

## 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, 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 fiscal year (FY).

### Revenue Forecast

The amounts for 2019-21 and 2021-23 reflect the November 2018 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 2021-23 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. Given the November 2018 forecast projects revenue growth of less than 4.5 percent per year in the 2021-23 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 FY to the Budget Stabilization Account (BSA). The estimated transfer amounts are based on the calculation of estimated general state revenues as defined in Article VIII, section 1, of the Washington state Constitution. The calculation of estimated general state revenues based on the November 2018 revenue forecast is not yet complete and as decided by the Council on November 6, 2018, this Outlook uses the BSA estimates based on the September 2018 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 (ERG) into the BSA. 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 occurs to the extent that it exceeds the normal transfer amount into the BSA. A transfer of \$1.486 billion in 2017-19 is reflected from the GF-S into the BSA. The calculation of estimated general state revenues based on the November 2018 revenue forecast is not yet complete so this Outlook uses the estimates based on the September 2018 revenue forecast for purposes of calculating the estimated ERG required transfer.

Chapter 2, Laws of 2015, 3rd sp. sess. (EHB 2286) directs the State Treasurer to transfer amounts attributable to ERG that were deposited into the BSA to the GF-S. Chapter 29, Laws of 2017, 3rd Special Session (EHB 2190) directs the State Treasurer to transfer from the BSA to GF-S \$1.078 billion.

### **Enacted Fund Transfers**

This category reflects all enacted fund transfers made in the 2017 and 2018 legislative sessions (including special sessions), after accounting for vetoes. For more information, see the 2018 Legislative Budget Notes at <http://fiscal.wa.gov/BudgetOBillsLBNs.aspx>.

Transfers for the 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 2019-21 biennium. In accordance with ERFC directive from November 6, 2018, transfers are assumed in this Outlook in the 2019-21 biennium at the level they were assumed for the FY2018 Supplemental enacted Outlook. Transfers are not assumed beyond 06-30-2021.

### **Expenditures**

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget (the FY2018 Supplemental Budget) appropriation levels. The Outlook is then adjusted for the 2019-21 carry forward and preliminary maintenance level (ML). The preliminary ML estimates are from the Office of Financial Management (OFM) as of November 7, 2018. For more information on the FY2018 Supplemental session law budget, please see: [http://leap.leg.wa.gov/leap/budget/index\\_lbns.asp](http://leap.leg.wa.gov/leap/budget/index_lbns.asp).

### **Assumed Reversions**

Reversions for FY2018 have been updated to reflect actuals. Reversion assumptions for FY2019 and each FY thereafter are based on 0.5% of general fund state, consistent with prior ERFC direction.

### **Estimating Costs for the Subsequent Fiscal Biennium**

Per statute, the estimated expenditures in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law in the subsequent fiscal biennium (i.e. the 2021-23 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 FY 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. The growth factors were adopted by the ERFC on November 6, 2018. 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:

[https://erfc.wa.gov/sites/default/files/public/documents/budget/20181106\\_MemoToERFC\\_GrowthRates.pdf](https://erfc.wa.gov/sites/default/files/public/documents/budget/20181106_MemoToERFC_GrowthRates.pdf)

There are some cases whereby 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:

- Custom adjustments. Custom adjustments are used when the estimated annual costs in the subsequent fiscal biennium are expected to be significantly different from the second FY of the current biennium. This occurs primarily when a policy is being phased in during the second FY 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 (CBAs) 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.

### **Carryforward Level Revisions**

The Outlook adjusts the most recently enacted spending level to the Carryforward Level (CFL). In short, the CFL is a relatively mechanical calculation based on the removal of any one-time items and adjusting for the bow wave impact of items assumed in existing appropriations (costs or savings). In many instances, this means simply biennializing to the second year enacted funding levels. Some examples of the CFL adjustments are:

#### **Kindergarten - Grade 12 (K-12)**

The total K-12 CFL adjustment for the 2019-21 biennium is \$2.96 billion. This includes, but is not limited to, \$2.18 billion for K-12 salary allocations, and \$675 million for prior school year adjustments.

