

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 (GF-S), the Education Legacy Trust Account, (ELTA) and the Opportunity Pathways Account.

Resources

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

Current revenues for the 2017-19 and the 2019-21 biennia reflect the February 2018 quarterly revenue forecast by the Economic and Revenue Forecast Council (ERFC). The provisions of Chapter 8, laws of 2012, 1st sp. sess (SSB 6336) call for the ensuing biennium, in this instance, the 2019-21 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. Because the February 2018 forecast projects revenue growth of less than 4.5 percent per year in the 2019-21 biennium, the April 2018 Outlook is based on the 4.5 percent growth rate.

Transfers to Budget Stabilization Account

Pursuant to Article VII, section 12(1) of the Constitution, one percent of general state revenues for each fiscal year (FY) are transferred to the Budget Stabilization Account (BSA). The transfer amounts are estimates based on the calculation of estimated general state revenues as defined in Article VIII, section 1(c) of the Constitution. The calculation of general state revenues is based on the February 2018 revenue forecast adjusted for estimated revenue impacts of legislation enacted during the 2018 session (see enacted revenue legislation).

Extraordinary Revenue Growth

Pursuant to Article VII, section 12 of the Constitution, three-quarters of extraordinary revenue growth (ERG) is transferred to the budget stabilization account. ERG is growth in general state revenues for the fiscal biennium that exceeds the average biennial percentage

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growth of the prior five fiscal biennia by one-third. The transfer only occurs to the extent that it exceeds the normal one percent transfer mentioned above. A transfer of \$924 million in 2017-19 is reflected from the GF-S into the BSA. The calculation of the FY 2017-19 ERG transfer is based on the February 2018 revenue forecast adjusted for estimated revenue impacts of legislation enacted during the 2018 session (see enacted revenue legislation).

Chapter 43.79.496 RCW directs the State Treasurer to transfer amounts attributable to extraordinary revenue growth that were deposited into the BSA to the GF-S during the 2017-19 biennium not to exceed \$1.078 billion. Pursuant to this requirement, the Outlook assumes a \$924 million transfer from the BSA to the General Fund-State account, which represents the full amount of the estimated transfer to the BSA attributable to ERG.

Enacted Revenue Legislation

The Outlook assumes NGF-P revenue changes from the following bills that were enacted in the 2018 legislative session:

Enacted Revenue Legislation from the 2018 Legislative Session

Revenue Legislation (\$ in millions)	2017-19	2019-21
Property Tax Reduction (ESSB 6614)	-206.205	-184.040
Accountable Communities of Health (SHB 2998)	-9.931	-9.840
Low-Income Housing/REET (EHB 2444)	-1.047	-2.260
Electrolytic Processing Tax (SB 6007)	-0.276	-1.362
Adaptive Automotive Equipment (2SHB 2269)	-0.115	-0.248
Renewable Natural Gas (ESHB 2580)	-0.101	-0.243
Association of Washington Generals (SSB 5746)	-0.026	-0.098
Legal Financial Obligations (E2SHB 1783)	-0.024	-0.267
Non-Profit Homeownership Dev. (ESSB 5143)	-0.005	-0.020
Write-In Voting (SB 6058)	0.003	0.003
Cannaboid Additives (E2SHB 2334)	0.238	0.476
Total	-217.489	-197.899

The largest impact of revenue legislation is related to enactment of Chapter 295, Laws of 2018 (ESSB 6614) which reduces the state property tax from \$2.70 to \$2.40 per \$1,000 assessed value for calendar year 2019. This corresponds to a property tax reduction of approximately \$390 million in calendar year 2019.

In addition to the property tax reduction described above, the act directs \$935 million of the additional state property taxes imposed by Chapter 13, Laws of 2017 (EHB 2242) and collected in fiscal year 2019 to be deposited into the ELTA for the support of common schools. Because ELTA is one of the three state accounts covered by the Outlook, there is no direct net increase or decrease to the ending fund balance resulting from this re-

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direction. However the re-direction does impact the calculation of general state revenues used to determine required transfers to the BSA that are described above.

Enacted Fund Transfers

This category reflects the enacted fund transfers in the 2018 Supplemental Operating Budget (ESSB 6032). Transfers enacted in prior sessions are accounted for in the forecast.

Transfers for the FY 2019-21 biennia are included to the extent they are either statutorily required or there is enacted language adopted directing that the legislature intends to maintain the transfer in the FY 2019-21 biennium. Transfers are not reflected in if the Governor vetoed a transfer or the intent language to continue the transfer.

