was submitted. The amounts depicted reflect the removal of these funds and adjustments for refunding of bond sales in fiscal year 2017.

Higher Education

Higher Education adjustments are generally related to the College Bound Scholarship program and to maintenance and operations and lease adjustments. Higher Education items are adjusted by 0.07 percent per year from FY 2019.

ML adjustments total \$19 million savings in 2017-19 and \$26 savings million in 2019-21. The larger adjustments are related to a correction in the amount of costs that are allocated to federal funds as well as increased operations and maintenance costs.

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.

There is a ML adjustment of \$93 million in 2019-21 related to adjustment of pension rates. Other ML adjustments for remaining areas are \$22 million in 2017-19 and \$20 million in 2019-21. The larger adjustments are related to a technical adjustment, and an increase in the estimated costs for operating veteran's institutions.

Spread throughout all budget groupings above are savings related to a reduced funding rate for the Public Employer Benefits Board insurance program as well as costs for the

employer share of paid family and medical leave for employees not covered by a collective bargaining agreement.

Policy Level Items

In this section, referred to as Policy Level (PL), adjustments are made to reflect the policy level expenditures included in the Governor's proposed budget. PL adjustments total \$879 million in 2017-19 and \$1,325 million in 2019-21.

Kindergarten – Grade 12 (K-12) Schools

The Governor proposes to increase state allocations for basic education salaries for the 2018-19 school year, at a cost of \$762 million in 2017-19 and an additional \$194 million in 2019-21. Also related to K-12 Schools funding, there is proposed a change in the Apportionment Schedule establishing that 25 percent of the funding for a school year will be paid in July and August of that school year. This shift provides savings in 2017-19 of \$604 million, and costs \$279 million in 2019-21.

Other PL adjustments total \$51 million in 2017-19 and \$175 million in 2019-21. The larger adjustments are related to increased funding for High School and Beyond Plan plans, assumed increased remittance rates for retiree benefits, and increased funding for special education services through expansion of the Safety Net program.

Low-Income Health Care

The Governor proposes to achieve savings of \$27 million in 2017-19 and \$27 million in 2019-21 by utilizing increases in the Cannabis revenue forecast to provide Low Income Health Care.

Other PL changes total \$104 million in 2017-19 and \$128 million in 2019-21. The largest cost components are the restoration of funds related to initiatives for integrated care and prescription drug purchasing that have not achieved the levels of savings assumed in the enacted budget. The growth factor for FY 2019-21 is 3.04 percent.

Mental Health

The Governor proposes to integrate the administration of behavioral health and physical health care services across state agencies resulting in a net cost of \$5 million in 2017-19 and \$2 million in 2019-21.

Other PL changes total \$179 million in 2017-19 and \$181 million in 2019-21. The larger adjustments are related to increasing the funding available for staffing and operations at the state hospitals, increasing the number of beds available for forensic treatment services, and funding for federal court ordered fines in the Trueblood case. The growth factor for FY 2019-21 is 4.12 percent.

Developmental Disability Services/ Long Term Care

PL changes total \$16 million in 2017-19 and \$66 million in 2019-21. The larger adjustments are for increased staffing for Residential Habilitation Centers, increased costs related to administration and management of individual providers, and for implementation

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of a system which provides for electronic reporting and verification of personal care services. The growth factor for FY 2019-21 is 4.12 percent.

Children's/Economic Services

PL changes total \$19 million in 2017-19 and \$29 million in 2019-21. The larger items are for increased Behavioral Rehabilitative Services rates, Working Connections Child Care program integrity, and to continue the Eligibility Service and Automated Client Eligibility System Remediation (ESAR) project. The growth factor for FY 2019-21 is 1.20 percent.

Department of Corrections/ Special Commitment/ Juvenile Rehabilitation

PL changes total \$7 million in 2017-19 and \$7 million in 2019-21. The larger items are savings related to concurrent supervision, increases for mental health staff in juvenile rehabilitation programs, and implementation of a new system to audit sentencing calculations. The growth factor for FY 2019-21 is 1.58 percent.

Early Learning

Policy changes total \$5 million in 2017-19 and \$10 million in 2019-21. The largest adjustments are for maintaining state funding for the ECLIPSE (Early Childhood Intervention Prevention Services) Program to offset a loss of federal funds that had been available prior to 2014 and for increasing home visiting services. The growth factor for FY 2019-21 is 0.12 percent.

Debt Service

PL changes reflect the additional debt service required for bonds assumed in the Governor's proposed Capital budget. Amounts are \$50 million for 2017-19 and \$149 million for 2019-21. The growth factor for FY 2019-21 is 4.35 percent.

Higher Education

Policy changes total \$20 million in 2017-19 and \$17 million in 2019-21. The larger items are an increase in computer science enrollment to complete the goal of 600 degrees annually, an expansion of Opportunity Scholarships to include students enrolled in professional or technical certification, and an increase in the state match for Opportunity Scholarships.

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.

The Governor's budget funds a transfer in FY 2017-19 to the Local Public Safety Enhancement account which was suspended in the enacted operating budget at a cost of \$50 million in 2017-19.

