

# Budget Outlook Methodology & Adoption

June 11, 2019



Washington State  
Economic and Revenue Forecast Council

*This page left intentionally blank.*



WASHINGTON STATE  
**ECONOMIC AND REVENUE FORECAST COUNCIL**

---

## AGENDA

# **Budget Outlook Methodology & Adoption Meeting**

June 11, 2019  
10:00 a.m.

- Call to order
- Approval of meeting minutes: June 6, 2019
- Methodology for the Budget Outlook
- Budget Outlook Adoption
- Adjourn

*This page left intentionally blank.*



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

### Meeting Minutes Economic Review

June 6, 2019

John L. O'Brien, Hearing Room C

#### Economic and Revenue Forecast Council

##### *Members Present*

Ed Orcutt, House of Representatives, Council Chair  
John Braun, Senate (via phone)  
Timm Ormsby, House of Representatives (via phone)  
Duane Davidson, Treasurer  
David Schumacher, Office of Financial Management

##### *Staff*

Steve Lerch, Executive  
Director

##### *Budget Outlook Work Group representatives:*

Pam Davidson, OFM  
Sarian Scott, Senate  
Dave Johnson, House

#### Call to Order

Representative Orcutt called the meeting to order at 10:01 a.m.

#### Motion

Treasurer Davidson moved to adopt the meeting minutes from March 20, 2019, seconded by Representative Orcutt. Council approved the motion at 10:02 a.m.

#### Budget Outlook

The Budget Outlook Work Group members requested guidance for the outlook on the following areas: debt model calculations, reversions, and state institutions bed closures and community investments.

#### Motion

Representative Ormsby moved that the estimates for ensuing biennium costs for the Outlook not assume a 2021-23 capital budget and bond bill. With dissenting votes from Treasurer Davidson, Senator Braun, and Representative Orcutt, motion fails at 10:14 a.m. As a result of the failed motion, the Outlook Work Group will assume the enactment of a 2021-23 capital budget and bond bill.

#### Motion

Representative Ormsby moved to assume K-3 compliance reversions as reflected in the 2019-21 budget, seconded by Representative Orcutt. Council approved the motion at 10:19 a.m.

**Motion**

Representative Ormsby moved, seconded by Representative Orcutt, absent declarative veto language, to exclude vetoed spending reductions as reversions, maintaining the original spending authority. The Council approved the motion at 10:26 a.m.

**Motion**

After discussion, Senator Braun moved, seconded by Representative Orcutt, to assume costs and savings associated with state institution bed closures and community investments in the 2021-23 biennium. The Council approved the motion at 10:40 a.m.

**Presentation on the Economic Forecast**

Dr. Lerch presented information on the preliminary economic forecast. Dr. Lerch summarized the forecast changes and provided background information on both the U.S. and Washington economies. Discussion ensued regarding recession projections from business economists, revenue collections, and home prices in Seattle.

**Adoption**

With no objections presented, the economic forecast was adopted at 10:59 a.m.

**Adjournment**

Meeting adjourned at 11:00 a.m.

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

### 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. These funds are sometimes referred to as the Near General Fund Outlook (NGF-O) funds.

### 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.

#### Revenue Forecast

Current revenues for the 2017-19, 2019-21, and 2021-23 biennia reflect the March 2019 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 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. Because the March 2019 forecast projects revenue growth of less than 4.5 percent per year in the 2021-23 biennium, the June 2019 Outlook assumes the 4.5 percent growth rate for the 2021-23 biennium.

#### Transfers to the 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 March 2019 revenue forecast adjusted for estimated revenue impacts of legislation enacted during the 2019 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 BSA. ERG is growth in general state revenues for the fiscal biennium that exceeds the average biennial percentage growth of the prior five fiscal

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

biennia by one-third. The transfer only occurs to the extent that it exceeds the normal one percent transfer mentioned above. A transfer of \$1.696 billion 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 March 2019 revenue forecast adjusted for estimated revenue impacts of legislation enacted during the 2019 session (see enacted revenue legislation).

