

Budget Outlook: Methodology

April 10, 2024



Washington State
Economic and Revenue Forecast Council

This page left intentionally blank.



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

BUDGET OUTLOOK: METHODOLOGY

April 10, 2024
10:00 a.m.

- Call to order
- Approval of meeting minutes from February 14, 2024
- Budget Outlook methodology presentation
 - Possible motions
- Adjournment

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
Revenue Review
February 14, 2024
Senate Hearing Room 2

Economic and Revenue Forecast Council

Lynda Wilson, Senate, Chair
April Berg, House of Representatives
Chris Gildon, Senate
Timm Ormsby, House of Representatives
June Robinson, Senate
Ed Orcutt, House of Representatives
Mike Pellicciotti, Treasurer
Drew Shirk, Department of Revenue
David Schumacher, Office of Financial Management

Staff
Dave Reich, Executive Director

Call to Order

Senator Wilson called the meeting to order at 11:00 a.m.

Approval of the Minutes

Representative Ormsby moved, seconded by Senator Wilson, to adopt the meeting minutes from January 29, 2024. The motion passed at 11:00 a.m.

Revenue Forecast Presentation

Dr. Reich presented information on the economic and revenue forecast. Dr. Reich summarized the forecast changes.

Motion

Representative Orcutt moved, seconded by Senator Wilson, to adopt the revenue forecast as presented. The motion passed at 11:19 a.m.

Administrative

The Council entertained questions from the gallery.

Adjournment

With no further business, the meeting adjourned at 11:33 a.m.

This page left intentionally blank.

April 10, 2024

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the Enacted 2024 Supplemental Operating Budget Outlook

The State Budget Outlook Work Group (work group) poses the following issue for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the outlook for the enacted 2024 Supplemental Operating Budget.

1. Additional Reversions Assumption.

The enacted supplemental operating budget outlook assumes additional general fund-state (general fund) reversions. For the purposes of the Budget outlook, reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation.

Prior to the outlook prepared for the enacted 2023-25 biennial budget, the ERFC has directed that reversions be estimated at approximately 0.5% of general fund appropriations. Actual reversion levels have been larger than typical in the past four years.

On June 5, 2023, the ERFC directed that reversions for the enacted 2023-25 biennial operating budget be estimated as 1% of general fund appropriations in fiscal year (FY) 2023, 0.8% of general fund appropriations in FY 2024, before returning to 0.5% of general fund appropriations in FY 2025, FY 2026, and FY 2027. These levels were assumed in the outlook published for the conference budget in April 2023. These reversion assumptions were in addition to ERFC adopted reversion assumptions for K-3 enrollment allocations that are tied to class sizes.

The Governor's 2024 supplemental operating budget proposal assumed reversions of 1.2% of general fund appropriations in FY 2024 and FY 2025, before returning to 0.5% of general fund appropriations in FY 2026 and FY 2027. The ERFC approved these assumptions for use in the ERFC adopted outlook for the Governor's budget; however, it was not clear whether that would extend to preparation of the outlook for the enacted legislative budget.

The outlook prepared for the conference budget assumed the same percentages that were assumed for the Governor's proposed budget and adopted by the ERFC for the Outlook on the Governor's budget. Compared to the reversion assumptions used for the enacted 2023-25 biennial budget, the higher reversion assumptions for FY 2024 and FY 2025 result in reduced expenditure projections of \$131 million in FY 2024 and \$247 million in FY 2025, totaling \$378 million over the four-year outlook period.

Table 1 shows the recent history of actual general fund reversions and the reversion percentage.

Table 1. Historical GFS Appropriations and Actual Reversions, FY 2018 – FY 2023

(\$ in Millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GFS Appropriations	\$ 20,528	\$ 23,023	\$ 24,506	\$ 24,988	\$ 28,379	\$ 31,808
Actual GFS Reversions	\$ 80	\$ 86	\$ 540	\$ 404	\$ 410	\$ 792
Percentage	0.4%	0.4%	2.2%	1.6%	1.4%	2.5%

Note: In addition to annual general fund reversions, there have been reversions from the other three NGF-O accounts which are appropriated and revert on a biennial rather than annual basis.

Table 2 provides a comparison of the amount of reversions that would be included in the outlook using the assumptions that were in the outlook for the Governor's proposed budget as well as by the conference budget writers to the assumptions adopted by the ERFC for the 2023 session enacted outlook.

Table 2. Comparison of Reversions Using 2024 session Conference Outlook vs. 2023 session Enacted Outlook Assumptions

\$ in Millions	FY 2024	FY 2025	FY 2026	FY 2027
Enacted GF-S Appropriations	32,800	35,249	35,033	35,597
Conference outlook Reversion Assumptions	1.2%	1.2%	0.5%	0.5%
Reversions Using Conference Outlook Assumptions	394	423	175	178
June 2023 ERFC Adopted Outlook Reversion Assumptions	0.8%	0.5%	0.5%	0.5%
Reversions Using June 2023 ERFC Adopted Reversion Assumptions	262	176	175	178
Difference	131	247	0	0

Question 1: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume the \$378 million savings from additional general fund reversions?*

2. Health Care Authority Gain Share and Risk Corridor Prior Period Adjustment.

The outlook published for the FY 2024 supplemental operating budget as passed the Legislature includes a prior period adjustment to account for the state share of remittances paid back to the state by Medicaid Managed Care Organizations (MCOs) pursuant to gain share and risk corridor provisions of contracts with the Health Care Authority (HCA). The prior period adjustment represents total additional resources of \$80 million in the 2023-25 biennium (\$63 million in estimated collections for calendar year (CY) 2021 contracts and \$17 million in estimated collections for CY 2022 contracts).