#### **Low Income Health Care and Community Behavioral Health**

The total Low Income Health Care and Community Behavioral Health CFL adjustment for the 2019-21 biennium is \$113 million. This includes, but is not limited to, utilization changes.

#### **Department of Social & Health Services (DSHS)**

The total DSHS CFL adjustment for the 2019-21 biennium is \$223 million. This includes, but is not limited to, utilization of residential services, workfirst fund balance, and in-home care providers agreement.

#### **Higher Education**

The total Higher Education CFL adjustment for the 2019-21 biennium is \$99 million. This includes, but is not limited to, general wage increases.

#### **Corrections**

The total Corrections CFL adjustment for the 2019-21 biennium is \$37 million. This includes, but is not limited to, general wage increases.

#### **All Other**

The total All Other CFL adjustment for the 2019-21 biennium is \$-69 million. This includes, but is not limited to, general wage increases and reductions for one-time items.

#### **Debt Service**

The total Debt Service CFL adjustment for the 2019-21 biennium is \$79 million. This includes, but is not limited to adjustments to reflect the debt service for the adopted capital budget and an adjustment related to changes in bond debt costs resulting from refunding and changes in interest rates.

**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 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 CBAs not approved by the Legislature, other proposed compensation increases, and costs of any adverse court rulings within 90 days of each respective legislative session. OFM's statewide preliminary ML estimate, by biennial period, follow:

- 2019-21 biennial estimate: \$2.892 billion, and
- 2021-23 biennial estimate: \$6.197 billion.

These estimates are total impacts. These preliminary totals are based on OFM estimates. Fiscal impacts will change prior to the Governor's budget proposal being released and will change prior to the enacted 2019-21 biennial budget. The impacts, by ERFC approved groupings, follow for reference.

**K-12**

The amounts depicted reflect the preliminary caseload and K-12 entitlement changes.

- Preliminary ML adjustments total \$939 million in the 2019-21 biennium and \$2.804 billion in the 2021-23 biennium.
- This includes, but is not limited to, enrollment/workload adjustments, K-12 salary allocations, and inflation.

In addition to the above changes, there are two discreet groupings that are not included in the above impact:

- K12 Local Forest Revenue is included in the November Outlook. This item was included based on the ERFC decision on November 6, 2018.
- School Employees Benefit Rate is included in the November Outlook.

**Low Income Health Care and Community Behavioral Health**

The amounts depicted reflect the preliminary 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. The average growth factor for this grouping is 2.89 percent per FY.

- Preliminary ML adjustments total \$578 million in the 2019-21 biennium and \$795 million in the 2021-23 biennium.
- This includes, but is not limited to, utilization changes, caseload adjustments, hospital safety net assessments, and adjustments related to an increase in the state share of cost for clients receiving services under the Children's Health Insurance Program (CHIP).

In addition to the above changes, there is one discreet grouping that is not included in the above impact:

- Hospital Safety Net is included in the November Outlook.

**Department of Social and Health Services**

The amounts depicted reflect preliminary 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 and severity of client needs. The average growth factor for this grouping is 3.27 percent per FY.

- Preliminary ML adjustments total \$490 million in the 2019-21 biennium and \$740 million in the 2021-23 biennium.
- This includes, but is not limited to, utilization changes, caseload adjustments, and disproportionate share hospital.

In addition to the above changes, there is one discreet grouping that is not included in the above impact:

- Trueblood litigation fines are included in the November Outlook. This item was included based on the ERFC decision on November 6, 2018.

### Higher Education

Higher Education adjustments are generally related to the College Bound Scholarship program, maintenance and operations, and leased facility adjustments. The average growth factor for this grouping is 0.1 percent per FY.

- Preliminary ML adjustments total \$11 million in the 2019-21 biennium and \$20 million in the 2021-23 biennium.

