

Budget Outlook Adoption

April 14, 2022



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

BUDGET OUTLOOK ADOPTION

April 14, 2022
11:00 a.m.

- Call to order
- Approval of meeting minutes from March 31, 2022
- Budget Outlook Methodology presentation
- Adjournment

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STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL
PO Box 40912 • Olympia, Washington 98504-0912 • (360) 534-1560

Meeting Minutes
Revenue Review
March 31, 2022
Conference Call

Economic and Revenue Forecast Council

Tim Ormsby, House of Representatives, Chair
Christine Rolfes, Senate
Ed Orcutt, House of Representatives
Mike Pellicciotti, Treasurer
Vikki Smith, Department of Revenue
David Schumacher, Office of Financial Management

Staff

Steve Lerch, Executive Director
Rachel Knutson, OFM
Corban Nemeth, Senate Ways and Means
Andy Toulon, House Appropriations

Call to Order

Representative Ormsby called the meeting to order at 11:02 a.m.

Approval of the Minutes

Senator Rolfes moved, seconded by Representative Ormsby, to adopt the meeting minutes from February 16, 2021. Motion was approved at 10:02 a.m.

Budget Outlook Methodology Presentation

The Budget Outlook Work Group members raised the issue of including or excluding revenue associated with the capital gains tax (Chapter 196, Laws of 2021) from the Budget Outlook for the enacted FY 2022 supplemental budget in light of the Douglas County Superior Court decision overturning the tax and the state's subsequent decision to appeal this ruling.

Motion

Representative Orcutt moved, seconded by Representative Ormsby, to not assume the revenue from the capital gains income tax from the Budget Outlook. Motion failed at 11:09 a.m., with 1 vote to approve, 4 votes to not approve, Director Smith recusing and Senator Wilson absent.

Senator Rolfes moved, seconded by Representative Ormsby, to continue with assumptions from the February Forecast and include the revenue from the capital gains tax in the Budget Outlook. Motion was passed at 11:16 a.m. with 5 votes to approve, Director Smith recusing and Senator Wilson absent.

Adjournment

With no further business, the meeting adjourned at 11:17 a.m.

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Draft Overview of the Methodology for the State Budget Outlook (April 14, 2022)

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), the Opportunity Pathways Account (OPA), and the Workforce Education Investment Account (WEIA). These funds are sometimes referred to as the Near General Fund Outlook (NGF-O) funds

During the 2021 legislative session the Fair Start for Kids Account (FSKA), was added to the NGF-O definition (Chapter 199, Laws of 2021). There are no resources deposited into or expenditures made out of the Fair Start for Kids 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 Fiscal Years (FY) is equal to the projected ending balance for the previous FY.

Revenue Forecast

Current revenues for the 2021-23 and 2023-25 biennia reflect the adopted February 2022 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 2023-25 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.

The February 2022 forecast projected revenue growth of less than 4.5 percent per year in the 2023-25 biennium. Given the February 2022 forecast projects revenue growth of less than 4.5 percent per year in the 2023-25 biennium, the Outlook includes an adjustment for estimated FY 2024 and FY 2025 revenues. The adjustment for ensuing biennium revenues increases estimated resources in the Outlook by \$896 million.

The February 2022 revenue forecast incorporates assumed \$1.155 billion NGF-O revenue over the 4-year period from the enactment of Chapter 196, Laws of 2021 (capital gains tax). On March 1, 2022, the Douglas County Superior Court invalidated the tax. The state is appealing the ruling by the Douglas County Superior Court and has filed for direct review of the Superior Court decision by the Washington State Supreme Court. Pursuant to direction by the ERFC on March 31, 2022, the Outlook assumes the February 2022 revenue forecast and does not make an adjustment to remove the Capital Gains revenue.

Transfers to Budget Stabilization Account (BSA)

Pursuant to a constitutional amendment approved by the voters in 2007 (Article VII, section 12(1), of the Constitution), this reflects the transfer of one percent of general state revenues (GSR) for each FY to the BSA. The estimated transfer amounts are based on the calculation of estimated GSR as defined in Article

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VIII, section 1, of the Constitution. The calculation of estimated GSR is based on the February 2022 revenue forecast adjusted for the estimated revenue impacts of legislation enacted during the 2022 legislative session (see enacted revenue legislation). The Outlook assumes BSA 1% transfers each biennium to include \$587 million in the 2021-23 biennium, and \$617 million in the 2023-25 biennium.