Previously Enacted Fund Transfers

This category reflects the fund transfers directed in the 2017 session enacted operating budget: Chapter 1, Laws of 2017, partial veto, 3rd sp. sess. (SSB 5883). For more information, see the 2017 enacted Outlook methodology document:

https://erfc.wa.gov/sites/default/files/public/documents/budget/20170728_Methodology_Final.pdf

New Transfers

This category reflects new fund transfers that were directed in the 2018 supplemental operating budget: Chapter 299, Laws of 2018, partial veto, (ESSB 6032). New transfers are only assumed to carry forward into the FY 2019-21 biennia to the extent they are either statutorily required or there is enacted language in the act directing that the legislature intends to maintain the transfer in the FY 2019-21 biennium. Transfers are not reflected if the Governor vetoed a transfer or the intent language to continue the transfer. The new transfers assumed are listed below:

Fund Transfers To/From GFS (\$ in millions)	2017-19	2019-21
Death Investigations Account	\$ (1.186)	\$ -
Dedicated McCleary Penalty Account	\$ (105.200)	\$ -
Disaster Response Account	\$ (58.535)	\$ 29.326
Public Works Administration Account	\$ 1.500	\$ -
School Employees' Insurance Administration Account	\$ -	\$ 28.730
Statewide Tourism Marketing	\$ (1.500)	\$ (3.000)
Washington Internet Crimes Against Children Account	\$ (1.500)	\$ -
Total	\$ (166.421)	\$ 55.056

Following is some additional information related to two of the transfers:

- **Disaster Response Account:** The amounts reflected for each biennium represent estimates of temporary state funds required to maintain a positive balance in the account because of timing in the receipt of federal funds.
- **School Employees' Insurance Administration Account:** The FY 2019-21 transfer to General Fund-State represents the payback of GF-S funds appropriated in the FY 2017-

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19 biennium for start-up costs in accordance with intent language included in Chapter 299, Laws of 2018, partial veto, (ESSB 6032).

Enacted Budget Driven Revenue

The enacted budget increased the distribution of funds related to marijuana revenues that are provided to local governments. In addition, modifications of appropriations of marijuana, liquor and lottery revenues have an impact on the amount of funds from these sources transferred to an account included in the outlook. The following table provides the impact of these changes assumed in the Outlook as compared to what was assumed in the February 2018 revenue forecast.

Budget Driven Revenue (\$ in millions)	2017-19	2019-21
Liquor Control Board (Liquor)	\$ (0.289)	\$ 2.499
Liquor Control Board (Marijuana)	\$ (2.670)	\$ 4.542
Lottery	\$ (0.004)	\$ (0.317)
Marijuana Distribution to Locals	\$ (18.000)	\$ 10.000
Total	\$ (20.963)	\$ 16.724

Expenditures

As the starting point for the expenditure projection, this Outlook is based on the 2017-19 enacted operating budget (ESSB 5883), and then adjusted for maintenance level and policy level appropriations in the 2018 enacted supplemental operating budget (ESSB 6032).

Reversions

Reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation. The estimated reversions for the 2017 enacted budget were assumed at approximately 0.5% of general fund-state appropriations and totaled \$465 million over the four-year period. The outlook for the 2018 supplemental budget starts from this level and increases an additional \$38 million based on an assumption that not all school districts will be able to staff K-3 classrooms at a ratio of 17:1 in the 2019-21 biennium.

Funding was originally provided in the 2017-19 operating budget to improve the staffing ratio in grades K-3 and represented the maximum amounts that districts could access. A requirement that school districts meet certain criteria to fully access K-3 enhancement funds, slated to begin in the 2018-19 school year, was instead delayed until the 2019-20 school year. The reversion amounts are adjusted to reflect the degree to which districts are not expected to fully access the K-3 enhancements in the 2019-20 and the 2020-21 school years.

The revised reversion assumption for the 2018 enacted Outlook totals \$503 million in estimated reversions over the four-year period.

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Estimating Costs for the 2019-21 Fiscal Biennium

Estimated expenditures for the 2019-21 biennium in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law in the subsequent fiscal biennium. 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. Information on the growth factors used for this Outlook can be found on the ERFC website under Budget Outlook Archives, September 2016.

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. These include the following situations.

- **K-12 Education.** K-12 Outlook calculations are derived from the K-12 model, which is updated quarterly based on the caseload forecast for growth and inflationary factors. The K-12 model is continually updated for other factors such as levy equalization, student transportation, and staff mix.
- **Custom adjustments.** Custom adjustments are used when the estimated annual costs 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.
- **Compensation items.** The Outlook statute specifically excludes additional future costs related to collective bargaining agreements not approved by the Legislature, or salaries and benefits.