The amount estimated for CY 2021 contract remittances was based on actuarial estimates provided to staff at the time but are expected to be updated by the actuaries later this month. Based on current information from HCA, staff estimate that the updated estimate for CY 2021 contract remittances will be somewhere between \$54 to \$62 million. Some of the MCOs are disputing the amounts that they have been asked to remit. HCA has not yet provided an actuarial estimate of the state share of remittances assumed from the CY 2022 contract period and does not expect to have a preliminary estimate until August.

Question 2a: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume an adjustment for gain share remittances for CY 2021 Medicaid Managed Care contracts and if so to utilize updated information provided by HCA, if available.*

Question 2b: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume an adjustment for gain share remittances for CY 2022 Medicaid Managed Care contracts and, if so, assume \$17 million as in the conference outlook or some other amount?*

3. Foster Care Rate Increase

For the conference budget outlook, budget writers chose to assume increases to basic foster care rates will be adopted next session and become effective on July 1, 2025. The NGF-O cost in the 2025-27 biennium of assuming these new rates was \$11.5 million in the conference budget outlook. RCW 82.33.060 directs that the estimate of ensuing biennium expenditures "must exclude policy items including, but not limited to, legislation not yet enacted by the legislature, collective bargaining agreements not yet approved by the legislature, and changes to levels of funding for employee salaries and benefits unless those changes are required by statute." There is no statutory requirement for this rate increase and this increase would be a policy level decision in the 2025 legislative session.

Question 3: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume the \$11.5 million cost of a basic foster care rate increase in the 2025-27 biennium as was assumed in the published conference budget outlook?*

4. Medicaid Match for Olympic Heritage Behavioral Health

The enacted 2024 supplemental operating budget includes ongoing funding for the Department of Social and Health Services to operate 72 beds at the Olympic Heritage Behavioral Health (OHBH) facility. Because of the size and nature of the patients being served at OHBH, the facility meets the federal definition of an Institution for Mental Diseases (IMD). There are restrictions in federal law related to the use of federal Medicaid funds in IMDs. In recent years, the state has received waivers that allow federal match to be used in some IMD settings in certain circumstances. Based on the population currently served at OHBH, the facility would not qualify for federal match under the state's current waiver.

The ongoing annual cost of the 72 beds once fully implemented in FY 2025 is \$74 million per year. The entire amount of funding appropriated in the 2023-25 biennium and the amount assumed in the published conference outlook for FY 2026 are general fund dollars and no federal match is assumed. Beginning in FY 2027, the published conference outlook assumes that \$30 million of federal funds will be available to maintain support for the 72 beds and the general fund-state amount is lowered to \$44 million.

The enacted 2024 supplemental operating budget included funding for the Office of Financial Management to conduct a study of OHBH which among other things includes a requirement to "assess the options for maximizing the facility's ability to receive federal matching funds for services provided while contributing to the health of the entire state behavioral health system based on community needs." The report is due to the legislature on June 30, 2025.

Question 4: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume \$30 million of federal Medicaid funds will be available to support the costs of the 72 beds at OHBH in FY 2027 as was assumed in the published conference budget outlook?*

5. Revenue Impact for Substitute House Bill 1453 (Medical cannabis/tax)

Substitute House Bill 1453 (Medical cannabis/tax) which has been signed into law exempts medical cannabis products meeting requirements established by the Department of Health and purchased by qualifying patients from the 37 percent cannabis excise tax. The fiscal note for the bill was indeterminate. The narrative of the fiscal note from the Liquor and Cannabis Board (LCB) provided a scenario that if 1% of sales met the requirements for the exemption, then the revenue loss would be a little over \$5 million per year.

The outlook published for the budget as passed the House assumed \$5 million per year as discussed in the narrative of the LCB note. Late in session, staff from the LCB communicated to members that "the figure of \$5 million is not an estimate, but rather an illustration" and that the tax implication in the early years is "likely in the thousands, not hundreds of thousands or millions" and "it's tough to know if or when we might get to 1%." Staff at the LCB indicated that far less than 1% of products currently sold would be eligible for this exemption and that it could be as little as between 0.03% to 0.1%. LCB also noted that the bill is "designed to incent people to get a DOH medical card, and thereby attract new producers to start getting their own certification from DOH." The conference budget writers chose to assume the following revenue impacts for SHB 1453 (Medical cannabis/tax) for the published conference outlook:

FY 2025: -\$50,000

FY 2026: -\$75,000

FY 2027: -\$100,000

The amount assumed for the published conference outlook for FY 2027 is roughly .02% of the current estimated cannabis tax revenues for FY 2027.

Question 5: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume:*

- a. *The same revenue impact from SHB 1453 that was assumed in the published conference budget outlook (e.g., \$225,000 over the three-year period);*
- b. *The same revenue impact from SHB 1453 that was assumed in the published budget outlook for the version that passed the House (e.g., \$15 million over the three-year period);*
- c. *No amount since the fiscal note is indeterminate; or*
- d. *For staff to provide an alternative revenue estimate based on information that can be gleaned from other states which operate both medical and recreational markets.*