Extraordinary Revenue Growth

Pursuant to a constitutional amendment approved by the voters in 2011 (Article VII, section 12 of the constitution), 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. The adopted February 2022 revenue forecast does not project ERG for the, 2021-23 or the 2023-25 biennia so no additional BSA transfer is assumed in this Outlook.

Prior Period Adjustments

The Outlook assumes NGF-O prior period adjustments of \$40.8 million in both the 2021-23 biennium and the 2023-25 biennium, totaling \$81.6million over the Outlook period.

Prior Enacted Fund Transfers

This category reflects all enacted NGF-O fund transfers made through the 2021 legislative session after accounting for vetoes. For more information, see the 2021 Legislative Budget Notes at:

<http://leap.leg.wa.gov/leap/budget/lbns/2021LBN.pdf>.

Enacted Fund Transfers in the 2022 Legislative Session

The Outlook assumes transfers to and from NGF-O accounts that were enacted in the 2022 supplemental operating budget as follows:

Fund Transfers In Budget Bill (\$ in 1,000s)	2021-23	2023-25	4 Yr
Gambling Revolving Account	0	0	0
Long-Term Services and Supports Trust Account	-37,092	63,936	26,844
Municipal Criminal Justice Assistance Account	-761	0	-761
School Employees' Insurance Account	-972	0	-972
State Drought and Response Preparedness Account	-9,000	0	-9,000
Streamlined Sales and Use Tax Mitigation Account	3,186	0	3,186
Washington Rescue Plan Transition Account	-1,100,000	-500,000	-1,600,000
Wildfire Response, Forest Restoration, & Community Resilience Account	-87,107	-94,800	-181,907
Total Fund Transfers	-1,231,746	-530,864	-1,762,610

The impact of transfers included in separate legislation is reflected in the Revenue Legislation table below.

Enacted Revenue Legislation in the 2022 Legislative Session

The Outlook assumes NGF-O revenue changes from the following bills that were newly enacted in the 2022 legislative session:

Draft Overview of the Methodology for the State Budget Outlook (April 14, 2022)

Revenue Legislation Enacted in the 2022 Session (\$ in 1000s)	2021-23	2023-25	4 Yr
Chapter 189, Laws of 2022 (E2SHB 1015)	-8,000	-16,000	-24,000
Chapter 116, Laws of 2022 (3SHB 1359)	-4,886	-2,094	-6,980
Chapter 119, Laws of 2022 (HB 1641)	-37	-80	-117
Chapter 199, Laws of 2022 (ESHB 1643)	-282	-1,439	-1,721
Chapter 124, Laws of 2022 (HB 1700)	-4,284	-8,758	-13,042
Chapter 73 , Laws of 2022 (HB 1765)	0	-2,110	-2,110
Chapter 212, Laws of 2022 (2SHB 1814)	0	-2,900	-2,900
Chapter 29, Laws of 2022 (2SHB 1818)	1,100	0	1,100
Chapter 267, Laws of 2022, Partial Veto (ESHB 1846)	-5,890	-29,850	-35,740
Chapter 270, Laws of 2022 (ESHB 1914)	-11,500	-23,000	-34,500
Chapter 185, Laws of 2022 (2SHB 1988)	-3,115	-7,188	-10,303
Chapter 274, Laws of 2022 (EHB 1990)	-400	-14,080	-14,480
Chapter 144, Laws of 2022 (HB 2024)	-11,180	-22,360	-33,540
Chapter 147, Laws of 2022 (HB 2058)	-23	-98	-121
Chapter 282, Laws of 2022 (SHB 2099)	10	60	70
Chapter 223, Laws of 2022 (SSB 5488)	-13,000	-26,000	-39,000
Chapter 225, Laws of 2022 (ESSB 5531)	35,400	3,620	39,020
Chapter 161, Laws of 2022 (ESSB 5714)	-5,390	-17,870	-23,260
Chapter 162, Laws of 2022 (SSB 5728)	-1,100	-2,200	-3,300
Chapter 241, Laws of 2022 (E2SSB 5755)	0	-2,690	-2,690
Chapter 170, Laws of 2022 (SSB 5799)	-1,100	600	-500
Chapter 257, Laws of 2022, Partial Veto (ESB 5901)	1,090	750	1,840
Chapter 182, Laws of 2022 (ESSB 5974)	-18,760	-155,200	-173,960
Chapter 295, Laws of 2022 (ESSB 5980)	-13,000	-118,100	-131,100
Total	-64,347	-446,987	-511,334

