

# Overview of the Methodology for the State Budget Outlook (January 2019)

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## **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.

### Revenue Forecast

The amounts for 2017-19 and 2019-21 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 revenue (in this instance, the 2021-23 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 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 fiscal year (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 Constitution. The calculation of estimated general state revenues is based on the November 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 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 provides that the transfer only occurs to the extent that it exceeds the normal transfer amount into the Budget Stabilization Account. A transfer of \$1.575 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.

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### Enacted Fund Transfers

This category reflects all enacted fund transfers made through the 2018 legislative session (including special sessions) after accounting for vetoes. For more information, see the 2018 Legislative Budget Notes at: <http://leap.leg.wa.gov/leap/budget/lbns/2018LBN.pdf>.

### Governor's Proposed Resource Changes

#### Fund Transfers

The Governor's budget proposes transfers as listed below.

<b>Transfers Proposed in the Governor's 2019-21 Supplemental Budget</b>		
	<b>2019-21</b>	<b>2021-23</b>
From General Fund to Tourism Marketing Account	\$(3.0) M	
From Public Works Assistance Account to Education Legacy Trust Account	\$140.0 M	
From School Employee Benefits Account to the General Fund (repay loan)	\$38.7 M	
From Treasurer's Service Account to the General Fund	\$20.0 M	
From Criminal Justice Treatment Account to the General Fund	\$8.4 M	
From Disaster Assistance Account to the General Fund (FEMA Reimbursement)	\$46.0 M	\$19.0 M
<b>Total</b>	<b>\$250.1 M</b>	<b>\$19.0 M</b>

#### Proposed Revenue Changes

The Governor is proposing several pieces of legislation that affect revenues:

<b>Governor Inslee's Revenue Proposals</b>		
	<b>2019-21</b>	<b>2021-23</b>
Business & Occupation Tax on Services (80% to ELTA/20% to General Fund) (HB 1343/SB 5129)	\$2,572.9 M	\$2,972.9 M
Capital Gains Tax (HB 1343/SB5129)	\$976.0 M	\$2,141.3 M
Graduated REET (HB 1228/SB 5130) (To ELTA)	\$17.9 M	\$19.4 M
Extend Renewable Energy M&E (HB 1211/SB 5116)	\$(0.0) M	\$(0.0) M
Commercial Building Retrofit Tax Incentive (HB 1257/SB 5293)	\$0.0 M	\$(2.0) M
Extend Renewable Energy Cost Recovery Incentives (HB xxxx/SB xxxx)	\$(4.8) M	\$(6.3) M
Tobacco and Vapor Products age-related sales (HB 1074/SB 5057)	\$(8.9) M	\$(12.1) M
Wayfair – Retail Sales Tax (HB xxxx/SB xxxx)	\$92.8 M	\$133.9 M
Wayfair – Business & Occupation Tax (HB xxxx/SB xxxx)	\$30.2 M	\$74.5 M
<b>Total</b>	<b>\$3,675.6 M</b>	<b>\$5,321.6 M</b>

Because the Governor's budget results in a net increase in revenues to the General Fund, it is assumed that the 1 percent transfer from the General Fund to the BSA would be increased by \$16.1 million in the 2019-21 biennium and by \$29.3 million in the 2021-23 biennium.

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### *Budget Driven Revenue Adjustments*

Adjustments are made to reflect the difference between assumed transfers of cannabis, liquor and lottery 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.

<b>Governor Inslee's Budget Driven Revenue</b>		
	<b>2019-21</b>	<b>2021-23</b>
Liquor Control Board (Marijuana)	\$ (3.6) M	\$15.9 M
Liquor Control Board (Liquor)	\$ (9.8) M	\$0.3 M
Lottery	\$ (1.6) M	\$ (2.0) M
<b>Total</b>	<b>\$ (15.0) M</b>	<b>\$14.3 M</b>

### **Expenditures**

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget (the 2018 Supplemental budget). It is based on these 2017-19 budget appropriation levels, and then reflects adjustments for the Governor's Maintenance Level (ML) estimates. For more information on the 2017-19 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.

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- 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.

### **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. The Governor's statewide ML estimate, by biennial period:

- ❖ 2019-21 biennial estimate: \$2.973 billion, and
- ❖ 2021-23 biennial estimate: \$6.189 billion.

These estimates are total impacts. These amounts are based on the Governor's budget and will change prior to the enacted 2019-21 biennial budget. The impacts follow for reference.