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 enacted 2018 supplemental budget ML adjustments total a reduction of \$146 million in 2017-19 and \$47 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

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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 costs of \$28 million in 2017-19 and savings of \$47 million in 2019-21. The larger adjustments are related primarily to cost of living adjustments for school employees, enrollment and workload changes, local assistance, staff mix, 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.

ML adjustments total savings of \$48 million in 2017-19 and \$29 million in 2019-21. Savings are driven primarily by caseload reductions and lower costs related to medications used to treat Hepatitis C. Other large adjustments include a premium tax established under the Affordable Care Act that must be paid by most of the managed care plans serving Medicaid clients, utilization increases, increased managed care rates, an increase in the state's responsibility for its share of costs for dually eligible clients, and the adjustment of state and federal funds resulting from changes in federal match rates.

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 a savings of \$47 million in 2017-19 and costs of \$14 million in 2019-21. The savings in the 2017-19 biennium are driven by mandatory caseload and hospital revenue adjustments. Other adjustments that increase costs in 2019-21 include increased managed care rates for behavioral health organizations and changes to grants for Disproportionate Share 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 costs of \$34 million in 2019-21. The larger adjustments are related to caseload and workload changes, utilization changes,

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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 \$44 million in savings in 2017-19 and \$61 million in 2019-21. The larger adjustments are related to caseload changes in various programs.

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 \$33 million in 2017-19 and \$34 million in 2019-21. The larger adjustments are related to caseload changes, medical inflation, and for salary increases for multiple job classes that elected to become members of the Teamsters Union 117 after the passing of collective bargaining agreements and approval of the Public Employment Relations Commission (PERC). In addition, funding is reduced for two bills assumed in the 2017 operating budget that were not 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 \$5 million in savings in 2017-19 and \$9 million in costs in 2019-21. The largest adjustment is for the ongoing implementation of tiered reimbursements for childcare providers.

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. ML adjustments total \$65 million in savings in 2017-19 and \$100 million in savings in 2019-21.

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.

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ML adjustments total \$7 million savings in 2017-19 and \$13 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.

Pensions

ML adjustments are related to adjustments in projected current law employer pension funding rates. ML adjustments total \$93 million in 2017-19 and 2019-21.

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.

ML adjustments are \$14 million in 2017-19 and \$19 million in 2019-21. The larger adjustments are related to caseload and mandatory capitation rate adjustments for Substance Use Disorder programs, technical adjustments in the Department of Revenue, an increase in the estimated costs for operating veteran's institutions.

Policy Level Revisions

In this section, adjustments are made to reflect the policy level expenditures included in the enacted supplemental budget. This is referred to as Policy Level (PL). PL adjustments total \$1.087 billion in 2017-19 and \$642 million in 2019-21.

K-12 Compensation

The largest adjustment in K-12 compensations is related to complying with the November 2017 McCleary court decision, which provides a total of \$702 million in 2017-19 and \$194 million in 2019-21. Growth and inflationary impacts of PL items in FY 2019-21 are calculated through the K12 model.

K-12 Education

Outside of compensation, the other changes in K-12 education netted to a \$3 million reduction in the 2017-19 biennium, and a \$26 million reduction in the 2019-21 biennium. The largest reduction was delaying the implementation of professional learning days for certified instruction staff that were established under Chapter 13, Laws of 2017, 3rd Special Session PV (EHB 2242) by one year. This delay was assumed to save \$27 million in the 2017-19 biennium and \$76 million in the 2019-21 biennium. However the Governor vetoed the section of E2SSB 6362 that would have authorized the delay.

The veto does not restore the savings assumed in the 2018 enacted budget so this Outlook includes these savings. However the veto makes it unlikely that the savings assumed will be achieved. The cost of restoring funding for the assumed savings will be reflected in the Outlook prepared in November, along with changes related to caseload and other standard adjustments, which will reflect the preliminary maintenance level budget. Because of the interaction with other policy changes made in Chapter 266, Laws of 2018 (E2SSB 6362), the current projected estimate of restoring these savings is \$106 million during the period covered by this Outlook.

The largest adjustments include the experience factor, the special education multiplier, and the SEBB rate adjustment. Growth and inflationary impacts of PL items in FY 2019-21 are calculated through the K12 model.

Low-Income Health Care/Utilization of I-502 Revenue

The PL budget adjustment for Low Income Health Care is \$55 million in FY 2017-19 and \$26 million in FY 2019-21. The larger adjustments include additional funding for primary pediatric care rate increases and backfilling unrealized savings from the delayed implementation of the Healthier Washington program and the single Medicaid preferred drug list on a one-time basis. The growth factor for FY 2019-21 is 3.04 percent.

Additionally, adjustments are shown separately for the savings associated with utilization of increased marijuana revenues for provision of low-income health care services. The use of increased marijuana revenues to pay for core low income health services results in a savings of \$73 million in FY 2017-19 and \$34 million in FY 2019-21.