Governor's Vetoes

The fiscal impact of vetoes of new legislation are reflected separately. The following table reflects the NGF-O impact of the Governor's vetoes impacting revenue bills which were passed in the 2022 session:

Governor Vetoes Impacting Revenue Legislation (\$ in 1,000s)	2021-23	2023-25	4 Yr
Chapter 257, Laws of 2022, Partial Veto (ESB 5901)	-2,700	-5,400	-8,100

Budget Driven Revenue Adjustments

Adjustments are made to reflect the difference between assumed transfers of cannabis, liquor and lottery revenue to GFS in the February 2022 forecast and what is estimated to be available after adjusting for the 2022 legislative session spending levels and Chapter 169, Laws of 2022 (E2SSB 5796) which modifies distribution of cannabis related revenues.

Budget Driven Revenue (\$ in 1,000s)	2021-23	2023-25	4 Yr
Liquor Control Board (Liquor)	-15,223	3,574	-11,649
Liquor Control Board (Marijuana)	-9,838	-22,425	-32,263
Lottery	-504	-934	-1,438
Marijuana Distribution to Locals Changes	-5,243	-13,327	-18,570
Total	-30,808	-33,112	-63,920

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Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget (the 2021-23 biennial operating budget). Adjustments are then made for FY 2022 supplemental budget Maintenance Level (ML) and Policy Level (PL) changes and adjustments for Governor's vetoes. For more information on the 2021-23 biennial operating budget, please see:

<http://leap.leg.wa.gov/leap/budget/lbns/2021LBN.pdf>.

Estimating Costs for the 2021-23 and 2023-25 Fiscal Biennia

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 2023-25 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 for the current biennium were adopted by the ERFC on November 18, 2020. 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/forecasts/rev20201118.pdf>

The current adopted growth rates are shown below:

2020 Outlook Growth Rates Summary Table	
Default Growth Rate Category	Adopted 2020 Growth Factors
All Other	0.00%
Corrections	1.53%
Debt Service	Use Bond Model
Department of Social and Health Services	3.31%
Higher Education	0.69%
K-12 Education	Use K-12 Model
Low Income Health Care & Community Behavioral Health	2.86%

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:

- **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 and student transportation.
- **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 2023-25 biennium bond bill and capital budget.
- **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

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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.

Maintenance Level Items

In this section, adjustments are made to reflect the NGF-O 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.

Following are the total statewide ML impacts, by biennial period:

- ❖ 2021-23 biennial estimate: \$1.131 billion savings.
- ❖ 2023-25 biennial estimate: \$914 million savings.

Kindergarten – Grade 12 (K-12) Education

The amounts depicted reflect the February 2022 caseload forecast and 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 and student transportation.

- ❖ ML adjustments total \$926 million savings in the 2021-23 biennium and \$964 million savings in the 2023-25 biennium.

The larger increases are related primarily to salary inflation, prior school year adjustments, and safety net adjustments. The largest savings in this category are related primarily to enrollment and workload adjustments.

Low-Income Health Care and Community Behavioral Health

The amounts depicted reflect the February 2022 caseload forecast 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 2.86 percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$240 million in the 2021-23 biennium and \$392 million in the 2023-25 biennium.

The larger state costs are related primarily to mandatory caseload adjustments, managed care rate adjustments, and increases in the state share of prescription drug costs for clients with dual eligibility for Medicaid and Medicare. Larger state savings are related to reductions in medical utilization across some populations.

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Social and Health Services

The amounts depicted reflect the February 2022 caseload forecast and updated per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include caseload, utilization, and severity of client needs. The average growth factor for this grouping is 3.31 percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$122 million savings in the 2021-23 biennium and \$84 million savings in the 2023-25 biennium.

The larger increases are related to allocation to agencies of funds provided for elimination of furloughs and adjustments related to the agency's share of charges for workers compensation benefits. The larger savings are due to mandatory caseload adjustments and utilization adjustments.