Other PL changes total \$243 million in 2017-19 and \$116 million in 2019-21. The larger items include one-time funding to support the transition of the Secretary of State's Office migration to a new business licensing and reporting system; increased state match for the

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Cancer Research Endowment; increased state funding for the Disaster Response Account to offset a delay in federal grant funding; shifting staffing costs for management of capital projects from the Capital Budget to the Operating Budget; adjustments in funding for fire suppression to reflect actual costs incurred by agencies in the last fire season; an appropriation to the School Employees Insurance Administrative Account to provide “seed” money until the program is up and running; funding for an initiative to prevent opioid related deaths; increased state funds for crime victims compensation; and an appropriation to the State Agency Office Relocation Pool Account. The growth factor for FY 2019-21 is 0.12 percent.

Spread throughout all budget groupings are costs for a one-time 3 percent increase for eligible Public Employee and Teachers Retirement Systems plan 1 members.

**Governor's Proposed New Law 2018 Supplemental Budget
Near GF-S & Opportunity Pathways Account**

(Dollars in Millions)

	2017-19			2019-21		
	FY 2018	FY 2019	2017-19	FY 2020	FY 2021	2019-21
Beginning Balance	1,149	1,465	1,149	757	509	757
Current Revenues	21,520	22,843	44,362	23,870	24,945	48,815
November 2017 Revenue Forecast	21,520	22,843	44,362	23,724	24,693	48,417
Addtl Revenue Based on 4.5% Growth Rate Assumption	-	-	-	147	252	398
Other Resource Changes	(74)	(227)	(301)	948	818	1,766
GF-S Transfer to BSA (1%)	(211)	(224)	(435)	(233)	(243)	(476)
GF-S Extraordinary Revenue to BSA	-	(1,304)	(1,304)	-	-	-
1% Revenue From BSA to GF-S	-	-	-	233	243	476
Extraordinary Revenue from BSA to GF-S	-	1,078	1,078	-	-	-
Enacted Fund Transfers	119	210	328	104	96	200
Other Legislation	-	(5)	(5)	(12)	(11)	(23)
Budget Driven Revenue	(2)	(3)	(5)	13	13	26
Proposed Fund Transfers	(0)	1	1	822	700	1,522
Prior Period Adjustments	20	20	41	20	20	41
Total Revenues and Resources	22,594	24,080	45,210	25,576	26,272	51,339
Enacted Appropriations	20,914	22,795	43,708	24,273	25,617	49,890
Maintenance Level Total	82	0	82	39	84	123
K-12 Education	48	(79)	(32)	(89)	(77)	(166)
Low Income Health Care	26	47	73	48	53	101
Mental Health	(3)	53	50	55	59	114
Dev. Disabilities/Long Term Care	(16)	10	(6)	10	11	21
Children's/Economic Svcs	11	8	19	6	6	12
Early Learning	2	2	4	10	22	33
Corrections/JRA/SCC	22	15	37	14	14	28
Debt Service	(14)	(51)	(65)	(49)	(58)	(107)
Higher Education	(3)	(16)	(19)	(13)	(13)	(26)
All Other	10	12	22	10	10	20
Pensions	-	-	-	37	56	93
Policy Level Total	237	642	879	876	449	1,325
K-12 Education	0	51	51	80	95	175
K-12 Compensation	-	762	762	194	0	194
K-12 Apportionment Change	-	(604)	(604)	289	(9)	279
Low Income Health Care	43	61	104	63	65	128
Utilize I-502 Revenue for Low Income Health Care	(13)	(14)	(27)	(14)	(14)	(27)
Mental Health	94	85	179	83	98	181
Behavioral Health Integration	-	5	5	1	1	2
Dev. Disabilities/Long Term Care	3	13	16	19	47	66
Children's/Economic Svcs	5	14	19	16	13	29
Early Learning	0	5	5	5	5	10
Corrections/JRA/SCC	2	5	7	4	4	7
Debt Service	(12)	62	50	70	79	149
Higher Education	1	20	20	8	9	17
All Other	114	129	243	60	56	116
Public Safety Account Transfer	-	50	50	-	-	-
Reversions	(103)	(114)	(217)	(122)	(127)	(249)
Revised Appropriations	21,130	23,323	44,452	25,067	26,023	51,090
Projected Ending Balance	1,465	757	757	509	249	249
Budget Stabilization Account						
Beginning Balance	1,638	1,383	1,638	1,394	1,431	1,394
GF-S Transfer to BSA (1%)	211	224	435	233	243	476
GF-S Extraordinary Revenue to BSA	-	1,304	1,304	-	-	-
1% Revenue From BSA to GF-S	-	-	-	(233)	(243)	(476)
Extraordinary Revenue from BSA to GF-S	-	(1,078)	(1,078)	-	-	-
Appropriations from BSA	(19)	-	(19)	-	-	-
BSA Transfer to Pension Stabilization Acct	(463)	(463)	(925)	-	-	-
Interest Earnings	15	23	38	37	42	79
Budget Stabilization Account Ending Balance	1,383	1,394	1,394	1,431	1,473	1,473
Total Reserves	2,848	2,151	2,151	1,940	1,722	1,722

Notes

> Final accounting adjustments for fiscal year 2017 made subsequent to the outlook adopted in November 2017 changed the beginning fund balance from \$785 million to \$1.15 billion.

> BSA Transfer to Pension Stabilization Account was formerly labeled as an Appropriation from BSA