Chapter 43.79.496 RCW directs the State Treasurer to transfer amounts attributable to ERG that were deposited into the BSA to the state general fund during the 2017-19 biennium not to exceed \$1.078 billion. Pursuant to this requirement, the Outlook assumes a \$1.078 billion 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.

Chapter 419, Laws of 2019 (ESHB 2163), directs the State Treasurer to transfer \$58.4 million of amounts attributable to extraordinary revenue growth to the state general fund before the end of fiscal year 2019 for the support of K-12 education. Pursuant to this requirement, the Outlook assumes a \$58.4 million transfer from the BSA to the General Fund-State account.

Chapter 411, Laws of 2019 (ESHB 2140), directs that all of the second property tax collected in fiscal year 2019 be deposited in the ELTA (the amount was previously capped at \$935 million and having the remainder deposited in the general fund). 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 redirection, which is estimated to be \$85 million. However the re-direction does impact the calculation of general state revenues used to determine required transfers to the BSA.

### Enacted Revenue Legislation

The Outlook assumes NGF-O revenue changes from the following bills that were enacted in the 2019 legislative session:

Revenue Legislation (\$ in Millions)	2017-19	2019-21	2021-23
Chapter 15, Laws of 2019 (EHB 1074)	0.000	-8.901	-12.077
Chapter 16, Laws of 2019 (HB 1001)	0.000	0.006	0.013
Chapter 285, Laws of 2019 (E3SHB 1257)	0.000	0.000	-3.193
Chapter 288, Laws of 2019 (E2SSB 5116)	0.000	-10.835	-13.674
Chapter 335, Laws of 2019 (HB 1301)	0.000	-0.028	-0.044
Chapter 338, Laws of 2019 (SHB 1406)	0.000	-51.000	-53.000
Chapter 344, Laws of 2019 (SHB 1652)	0.000	0.301	1.299
Chapter 347, Laws of 2019 (ESHB 1839)	0.000	-40.635	44.790
Chapter 350, Laws of 2019 (SHB 2024)	0.000	-0.271	-0.248
Chapter 352, Laws of 2019 (ESSB 5383)	0.000	0.074	0.098
Chapter 361, Laws of 2019 (ESHB 1107)	0.000	-0.043	-0.098
Chapter 385, Laws of 2019 (SSB 5025)	0.000	-0.212	-0.206
Chapter 390, Laws of 2019 (ESSB 5183)	0.000	-0.151	-0.201

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

Chapter 420, Laws of 2019 (SHB 2167)	0.000	133.200	205.600
Chapter 423, Laws of 2019 (ESSB 5997)	0.000	53.837	58.922
Chapter 424, Laws of 2019 (ESSB 5998)	0.000	243.500	354.800
Chapter 425, Laws of 2019 (ESSB 6004)	0.000	4.700	5.300
Chapter 426, Laws of 2019 (ESB 6016)	0.000	59.417	66.120
Chapter 445, Laws of 2019 (ESSHB 1873)	0.000	1.416	1.542
Chapter 451, Laws of 2019 (SHB 2168)	0.000	-14.600	-16.520
Chapter 453, Laws of 2019 (ESSB 5160)	0.000	-20.200	-27.300
Chapter 464, Laws of 2019 (SB 5596)	0.000	0.000	-1.123
<b>Total</b>	<b>0.0</b>	<b>349.575</b>	<b>610.800</b>

In addition to the legislation reflected in the table above, there are two other acts that have an impact on the Outlook as follows:

- Chapter 8, Laws of 2019 (SSB 5581)  
The estimated revenue impacts of this act which resolves prior conflicts between Washington tax laws and the federal Supreme Court ruling in *South Dakota v. Waifair, Inc.* were included in the March 2019, revenue forecast
- Chapter 411, Laws of 2019 (ESHB 2140)  
This act directs that all of the second property tax collected in fiscal year 2019 be deposited in the ELTA (the amount was previously capped at \$935 million and having the remainder deposited in the general fund). 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 redirection. However the redirection does impact the calculation of transfers to the BSA as discussed above.