Higher Education

Higher Education adjustments are generally related to the Initiative 732 cost of living adjustments, the Washington College Grant program, the College Bound Scholarship program, and maintenance, operations, and lease adjustments. The amounts depicted reflect the February 2022 caseload forecast. The average growth factor for this grouping is 0.69 percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$54 million savings in the 2021-23 biennium and \$13 million savings in the 2023-25 biennium.

The larger adjustments are related to Initiative 732 cost of living adjustment increases and backfill for lost revenue from tuition operating fee reductions. The larger savings are due to reductions in the forecasted Washington College Grant program caseload.

Corrections

The amounts depicted reflect the February 2022 caseload forecast, as well as other mandatory maintenance level changes. The average growth factor for this grouping is 1.53 percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$93 million savings in the 2021-23 biennium and \$111 million savings in the 2023-25 biennium.

The larger increases are related to allocation to agencies of funds provided for elimination of furloughs. The larger savings are due to forecasted reductions in the community supervision, community violator, and prison population caseloads.

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 zero percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$136 million in savings in the 2021-23 biennium and \$95 million in savings in the 2023-25 biennium.

The larger increases are related to forecasted increases for the Early Support for Infants and Toddlers Awards program based on the February 2022 caseload forecast. The larger savings are related to reductions in the February 2022 forecast for the Working Connections Child Care, Behavioral Rehabilitations Services, Juvenile Rehabilitation, Court-Ordered Visitation, Foster Care, Quality Improvement Awards, and Adoption Support programs. Additional larger savings items include allocation

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to agencies of funds provided for elimination of furloughs and revised Working Families Tax Credit refund payouts.

Debt Service

The amounts depicted reflect the cost of the debt on all capital budget bonds that were authorized through the 2022 session using the bond model to calculate estimated costs for the 2023-25 biennium. Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2023-25 biennium bond bill and capital budget.

- ❖ ML adjustments total \$40 million savings in the 2021-23 biennium and \$38 million savings in the 2023-25 biennium.

Policy Level Items

In this section, adjustments are made to reflect the policy level expenditures included in the enacted budget as well as appropriations made in other legislation. Growth in the ensuing biennium is calculated using the same growth factors and methodologies as outlined above.

The total statewide PL impacts, by biennial period:

- ❖ 2021-23 biennial estimate: \$6.189 billion; and
- ❖ 2023-25 biennial estimate: \$4.568 billion.

K-12 Education

The enacted budget includes:
\$433 million in the 2021-23 biennium; and
\$1.345 billion in the 2023-25 biennium.

The major components of the policy level adjustments include:

- ❖ Rebasing to align with actual inflation since the 2017-18 school year;
- ❖ Increasing ratios for student support staffing pursuant to Chapter 109, Laws of 2022 (2SHB 1664);
- ❖ Reimbursing school districts for the costs of providing mandatory free meals to students in certain schools that are not reimbursed through federal funds; and
- ❖ Implementation of the Outdoor Grant Program and the Outdoor Learning Experiences Program pursuant to Chapter 112, laws of 2022 (2SHB 2078).

Low-Income Health Care and Community Behavioral Health

The enacted budget includes:
\$191 million in the 2021-23 biennium; and
\$456 million in the 2023-25 biennium.

The major components of the policy level adjustments include:

- ❖ Increased behavioral health provider rates and non-Medicaid funding;
- ❖ Increased provider rates for children's dental services; and
- ❖ Implementation of continuous eligibility for Medicaid eligible children under six with family incomes at or under 215 percent of the federal poverty level.

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Social and Health Services

The enacted budget includes:

\$644 million in the 2021-23 biennium; and
\$783 million in the 2023-25 biennium.

The major components of the policy level adjustments include:

- ❖ Increased rates for a variety of providers serving individuals in the long-term care and developmental disabilities programs;
- ❖ Aligning the grant eligibility standard for the Age, Blind, or Disabled Cash Assistance Program with the Temporary Assistance for Needy Families Program; and
- ❖ Increasing the Personal Needs Allowance for in-home clients from 100 percent to 300 percent of the federal poverty level; and
- ❖ Implementation of Chapter 142, Laws of 2022 (SHB 1980), which allows eligible clients with developmental disabilities to access employment and community inclusion services concurrently.