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

The amounts depicted reflect the November 2018 caseload and K-12 entitlement changes. ML adjustments total \$935 million in the 2019-21 biennium and \$2.749 billion in the 2021-23 biennium. This includes, but is not limited to, enrollment/workload adjustments, K-12 salary allocations, local forest revenue, professional learning days and inflation.

In addition to the above changes, there is one K-12 ML budget item displayed separately in the Outlook:

- ❖ School Employees Benefit Rate is included in the November Outlook, at \$297 million for 2019-21 and \$333 million for 2021-23.

### **Higher Education**

Higher Education adjustments are generally related to the College Bound Scholarship program, maintenance and operations, leased facility adjustments, and a technical correction item to add back several financial aid programs that were not updated in carry-forward level. The average growth factor for this grouping is 0.1 percent per fiscal year.

- ❖ ML adjustments total \$84 million in the 2019-21 biennium and \$121 million in the 2021-23 biennium. Included in the above impact is the cost of Initiative 732 Cost of Living Adjustments at a cost of \$23 million in 2019-21 and \$52 million in 2021-23.

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

The amounts depicted reflect the caseload and per capita cost information, 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 fiscal year.

- ❖ ML adjustments total \$597 million in 2019-21 and \$824 million in 2021-23.

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This includes, but is not limited to, utilization changes, caseload adjustments, 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 Low Income Health Care item displayed separately in the Outlook:

- ❖ Hospital Safety Net is included at a cost of \$292 million in 2021-23 if the program is not extended.

### Department of Social and Health Services

The amounts depicted reflect caseload and per capita cost information, 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.

- ❖ ML adjustments total \$500 million in the 2019-21 biennium and \$718 million in the 2021-23 biennium.

This includes, but is not limited to, utilization changes, caseload adjustments, and items related to the loss of federal revenue available to support the state hospitals.

In addition to the above changes, there is one Social and Health Services item displayed separately in the Outlook:

- ❖ Trueblood litigation fines, at a cost of \$96 million per biennium.

### Corrections

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

- ❖ ML adjustments total \$105 million in the 2019-21 biennium and \$117 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, the department of child youth and families (DCYF), natural resource agencies, legislative agencies, and judicial agencies. The average growth factor for this grouping is 0.42 percent per FY.

- ❖ ML adjustments total \$247 million in the 2019-21 biennium and \$239 million in the 2021-23 biennium. Included in these amounts is the Public Safety Account Transfer at a cost of \$50 million each biennium.

This includes, but is not limited to, caseload changes for DCYF and maintenance items.

### Early Childhood Education and Assistance Program Entitlement (ECEAP)

Per statute, ECEAP entitlement costs are reflected in Fiscal Year 2023 at a cost of \$48 million.

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### Debt Service

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 2021-23 biennium. The amounts are \$49 million for 2019-21 and \$127 million for 2021-23.

### Employee Health Benefits

The change to biennialize the cost of state employee health benefits is \$62 million each biennium.

### Pension Funding Stabilization Account

In the 2017-19 fiscal biennium, \$925.2 million was transferred from the BSA into the Pension Funding Stabilization Account (PFSA), an account that may be used only for the cost of state employer contributions to state pension systems. This allowed for a General Fund-State savings of an equal amount spread over the 2017-19 and 2019-21 fiscal biennia as funding for state agency pension contributions during this period are paid from the funds transferred into the PFSA. These funds will be fully spent by FY 2021-23 and the amount depicted reflects the general fund-state impact for this period.

### 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 \$3,557 million in 2019-21 and \$4,849 million in 2021-23.

### Kindergarten – Grade 12 (K-12) Schools

The Governor proposes to increase funding for K-12 Schools by \$526 million in 2019-21 and by \$884 million in 2021-23. The major components of this increase are:

- ❖ Local Effort Assistance: \$214 million in 2019-21 and \$282 million in 2021-23;
- ❖ Social-Emotional Learning Support: \$156 million in 2019-21 and \$311 million in 2021-23;
- ❖ Special Education: \$94 million in 2019-21 and \$195 million in 2021-23;
- ❖ School Employee Benefits (health insurance): \$646 million in 2019-21 and \$781 million in 2021-23;
- ❖ Various other enhancements in the K-12 system, such as para-educator training, investments in science education, and other investments: \$62 million in 2019-21 and \$98 million in 2021-23;