### Enacted Fund Transfers

This category reflects the NGF-O impact of previously enacted fund transfers made in the 2017 and 2018 sessions (including special sessions) after accounting for vetoes. For more information, see the 2017 and 2018 Legislative Budget Notes at:

- 2017: <http://leap.leg.wa.gov/leap/budget/lbns/2017LBN.pdf>
- 2018: <http://leap.leg.wa.gov/leap/budget/lbns/2018LBN.pdf>

### New Fund Transfers

This category reflects the NGF-O impact of transfers enacted in the 2019 session.

<b>New Fund Transfers (\$ in Millions)</b>	<b>2017-19</b>	<b>2019-21</b>	<b>2021-23</b>
Disaster Response Account	0.0	28.0	14.0
Energy Freedom Account	0.0	1.0	0.0
Financial Services Regulation Account	0.0	7.0	0.0
Local Toxics Control Account	35.0	0.0	0.0
Long-Term Services and Supports Trust Account	0.0	0.0	16.8
Public Works Assistance Account	0.0	160.0	132.0

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

School Employees' Insurance Admin Acct	0.0	0.0	40.1
State Toxics Control Account	38.0	0.0	0.0
State Treasurer's Service Account	0.0	16.0	12.0
Statewide Tourism Marketing	0.0	-3.0	0.0
<b>Total</b>	<b>73.0</b>	<b>209.0</b>	<b>214.9</b>

Transfers for the 2021-23 biennium are included to the extent they are either statutorily required or there is enacted language directing that the legislature intends to maintain the transfer in the 2021-23 biennium. Of the transfers noted above, the Governor vetoed the FY 2019 transfer from the State Toxics Control Account to the General Fund.

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

- **Disaster Response Account:** The 2021-23 amount reflects estimates of amounts of federal dollars expected to be available to reimburse for the temporary use of state funds;
- **School Employees' Insurance Administration Account:** The 2021-23 transfer represents the payback of GFS appropriated in the 2017-19 and 2019-21 biennium for start-up costs in accordance with intent language included in Chapter 299, Laws of 2018, partial veto, (ESSB 6032) and Chapter 415, Laws of 2019 (ESHB 1109); and
- **Long Term Services and Supports Trust Account:** The 2021-23 transfer represents the payback of GFS appropriated in the 2019-21 biennium for start-up costs in accordance with intent language included in Chapter 415, Laws of 2019 (ESHB 1109).

### Enacted Budget Driven Revenue

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. Other budget steps are also expected to impact forecasted revenues. The following table provides the impact of these changes assumed in the Outlook as compared to what was assumed in the March 2019 revenue forecast.

<b>Budget Driven Revenue (\$ In Millions)</b>	<b>2017-19</b>	<b>2019-21</b>	<b>2021-23</b>
Liquor & Cannabis Board (Liquor)	0.0	-9.6	1.4
Liquor & Cannabis Board (Marijuana)	-3.0	-6.3	-7.4
Lottery	0.0	-1.5	-1.9
Vessel Renewal	0.8	1.6	1.6
Payment in Lieu of Taxes	0.0	-4.0	0.0
<b>Total</b>	<b>-2.2</b>	<b>-19.8</b>	<b>-6.2</b>

### Governor Vetoes

This reflects the Governor's veto of the FY 2019 transfer from the State Toxics Control Account to the GFS. The total adjustment is a reduction in resources of \$38 million.

### **Expenditures**

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

### Estimating Costs for the 2019-21 and 2021-23 Fiscal Biennia

Estimated NGF-O expenditures for the 2019-21 biennium are based on the enacted budget as well as appropriations made in other legislation, and includes adjustments for Governor vetoes.

