

November 5, 2018

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Growth factors for Outlooks prepared during the 2019-21 biennium

In accordance with prior practice, the Outlook Work Group (Workgroup) has updated 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 2019-21 biennium, which is from November 2018 through the outlook on the enacted FY 2020 supplemental budget in calendar year 2020. The growth factors would then be updated during the 2020 interim for the next biennium.

The data was updated and the approach mirrors what was done previously. Some agencies were moved to different growth factor areas to reflect reorganizations of major components of the Department of Social and Health Services (DSHS) and Early Learning.

### **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 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 to include, but not limited to, 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 2009-11 biennium to the 2017-19 biennium. Generally, the approach compares the fiscal year change within each biennium through Maintenance Level of the budget.

The Low-income health care methodology is based on the average annual change in forecasted services between FY 2013 through FY 2019. The specific approach in these areas is described on page 2.

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.

## K12

The growth for K12 will be based on the K12 model, as previously approved in September 2016.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
K12	Use K12 Model	Use K12 Model

## Low Income Health Care

The growth for the Health Care Authority Medical Assistance program is based on actual and forecasted annual expenditures in core Medicaid programs from FY 2013 through FY 2019. Population services that have been subject to recent policy changes 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 2.89 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
Low Income Health Care & Community Behavioral Health	3.04 % and 4.12%	2.89%

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 are not captured in the growth factor percentage.

## The Department of Social and Health Services

The growth for DSHS is based on budget appropriations from the 2009-11 biennium to the 2017-19 biennium. Some of the ERFC major cost components include utilization and severity of client needs. The average growth over this timeframe is 3.27 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
DSHS	4.12% and 1.58% and 1.20% and 0.13%	3.27%

## Higher Education

The growth for Higher Education is based on budget appropriations from the 2009-11 biennium to the 2017-19 biennium. 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 0.10 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
Higher Education	0.07%	0.10%

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

For the FY 2018 Supplemental Operating Budget Outlook, the ERFC approved use of the debt model for calculation of debt service growth rather than the prior growth factor that was calculated in 2016. The workgroup proposes continuing to use the Debt Service model for the 2019-21 biennium through the 2021-23 biennium (4 fiscal years).

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
Debt Service	Use Bond Model	Use Bond Model

### Department of Corrections

The growth for Corrections is based on expenditures from the 2009-11 biennium to the 2017-19 biennium. A major cost component is the proportion of community and institution population. The average growth is estimated at 1.33 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
Corrections	1.58%	1.33%

### All Other

This Outlook area includes general government agencies, judicially agencies, legislative agencies, early learning and other human service agencies. The growth for Other Outlook area is based on expenditures from the 2009-11 biennium to the 2017-19 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 growth is estimated at 0.42 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
All Other (Including DCYF)	0.12%	0.42%

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

A summary table of the growth rate changes is shown on page 4 for reference.

**Outlook Growth Rate Summary Table**

<b>Current Outlook Grouping</b>	<b>Current Growth Rate 04-2018</b>		<b>New Outlook Grouping</b>	<b>Proposed Growth Rate 11-2018</b>
K12	K12 Model	➔	K12	K12 Model
Debt Service	Bond Model	➔	Debt Service	Bond Model
Low Income Health Care	3.04	➔	Low Income Health Care and Community Behavioral Health	2.89
Community Behavioral Health	4.12			
DSHS/MH Institutions	4.12	➔	DSHS (now also includes SCC)	3.27
DSHS/LTC				
DSHS/DD				
DSHS/ESA	1.20			
DSHS/CA	1.20	➔	All Other	0.42
Higher Education	0.07	➔	Higher Education	0.10
Corrections/DOC	1.58	➔	Corrections	1.33
Corrections/SCC		➔	DSHS	3.27
Corrections/JRA		➔	All Other	0.42
All Other	0.12	➔	All Other	0.42