### Higher Education

The Governor proposes to increase funding for Higher Education by \$324 million in 2019-21 and by \$465 million in 2021-23. The major components of this increase are:

- ❖ Foundational Support: \$64 million in 2019-21 and \$66 million in 2021-23;
- ❖ College Promise Scholarship (formerly State Need Grant): \$103 million in 2019-21 and \$218 million in 2021-23;
- ❖ Program Enhancements and Student Support: \$50 million in 2019-21 and \$50 million in 2021-23;

### Low-Income Health Care

The Governor proposes to increase funding for Low Income Health Care by \$108 million in 2019-21 and by \$71 million in 2021-23. The major components for Low Income Health Care are:

- ❖ Healthier Washington Savings Restoration: \$55 million in 2019-21 and \$57 million in 2021-23;
- ❖ Primary Care Rate Increase: \$57 million in 2019-21 and \$61 million in 2021-23;
- ❖ Eliminate Medicaid Rate Increase: Savings of \$49 million in 2019-21 and savings of \$78 million in 2021-23.

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In addition to the above changes, there is one Low Income Health Care item displayed separately in the Outlook:

- ❖ Maintain Hospital Safety Net: The Governor's budget assumes the extension of maintaining the hospital safety net, saving \$292 million in 2021-23;

### Behavioral Health

The major components for Community Behavioral Health are:

- ❖ Community Long-Term Inpatient Beds: \$37 million in 2019-21 and \$95 million in 2021-23;
- ❖ Additional Enhanced Discharge: \$114 million in 2019-21 and \$166 million in 2021-23.
- ❖ State Hospital Operations: \$82 million in 2019-21 and \$86 million in 2021-23.

In addition to the above changes, there are two groups of items displayed separately in the Outlook:

- ❖ Trueblood Settlement Agreement: \$91 million in 2019-21 and \$159 million in 2021-23;
- ❖ Trueblood Fine Reductions: -\$96 million in 2019-21 and -\$96 million in 2021-23.

### Department of Social and Health Services

The Governor proposes to increase funding for DSHS programs by \$178 million in 2019-21 and by \$250 million in 2021-23. The major components for DSHS are:

- ❖ Enhance Community Residential Rate: \$59 million in 2019-21 and \$128 million in 2021-23;

### Department of Corrections

The Governor proposes to increase funding for Department of Corrections by \$77 million in 2019-21 and by \$59 million in 2021-23. The major components for DOC are:

- ❖ Capital Project Operating Costs: \$17 million in 2019-21 and \$24 million in 2021-23;
- ❖ Various items related to health care delivery in prisons: \$28 million in 2019-21 and \$26 million in 2021-23;
- ❖ Work Release Expansion: \$15 million in 2019-21 and \$21 million in 2021-23;

### 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 2019-21 and \$403 million for 2021-23.

### Early Childhood Education and Assistance Program Entitlement

The Governor proposes to phase in the ECEAP entitlement costs starting in 2019-21 at a cost of \$37 million in 2019-21 and \$63 million in 2021-23.

### Other

This area includes all other agencies not reflected in the preceding Outlook groups. Many are general government agencies, smaller human service agencies, natural resource agencies, legislative agencies and judicial agencies. Other PL changes total \$635 million in 2019-21 and \$773 million in 2021-23. The major components are:

- ❖ Reduce Homelessness: \$93 million in 2019-21 and \$93 million in 2021-23;
- ❖ Preschool Expansion: \$30 million in 2019-21 and \$106 million in 2021-23;
- ❖ Funding in the Department of Employment Security to administer a competitive grant program to create and implement new career-connected learning programs to meet the needs of students and employers: \$26 million in 2019-21 and \$41 million in 2021-23;

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### Compensation

The Governor's proposed budget funds all CBAs, and provides the same General Wage increase to non-represented staff. This results in adjustments of \$465 million in 2019-21 and \$577 million in 2021-23.

Adjustments related to non-employee provider agreements are \$187 million in 2019-21 and \$256 million in 2021-23.

State employee health benefits require \$7 million in 2019-21 and \$8 million in 2021-23.

### Pensions

Spread throughout all budget areas are costs for a one-time 3 percent increase for eligible Public Employee and Teachers Retirement Systems Plan 1 members at a cost of \$50 million in 2019-21 and \$59 million in 2021-23.