Estimated expenditures for the 2021-23 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 FY cost or savings associated with a budget item. Information on the growth factors used for this Outlook can be found on the ERFC website at:

[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 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 periodically updated for other factors such as levy equalization, student transportation, and staff mix.
- **Debt Service.** Debt service calculations are derived from the debt service model. The Outlook statute specifies that "estimates of ensuing biennium expenditures must exclude policy items including, but not limited to, legislation not yet enacted by the legislature." Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2021-23 bond bill and capital budget.
- **Custom adjustments.** Custom adjustments are used when the estimated annual costs are expected to be significantly different from the 2nd 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.
- **Compensation items.** The Outlook statute directs that costs related to future collective bargaining agreements (CBA) not yet approved by the Legislature be excluded as well as future biennia costs for salaries and benefit increases unless otherwise directed by statute.
- **Revisions to 2017-19 (2019 Supplemental Budget)** Estimated NGF-O expenditures for the 2017-19 biennium are then modified based on the enacted budget impacting FY 2019, and includes adjustments for Governor vetoes.

### Initial Starting Point

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget. It is based on the appropriation levels for the 2017-19 biennium including the 2018 Supplemental Budget. Adjustments are then made for carry forward level (CFL), maintenance level (ML) and policy level (PL) changes. For more information, please see:

2017: <http://leap.leg.wa.gov/leap/budget/lbns/2017LBN.pdf>

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

2018: <http://leap.leg.wa.gov/leap/budget/lbns/2018LBN.pdf>

### Carry Forward Level Revisions

The 2019-21 budget then adjusts the most recently enacted spending level (2017-19 including the FY 2018 Supplemental) to the Carry Forward Level (CFL). 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. The CFL adjustments total \$3.442 billion in the 2019-21 biennium and \$842 million in the 2021-23 biennium. The 2019-21 adjustments include application of the growth factor methodology adopted by the ERFC.

### Maintenance Level Revisions

In this section, additional adjustments are made to reflect the NGF-O 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 legislation not enacted by the legislature, 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 enacted 2019-21 biennial budget ML adjustments total an increase of \$2.381 billion in the 2019-21 biennium and \$5.476 billion in the 2021-23 biennium. There is also an \$87 million increase in the 2017-19 biennium related to FY 2019 supplemental budget changes.

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

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 periodically updated for other factors such as levy equalization, student transportation, and staff mix.

K-12 education ML adjustments include \$750 million in the 2019-21 biennium and \$2.520 billion in the 2021-23 biennium. The larger increases are related primarily to enrollment/workload adjustments, K-12 salary allocations, inflation, and adjustments for the special education safety net. In addition, there were adjustments related to correcting a technical error in the CFL budget as well as an adjustment related to impacts of a governor's veto in the FY 2018 supplemental, which reversed a delay in the phase-in of professional development days for certified instructional staff.

The largest savings in this category are related to revisions of the apportionment schedule and adjustments for local effort assistance payments and regionalization.

### *Low-Income Health Care & Community Behavioral Health*

The amounts depicted reflect caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory ML changes. Some of

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

the major cost components include utilization, caseload, and medical inflation. The growth factor for the 2021-23 biennium is estimated at 2.89 percent per year from FY 2021 levels.

ML adjustments include \$521 million in the 2019-21 biennium and \$716 million in the 2021-23 biennium. The larger state costs are related primarily to declining federal match rates, increases in managed care rates which are required under federal law to be actuarially sound, required increases in hold harmless payments for Certified Public Expenditure hospitals, increases in state costs for services in Institutions for Mental Diseases (IMDs), increased dental service utilization, and increased outpatient prescription drug costs for dual eligible clients. Larger state savings are related to declining Medicaid caseloads, reductions in medical utilization across some populations, and correction of a technical error in the CFL budget. The Hospital Safety Net is displayed separately from Low Income Health Care and Community Behavioral Health .

### *Social and Health Services*

The amounts depicted reflect caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory ML changes. Some of the major cost components include caseload, utilization and severity of client needs. The growth factor for the 2021-23 biennium is estimated at 3.27 percent per year from FY 2021 levels.

ML adjustments include \$515 million in the 2019-21 biennium and \$697 million in the 2021-23 biennium. The larger increases are related to long-term care and developmental disabilities caseloads, workload and utilization changes, loss of federal revenues used to support the state hospitals, contempt fines in the Trueblood litigation, and reductions of federal recoveries for individuals presumptively determined to be eligible for federal disability assistance. The larger savings include reductions in the caseloads for the Working Families Child Care and Temporary Assistance for Needy Families programs.