Developmental Disabilities and Long Term Care Services

The PL budget adjustment for Developmental Disabilities (DD) and Long Term Care (LTC) Services is \$15 million in FY 2017-19 and \$26 million in FY 2019-21. The larger adjustments include compliance costs for residential habilitation centers, and administrative support to move individual providers from the Department of Social and Health Services to a private vendor. The growth factor for FY 2019-21 is 4.12 percent.

Mental Health

The PL budget adjustment for Mental Health services is \$143 million in FY 2017-19 and \$121 million in FY 2019-21. Large expenditure items include the cost of complying with and paying penalties for the *Trueblood et al v. Washington State DSHS lawsuit*, increases for state hospital compliance and overspend, and behavioral health organizations enhancements. In addition, savings are also assumed from reducing the number of contracted competency beds in Yakima after opening new beds at Western State Hospital. The growth factor for FY 2019-21 is 4.12 percent.

Children's/Economic Services

The PL budget adjustment for Children's and Economic Services is \$15 million in FY 2017-19 and \$37 million in FY 2019-21. The larger adjustments include increased funding for Temporary Assistance to Needy Families, State Family Assistance (SFA), and Refugee Cash Assistance grants, Behavioral Rehabilitative Service rates, and changes to the resource limits used in determining eligibility for public assistance programs. In addition, a savings is achieved by reducing funding for Workfirst contracts to reflect under-spending and reallocating dollars for other services. The growth factor for FY 2019-21 is 1.20 percent.

Early Learning

The PL budget adjustment for Early Learning Services is \$6 million in FY 2017-19 and \$4 million in FY 2019-21. The larger adjustments include expansion of home visiting services and one-time funding to backfill discontinued federal funding for the ECLIPSE program. The growth factor for FY 2019-21 is 0.12 percent.

Department of Corrections/ Special Commitment/ Juvenile Rehabilitation

The PL budget adjustment for Corrections, Juvenile Rehabilitation, and the Special Commitment center is \$5 million in FY 2017-19 and \$6 million in FY 2019-21.

The larger adjustments include increased rates for chemical dependency inpatient treatment services and additional beds at current work release facilities. In addition, there were savings due to reduced costs for treating Hepatitis C. The growth factor for FY 2019-21 is 1.58 percent.

Debt Service

The PL budget adjustment for Debt Service is \$22 million in FY 2017-19 and \$107 million in FY 2019-21, based on the enactment of a bond bill for the capital budget in January 2018. In the past, the debt service for the ensuing biennium was calculated using a growth rate, which provides a uniform increase overtime. The delay in passage of the biennial capital budget disrupted the typical timing and size of the bond sales. Because there was no capital budget and bond bill enacted in 2017, utilizing the growth factor of 4.35 percent would have significantly understated the estimated cost of debt service in FY 2020 and FY 2021. In order to address this, a custom adjustment was made utilizing the debt service model to capture growth in the ensuing biennium rather than applying the standard growth rate.

Higher Education

The PL budget adjustment for Higher Education is \$49 million in FY 2017-19 and \$122 million in FY 2019-21. The larger adjustments include increasing the number of eligible students served by the state need grant, the state match for the Opportunity Scholarship program, and additional compensation support at the University of Washington. The growth factor for FY 2019-21 is 0.07 percent.

Employee Compensation

The PL budget adjustment for employee compensation is \$5 million in FY 2017-19 and \$10 million in FY 2019-21. The largest adjustment was related to increased pension contribution rates from changes to membership in the Public Safety Employees Retirement System. Other adjustments were to provide a benefit increase for PERS Plan 1 beneficiaries and the employer premium for paid family leave. There is no growth factor applied to these items although custom adjustments are 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.

Employee Health & Benefits

The PL budget adjustment for employee health and benefits is -\$22 million in FY 2017-19 and -\$45 million in FY 2019-21. This adjustment is to reduce the PEBB rate from \$957 to \$916 to reflect updated actuarial projections. There is no growth factor applied to these items although custom adjustments are 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.

Fire Suppression

The PL budget adjustment is a one-time adjustment in FY 2017-19 of \$28 million. This adjustment is for funding that exceeded the amounts that were provided in the 2017-19 enacted budget for wildfire suppression. There is no growth factor applied to this adjustment.

Other

The PL budget adjustment for all other areas is \$141 million in FY 2017-19 and \$44 million in FY 2019-21. The larger increases in this area include the startup costs to create the School Employees Benefit Board, business licensing backfill, support water availability, and the institutions of mental diseases waiver. The growth factor for FY 2019-21 is 0.12 percent.