Higher Education

The enacted budget includes:

- ❖ \$114 million in the 2021-23 biennium; and
- ❖ \$167 million in the 2023-25 biennium.

The major components of the policy level adjustments include:

- ❖ Increased support for certain individuals receiving awards through the Washington College Grant Program;
- ❖ Expansion of enrollment slots for students in cybersecurity studies; and
- ❖ Increased funding to incentivize students to enter the health care workforce.

Corrections

The enacted budget includes:

- ❖ \$48 million reduction in the 2021-23 biennium; and
- ❖ \$74 million reduction in the 2023-25 biennium.

The major components of the policy level adjustments include:

- ❖ Increased funding for medical and behavioral health staffing; and
- ❖ Increased funding for staffing to reduce the use of solitary confinement in prisons.

All Other

The enacted budget includes:

- ❖ \$2.417 billion in the 2021-23 biennium; and
- ❖ \$1.269 billion in the 2023-25 biennium.

The major components of the policy level adjustments include:

- ❖ One-time appropriations into the Paid Family Medical leave Insurance, Liability, Community Reinvestment, Electric Vehicle incentive, Washington Student Loan, Judicial Stabilization Trust; and Salmon Recovery accounts;
- ❖ A provider rate increase for the Working Connections Child Care program;
- ❖ Grants to projects which support electric vehicle charging infrastructure; and

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- ❖ Community solar resistance hubs;
- ❖ Fire suppression activities;
- ❖ Housing services; and
- ❖ Increased state support of the Working Connections Child Care program to meet federal maintenance of effort requirements.

In addition, a custom adjustment is made to account for a partial phase in of additional slots needed in the Early Childhood Education Assistance program which becomes an entitlement beginning in FY 2027.

Federal and Cannabis Revenue Fund Shifts

PL changes reflect state savings from utilization of federal Coronavirus relief funds; increased federal Medicaid match; and use of increased cannabis revenues for low income health care costs. The enacted budget includes:

- ❖ \$610 million savings in the 2021-23 biennium; and
- ❖ \$29 million savings in the 2023-25 biennium.

Appropriations to the Capital and Transportation Budgets

The enacted budget includes one-time appropriations to the Capital and Transportation budgets in the 2021-23 biennium follows:

- ❖ \$650 million in the 2021-23 biennium to the Capital budget; and
- ❖ \$2.0 billion in the 2021-23 biennium to the Transportation budget.

Employee Compensation and Health Benefits:

The PL budget adjustment for employee compensation is \$314 million in the 2021-23 biennium and \$521 million in the 2023-25 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.

Governor Vetoes & Lapses

The Outlook separately reflects the NGF-O impacts of budget items vetoed by the Governor as well as funding lapses from legislation that were not enacted into law. The total NGF-O impacts from the Governor's budget vetoes are:

- ❖ \$13 million savings in the 2021-23 biennium; and
- ❖ \$18 million savings in the 2023-25 biennium.

The Governor's veto of Chapter 297, Laws of 2022, Partial Veto (ESSB 5693) section 504(12)(b) removes a requirement for the Office of the Superintendent of Public Instruction to establish rules regarding exceptions to uniform entry qualifications for kindergarten admissions and a cap on state allocations for transitional kindergarten. The veto itself does not directly change 2021-23 appropriation levels but does result in different enrollment assumptions than those used to develop the amounts reflected in the enacted budget. As a result, the four-year budget costs reflected in the Outlook which reflect the enacted budget are approximately \$63 million lower than the current estimate of these costs after updating for policy assumptions consistent with the Governor's veto. The estimates reflect additional transitional

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kindergarten caseloads of 1,516 FTE in the 22-23 school year, 1,805 FTE in the 23-24 school year, and 2,123 FTE in the 24-25 school year.

Assumed 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 GF-S appropriations. Additional adjustments for reversions are made in accordance with prior direction from the ERFC.

The total reversions assumed are savings of \$322 million in the 2021-23 biennium and savings of \$308 million in the 2023-25 biennium, for savings totaling \$630 million over the Outlook period.

These totals include:

- 0.5% of GF-S appropriation reversions of \$305 million in savings in the 2021-23 biennium and \$308 million in savings in the 2023-25 biennium, totaling \$613 million in savings over the Outlook period; and
- K-3 reversions of \$17 million in savings in the 2021-23 biennium.