### *Department of Corrections*

The amounts depicted reflect caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory ML changes. A major cost component is the community supervision and institution populations. The growth factor for the 2021-23 biennium is estimated at 1.33 percent per year from FY 2021 levels.

ML adjustments include \$77 million in the 2019-21 biennium and \$80 million in the 2021-23 biennium. The larger adjustments are related to changes in the community supervision and community violator caseloads.

### *Higher Education*

Higher Education adjustments are generally related to I-732 cost of living adjustments, the College Bound Scholarship program, and to maintenance, operations and lease adjustments. The growth factor for the 2021-23 biennium is estimated at 0.1 percent per year from FY 2021 levels.

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

ML adjustments include \$32 million in the 2019-21 biennium and \$75 million in the 2021-23 biennium. The larger adjustments are related to cost of living adjustments required under Initiative 732 (applies only to certain community and technical college employees) and inflation adjustments for the College Affordability Program.

### *Debt Service*

The amounts depicted reflect the cost of the debt on all capital budget bonds that were authorized through the 2018 session using the bond model to calculate estimated costs for the 2021-23 biennium. The amounts are \$49 million for 2019-21 and \$143 million for 2021-23.

### *Employee Health and Benefits*

ML adjustments for projected employer health and benefits funding rates are related to accounting for a one-time use of a surplus balance in 2019. ML adjustments include \$63 million in the 2019-21 biennium and \$63 million in the 2021-23 biennium.

### *School Employee Benefits Board (SEBB) Health Benefit Funding Rates*

SEBB funding rates are adjusted in ML to the level provided for state employees at ML. These adjustments include \$225 million in the 2019-21 biennium and \$252 million in the 2021-23 biennium.

### *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 growth factor for the 2021-23 biennium is estimated at 0.42 percent per year from FY 2021 levels.

ML adjustments include \$149 million in the 2019-21 biennium and \$175 million in the 2021-23 biennium. The larger adjustments are related to statutorily required transfers into the Local Public Safety Enhancement Account, fire suppression costs, self-insurance liability premiums, and mandatory increases under state law for early learning and child welfare programs.

### *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 during the 2019-21 biennium and the amount depicted reflects the general fund-state impact for making those payments in the 2021-23 biennium.

### Policy Level Revisions

In this section, adjustments are made to reflect the policy level NGF-O expenditures included in the enacted budget and other legislation that makes appropriations. This is referred to as Policy

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

Level (PL). PL adjustments include \$2.014 billion in the 2019-21 biennium and \$2.128 billion in the 2021-23 biennium. There is also a \$102 million increase in the 2017-19 biennium related to changes in FY 2019 supplemental budget changes.

### *K-12 Education*

The PL budget adjustment for K-12 Education is \$345 million in the 2019-21 biennium and \$328 million in the 2021-23 biennium. 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.

The largest increases are for special education, levy equalization, hold harmless payments, and safety net payments. Other significant increases are related to local effort assistance, removal of the deduction for forest revenues, paraeducator training and professional development days.

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

The PL budget adjustment for Low Income Health Care is -\$8 million in the 2019-21 biennium and -\$82 million in the 2021-23 biennium. The growth factor for the 2021-23 biennium is estimated at 2.89 percent per year from FY 2021 levels.

The largest increases are related to community behavioral health beds, community behavioral health investments pursuant to the Trueblood Settlement, and restoration of funding in the dental and physical health care programs for previously assumed savings that were not realized.

The largest reductions are related to savings assumed from increasing program integrity activities, an assumed delay of the current federal policy that would otherwise reduce Disproportionate Share Hospital (DSH) grants to states, an assumed waiver that will increase federal funding in IMDs beginning in FY 2021, one-time return of reserves from remaining Behavioral Health Organizations (BHOs), and use of cannabis related revenues for the provision of low income health care services.