In addition to the above changes, there is one discreet grouping that is not included in the above impact:

- Initiative 732 Cost of Living Adjustments are included in the November outlook.

### Corrections

The amounts depicted reflect preliminary caseload, as well as other mandatory maintenance level changes. The average growth factor for this grouping is 1.33 percent per FY.

- Preliminary ML adjustments total \$92 million in the 2019-21 biennium and \$108 million in the 2021-23 biennium.
- This includes, but is not limited to, caseload changes for the community supervision population and the prison/institution population.

### All Other

This area includes all other agencies not reflected in the preceding Outlook groups. Many are general government agencies, smaller human service agencies, child youth and families, natural resource agencies, legislative agencies, and judicial agencies. The average growth factor for this grouping is 0.42 percent per FY.

- Preliminary ML adjustments total \$177 million in the 2019-21 biennium and \$175 million in the 2021-23 biennium.
- This includes, but is not limited to, caseload changes for DCYF and maintenance items.

In addition to the above changes, there is one discreet grouping that is not included in the above impact:

- ECEAP costs are included in the November Outlook. This item was included based on the ERFC decision on November 6, 2018.

### Debt Service

The amounts depicted reflect those amounts based on the Debt Service model. The amounts depicted reflect the cost of the debt on all capital budget bonds that are currently authorized using the bond model to calculate estimated costs for the 2021-2023 biennium.

## Other Outlook Items

The following items are specific expenditures that are not in ML, however the ERFC directed staff (on November 6, 2018) to include in the November 2018 Outlook:

**Fiscal Year (FY) 2019 Fire Costs.** Costs related to fire suppression/mobilization in 2018 are included in the Outlook. Costs are included in FY2019 only under "All Other."

- Estimated costs included in the Outlook are \$48 million.

**Trueblood Litigation.** Costs related to fines due to the Trueblood case, which deals with delays in providing court-ordered forensic mental health services are included in the Outlook. The fines are based on the number of days a person waits for forensic mental health services in excess of court-mandated timelines. Cost estimates assume \$4 million per calendar month, and are assumed for the period July 1, 2018 through December 31, 2018. Costs are included in FY2019 only, under "Trueblood Lawsuit Fines".

- Estimated costs included in the Outlook are \$24 million.

**Early Childhood Education and Assistance Program (ECEAP) entitlement and phase-in.** ECEAP costs are part of the November Outlook because it includes costs at the current funded level through FY 2023. There are currently 13,491 funded ECEAP slots. Under current law, ECEAP becomes an entitlement in FY 2023. Current caseload projections estimate the demand for ECEAP slots in FY 2023 to be 19,417 slots. RCW 43.216.556 requires a phase in of ECEAP funding but does not specify how to phase in the program. Costs are included in FY2020-FY2023, under "ECEAP Entitlement".

- Estimated costs included in the Outlook are \$119 million.

**K-12 Forest Revenue.** In May 2018, the Office of the Superintendent of Public Instruction implemented a rule change that excluded state forest revenues from the list of local funds that must be deducted from payments to school districts. This rule change was not assumed in the 2018 enacted budget. Costs are included in FY2019-FY2023, under "K12 Local Forest Revenue".

- Estimated costs included in the Outlook are \$52 million.

**Initiative 940- Concerns Law Enforcement:** The fiscal impact statement identifies indeterminate costs for training required by the initiative, which are driven by uncertainty in the number of hours that will be required. The Criminal Justice Training Center has funding in their budget for this work, and as such are not included in the below estimated costs. Costs are included in FY2020-FY2023, under "Initiatives".

- Estimated costs included in the Outlook are \$0.5 million.

**Initiative 1639- Concerns Firearms:** The fiscal impact statement identifies indeterminate costs for increasing the number of required mental health background checks and for the Department of Licensing to maintain certain records under the initiative. Costs are included in FY2020-FY2023, under "Initiatives".

- Estimated costs included in the Outlook are \$8.5 million.

See attached '2018-11-20 Budget Outlook Summary - Preliminary ML to ERFC.pdf'.