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Draft Outlook for the Enacted FY 2022 Supplemental Operating Budget (ESSB 5693)

Funds Subject to Outlook

(Dollars in Millions)

	2021-23			2023-25		
	FY 2022	FY 2023	2021-23	FY 2024	FY 2025	2023-25
Beginning Balance	4,161	5,190	4,161	222	280	222
Forecasted Revenues	30,683	31,008	61,691	32,403	33,861	66,264
February 2022 Revenue Forecast (NGF-O)	30,683	31,008	61,691	32,078	33,290	65,368
Addtl Revenue Based on 4.5% Growth Rate Assumption	0	0	0	325	571	896
Other Resource Changes	-280	-1,546	-1,826	-244	-1,342	-1,586
GF-S Transfer to BSA (1%)	-293	-294	-587	-303	-314	-617
Enacted Fund Transfers	41	9	50	254	-247	7
Budget Driven Revenue	2	-33	-31	-16	-18	-33
Proposed Fund Transfers	-50	-1,182	-1,232	17	-547	-531
Prior Period Adjustments	20	20	41	20	20	41
Revenue Legislation	-1	-64	-64	-213	-234	-447
Governor Vetoes	0	-3	-3	-3	-3	-5
Total Revenues and Resources	34,564	34,651	64,025	32,382	32,799	64,901
Enacted Appropriations	28,399	30,667	59,067	30,491	30,690	61,181
Maintenance Level Total	-584	-547	-1,131	-469	-445	-914
K-12 Education	-394	-532	-926	-494	-471	-964
Low Income Health Care & Comm Behavioral Health	62	178	240	207	185	392
Social & Health Services	-90	-32	-122	-43	-42	-84
Higher Education	-30	-24	-54	-13	-1	-13
Corrections	-45	-48	-93	-56	-55	-111
All Other	-79	-56	-136	-40	-54	-95
Debt Service	-8	-32	-40	-30	-8	-38
Policy Level Total	1,715	4,474	6,189	2,234	2,334	4,568
K-12 Education	1	432	433	615	730	1,345
Low Income Health Care & Comm Behavioral Health	20	171	191	206	250	456
Social & Health Services	81	563	644	413	370	783
Higher Education	-2	117	114	85	82	167
Corrections	5	43	48	40	34	74
All Other	216	2,202	2,417	640	628	1,269
Federal and Cannabis Revenue Fund Shifts	-606	-4	-610	-15	-15	-29
Appropriations to Other Budgets (Capital)	0	650	650	0	0	0
Appropriations to Other Budgets (Transportation)	2,000	0	2,000	0	0	0
Compensation & Benefits	0	314	314	261	261	521
Governor Vetoes and Lapsed Items	-1	-13	-13	-11	-7	-18
Reversions	-157	-165	-322	-154	-154	-308
Revised Appropriations	29,374	34,429	63,803	32,102	32,425	64,526
Projected Ending Balance	5,190	222	222	280	374	374
Budget Stabilization Account						
Beginning Balance	19	312	19	609	919	609
GF-S Transfer to BSA (1%)	293	294	587	303	314	617
Interest Earnings	0	2	2	7	14	21
Budget Stabilization Account Ending Balance	312	609	609	919	1,247	1,247
Total Reserves	5,502	831	831	1,199	1,622	1,622
Percentage of Reserves to Revenues and Other Resources	18.1%	2.8%		3.7%	5.0%	
NGF-O	17.1%	0.8%		0.9%	1.2%	
Budget Stabilization Account	1.0%	2.1%		2.9%	3.8%	

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Draft Alternative Outlook for the Enacted FY 2022 Supplemental Operating Budget (ESSB 5693)

Prepared at the request of Representative Orcutt *

Funds Subject to Outlook

(Dollars in Millions)