In addition, there are \$292 million in savings assumed in the 2021-23 biennium from legislation enacted to extend the hospital safety net amount. This amount is displayed separately and not included in the total policy adjustment noted above.

### *Social and Health Services*

The PL budget adjustment for Social and Health Services is \$147 million in the 2019-21 biennium and \$54 million in the 2021-23 biennium. The growth factor for the 2021-23 biennium is estimated at 3.27 percent per year from FY 2021 levels.

The largest increases are related to community residential and assisted living provider rates, implementation of the Trueblood Settlement, new community beds to support individuals

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

transitioning from state hospitals and Residential Habilitation Centers (RHCs), ongoing funding increases for RHCs, and one-time funding support for state hospital operations.

The largest savings are related to suspension of contempt fines pursuant to the Trueblood Settlement, an assumed delay of a federal policy that will reduce DSH grants to states, assumed civil ward closures at Western State Hospital beginning in FY 2022, an initiative to reduce the census in skilled nursing facilities, and a reduction in indirect staffing.

### *Department of Corrections*

The PL budget adjustment for the Department of Corrections is \$70 million in the 2019-21 biennium and \$77 million in the 2021-23 biennium. The growth factor for the 2021-23 biennium is estimated at 1.33 percent per year from FY 2021 levels.

The larger increases include operating budget support for capital projects funded in the 2017-19 biennium and expansion of work release programs.

### *Higher Education*

The PL budget adjustment for Higher Education is \$70 million in the 2019-21 biennium and \$79 million in the 2021-23 biennium. The growth factor for the 2021-23 biennium is estimated at 0.1 percent per year from FY 2021 levels.

The largest increase is related to financial assistance offered through the Washington College Grant program.

### *Debt Service*

The PL budget adjustment for Debt Service is \$40 million in the 2019-21 biennium and \$343 million in the 2021-23 biennium. The amounts depicted reflect the cost of the debt on all capital budget bonds authorized through the 2019 session using the bond model to calculate estimated costs for the 2021-23 biennium. This includes estimated costs of adopting a capital budget in the 2021-23 biennium.

### *Employee Compensation, Provider CBAs, and Parity*

The PL budget adjustment for employee compensation is \$453 million in the 2019-21 biennium and \$577 million in the 2021-23 biennium. This includes adjustments related to the employer share for public employee health benefits. The FY 2021 rate assumed for public employee health benefits is used to estimate costs in the 2021-23 biennium. The PL adjustment for non-employee provider CBAs and agency provider parity steps is \$186 million in the 2019-21 biennium and \$255 million in the 2021-23 biennium.

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.

### *School Employee Benefits Board (SEBB) Health Benefit Funding Rates*

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

The PL budget adjustment for the SEBB rate is \$329 million in the 2019-21 biennium and \$509 million in the 2021-23 biennium. The assumed SEBB rate is the same as the PEBB rate adjusted so that the surplus in the PEBB program used to lower the rate assumed for state employees is not applied to SEBB.

### *Other*

The PL budget adjustment for all other areas is \$362 million in the 2019-21 biennium and \$257 million in the 2021-23 biennium. The growth factor for the 2021-23 biennium is estimated at 0.42 percent per year from FY 2021 levels.

The larger increases in this area include vendor rates, expansion of early learning and housing programs, self-insurance liability premiums, fire response capabilities and streamlined sales tax mitigation payments.

The larger reductions include the elimination of the required transfer to the Local Public Safety Enhancement Account under Chapter 366, Laws of 2019 (HB 2144), budget directed efficiency savings (subsequently vetoed), and a one-time use of federal child care development funds to reduce state expenditures. The cost of restoring the funding reductions related to efficiency savings are reflected in the Governor's vetoes section.

### *Governor's Vetoes*

The expenditure impact of vetoes by the Governor are displayed separately and total \$3 million in the 2017-19 biennium, \$21 million in the 2019-21 biennium and \$22 million in the 2021-23 biennium. The growth rate used in the veto calculations is the same as what was used for the item in budget calculations.

### *Reversions*

Reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation. Consistent with prior outlooks, reversions are estimated at approximately 0.5% of GFS appropriations. Pursuant to guidance provided by the ERFC on June 6, 2019, additional reversions are assumed in relation to K-3 enhancement funds. The total reversions assumed are \$354 million in the 2019-21 biennium and \$295 million in the 2021-23 biennium.

### *Reassignment of Medicaid Claims*

After passage of the 2019-21 budget, a new federal rule was issued which impacts federal reimbursement for Medicaid payments to third parties on behalf of an individual provider for benefits such as health insurance, skills training, and other benefits customary for employees. The enacted budget did not anticipate adoption of the final rule. It is unclear what action members will take next year to align Washington's Medicaid payments with the new federal rule.

*This page left intentionally blank.*

**June 2019 Budget Outlook (Proposed)**  
**Outlook for the Enacted 2019-21 Operating Budget**  
**Funds Subject to the Outlook (General Fund State, Opportunity Pathways Account, Education Legacy Trust Account)**

(Dollars in Millions)

	2017-19			2019-21			2021-23		
	FY 2018	FY 2019	2017-19	FY 2020	FY 2021	2019-21	FY 2022	FY 2023	2021-23
<b>Beginning Balance</b>	<b>1,149</b>	<b>2,111</b>	<b>1,149</b>	<b>1,880</b>	<b>1,142</b>	<b>1,880</b>	<b>372</b>	<b>-77</b>	<b>372</b>
<b>Current Revenues</b>	<b>22,143</b>	<b>23,964</b>	<b>46,106</b>	<b>24,715</b>	<b>25,840</b>	<b>50,555</b>	<b>27,003</b>	<b>28,218</b>	<b>55,221</b>
March 2019 Revenue Forecast	22,143	23,964	46,106	24,715	25,840	50,555	26,730	27,629	54,358
Addtl Revenue Based on 4.5% Growth Rate Assumption	0	0	0	0	0	0	273	589	863
<b>Other Resource Changes</b>	<b>-198</b>	<b>-522</b>	<b>-720</b>	<b>-49</b>	<b>131</b>	<b>82</b>	<b>182</b>	<b>143</b>	<b>324</b>
GF-S Transfer to BSA (1%)	-216	-223	-440	-243	-255	-497	-263	-273	-536
GF-S Extraordinary Revenue to BSA	0	-1,696	-1,696	0	0	0	0	0	0
Extraordinary Revenue from BSA to GF-S	0	1,136	1,136	0	0	0	0	0	0
CAFR Adjustments	-26	0	-26	0	0	0	0	0	0
Prior Period Adjustments	91	20	111	20	20	41	20	20	41
Revenue Legislation	0	0	0	162	332	495	341	350	691
Other Legislation	0	0	0	-69	-76	-145	-59	-20	-80
Budget Driven Revenue	0	-2	-2	-11	-9	-20	-3	-3	-6
Enacted Fund Transfers	58.8	208.1	266.9	0.0	0.0	0.0	0.0	0.0	0.0
Proposed Fund Transfers	0.0	73.0	73.0	91.0	118.0	209.0	146.9	68.0	214.9
Governor's Vetoes	0.0	-38.0	-38.0	0.0	0.0	0.0	0.0	0.0	0.0
McCleary Penalty Account	-105	0	-105	0	0	0	0	0	0
<b>Total Revenues and Resources</b>	<b>23,094</b>	<b>25,553</b>	<b>46,535</b>	<b>26,546</b>	<b>27,113</b>	<b>52,517</b>	<b>27,557</b>	<b>28,284</b>	<b>55,917</b>
<b>Enacted Appropriations</b>	<b>21,036</b>	<b>23,626</b>	<b>44,661</b>	<b>21,035</b>	<b>23,626</b>	<b>44,661</b>	<b>23,815</b>	<b>24,009</b>	<b>47,824</b>
<b>Carryforward Level Adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,037</b>	<b>406</b>	<b>3,442</b>	<b>418</b>	<b>424</b>	<b>842</b>