	2021-23			2023-25		
	FY 2022	FY 2023	2021-23	FY 2024	FY 2025	2023-25
Beginning Balance	4,161	5,190	4,161	-11	-197	-11
Forecasted Revenues	30,683	30,775	61,458	32,160	33,607	65,766
February 2022 Revenue Forecast (NGF-O)	30,683	31,008	61,691	32,078	33,290	65,368
Addtl Revenue Based on 4.5% Growth Rate Assumption	0	0	0	325	571	896
Remove Capital Gains from the February Forecast **	0	-233	-233	-419	-503	-922
Adj 4.5% Calc to Reflect Removal of Capital Gains **	0	0	0	176	249	424
Other Resource Changes	-280	-1,546	-1,826	-244	-1,342	-1,586
GF-S Transfer to BSA (1%) **	-293	-294	-587	-303	-314	-617
Prior Period Adjustments	20	20	41	20	20	41
Proposed Fund Transfers	-50	-1,182	-1,232	17	-547	-531
Budget Driven Revenue	2	-33	-31	-16	-18	-33
Enacted Fund Transfers	41	9	50	254	-247	7
Revenue Legislation	-1	-64	-64	-213	-234	-447
Governor Vetoes	0	-3	-3	-3	-3	-5
Total Revenues and Resources	34,564	34,418	63,792	31,905	32,068	64,170
Enacted Appropriations	28,399	30,667	59,067	30,491	30,690	61,181
Maintenance Level Total	-584	-547	-1,131	-469	-445	-914
K-12 Education	-394	-532	-926	-494	-471	-964
Low Income Health Care & Comm Behavioral Health	62	178	240	207	185	392
Social & Health Services	-90	-32	-122	-43	-42	-84
Higher Education	-30	-24	-54	-13	-1	-13
Corrections	-45	-48	-93	-56	-55	-111
All Other	-79	-56	-136	-40	-54	-95
Debt Service	-8	-32	-40	-30	-8	-38
Policy Level Total	1,715	4,474	6,189	2,234	2,334	4,568
K-12 Education	1	432	433	615	730	1,345
Low Income Health Care & Comm Behavioral Health	20	171	191	206	250	456
Social & Health Services	81	563	644	413	370	783
Higher Education	-2	117	114	85	82	167
Corrections	5	43	48	40	34	74
All Other	216	2,202	2,417	640	628	1,269
Federal and Cannabis Revenue Fund Shifts	-606	-4	-610	-15	-15	-29
Appropriations to Other Budgets (Capital)	0	650	650	0	0	0
Appropriations to Other Budgets (Transportation)	2,000	0	2,000	0	0	0
Compensation & Benefits	0	314	314	261	261	521
Governor Vetoes and Lapsed Items	-1	-13	-13	-11	-7	-18
Reversions	-157	-165	-322	-154	-154	-308
Revised Appropriations	29,374	34,429	63,803	32,102	32,425	64,526
Projected Ending Balance	5,190	-11	-11	-197	-356	-356
Budget Stabilization Account						
Beginning Balance	19	312	19	609	919	609
GF-S Transfer to BSA (1%) **	293	294	587	303	314	617
Interest Earnings	0	2	2	7	14	21
Budget Stabilization Account Ending Balance	312	609	609	919	1,247	1,247
Total Reserves	5,502	598	598	723	891	891
Percentage of Reserves to Revenues and Other Resources	18.1%	2.0%		2.3%	2.8%	
NGF-O	17.1%	-0.0%		-0.6%	-1.1%	
Budget Stabilization Account	1.0%	2.1%		2.9%	3.9%	

Draft Alternative Outlook for the Enacted FY 2022 Supplemental Operating Budget (ESSB 5693)

Prepared at the request of Representative Orcutt *

Funds Subject to Outlook

(Dollars in Millions)

2021-23			2023-25		
FY 2022	FY 2023	2021-23	FY 2024	FY 2025	2023-25

Notes.

* This alternative Outlook was prepared at the request of Representative Orcutt and is not the adopted Outlook for the enacted FY 2022 supplemental operating budget.

** The February 2022 revenue forecast incorporates assumed \$1.155 billion NGF-O revenue over the 4-year period from the enactment of Chapter 196, Laws of 2021 (capital gains tax). On March 1, 2022, the Douglas County Superior Court invalidated the tax. The state is appealing the ruling by the Douglas County Superior Court and has filed for direct review of the Superior Court decision by the Washington State Supreme Court. Pursuant to direction by the ERFC on March 31, 2022, the enacted Outlook assumes the February 2022 revenue forecast and does not make an adjustment to remove the Capital Gains revenue. At the request of Representative Orcutt, this alternative Outlook has been prepared which removes estimated capital gains revenue from the forecast and makes adjustments to the 4.5% additional revenue and 1% BSA transfer calculations to reflect the removal of the estimated capital gains revenues.