<b>Maintenance Level Total</b>	<b>0</b>	<b>87</b>	<b>87</b>	<b>650</b>	<b>1,731</b>	<b>2,381</b>	<b>2,566</b>	<b>2,910</b>	<b>5,476</b>
<b>Policy Level Total</b>	<b>0</b>	<b>102</b>	<b>102</b>	<b>849</b>	<b>1,165</b>	<b>2,014</b>	<b>990</b>	<b>1,139</b>	<b>2,128</b>
K-12 Education	0	13	13	148	197	345	170	158	328
SEBB Rate	0	0	0	105	224	329	253	255	509
Low Income Health Care & Comm Behavioral Health	0	5	5	45	-54	-8	-43	-38	-82
Hospital Safety Net	0	0	0	0	0	0	-146	-146	-292
Social & Health Services	0	29	29	68	78	147	32	21	54
Higher Education	0	1	1	34	36	70	35	43	79
Corrections	0	12	12	30	40	70	39	39	77
All Other	0	40	40	172	189	362	107	151	257
Debt Service	0	0	0	3	37	40	116	227	343
Employee Compensation	0	0	0	164	289	453	289	289	577
Non-Employee CBAs	0	0	0	70	117	186	126	130	255
Governor Vetoes	0	3	3	10	11	21	11	11	22
<b>Reversions</b>	<b>-53</b>	<b>-142</b>	<b>-195</b>	<b>-166</b>	<b>-187</b>	<b>-354</b>	<b>-155</b>	<b>-140</b>	<b>-295</b>
<b>Revised Appropriations</b>	<b>20,983</b>	<b>23,673</b>	<b>44,656</b>	<b>25,404</b>	<b>26,741</b>	<b>52,145</b>	<b>27,634</b>	<b>28,342</b>	<b>55,976</b>
<b>Projected Ending Balance</b>	<b>2,111</b>	<b>1,880</b>	<b>1,880</b>	<b>1,142</b>	<b>372</b>	<b>372</b>	<b>-77</b>	<b>-58</b>	<b>-58</b>
<b>Budget Stabilization Account</b>									
Beginning Balance	1,638	1,369	1,638	1,671	1,948	1,671	2,249	2,570	2,249
GF-S Transfer to BSA (1%)	216	223	440	243	255	497	263	273	536
GF-S Extraordinary Revenue to BSA	0	1,696	1,696	0	0	0	0	0	0
Extraordinary Revenue from BSA to GF-S	0	-1,136	-1,136	0	0	0	0	0	0
BSA Transfer to Pension Stabilization Acct	-463	-463	-925	0	0	0	0	0	0
Appropriations from BSA	-41	-42	-84	0	0	0	0	0	0
Prior Period Adjustments	2	0	2	0	0	0	0	0	0
Interest Earnings	16	23	40	34	46	80	58	66	124
<b>Budget Stabilization Account Ending Balance</b>	<b>1,369</b>	<b>1,671</b>	<b>1,671</b>	<b>1,948</b>	<b>2,249</b>	<b>2,249</b>	<b>2,570</b>	<b>2,909</b>	<b>2,909</b>
<b>Total Reserves</b>	<b>3,480</b>	<b>3,551</b>	<b>3,551</b>	<b>3,089</b>	<b>2,621</b>	<b>2,621</b>	<b>2,493</b>	<b>2,851</b>	<b>2,851</b>

Footnotes:

1. Disproportionate Share Hospital (DSH) - The federal Affordable Care Act directed reductions in DSH Medicaid grants to states, beginning in 2014. Subsequent federal legislation has delayed the reductions several times and under current law they are scheduled to take effect during fiscal year 2020. Pursuant to direction at the June 6 meeting, the June Outlook assumes federal legislation will be enacted to further delay the reduction in federal DSH grants beyond the 2021-23 biennium.
2. The policy assumptions for the K-12 model used to develop the amounts reflected in the enacted budget for Chapter 410, Laws of 2019 (ESSB 5313) were different from the bill as it was enacted in its final form. As a result, the four-year budget costs reflected in the June Outlook are approximately \$34 million higher than the current estimates for the act.