

Budget Outlook: Methodology

January 14, 2025



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

GOVERNOR'S PROPOSED BUDGET OUTLOOK: METHODOLOGY

January 14, 2025
2:00 p.m.

- Call to order
- Approval of meeting minutes from November 20, 2024
- 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

November 20, 2024

John A. Cherberg Bldg., Room A/B/C and Zoom

Economic and Revenue Forecast Council

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

Staff

Dave Reich, Executive Director

Call to Order

Senator Wilson called the meeting to order at 2:00 p.m.

Approval of the Minutes

Representative Orcutt moved, seconded by Representative Ormsby, to adopt the meeting minutes from November 4, 2024. Motion passed at 2:01 p.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 Representative Ormsby, to approve the Revenue forecast as presented. Motion passed at 2:19 p.m.

Fiscal Growth Factor Presentation

Dr. Reich presented information on the Fiscal Growth Factor. Dr. Reich summarized the growth factor changes and presented the proposed growth factor for 2026

Motion

Representative Orcutt moved, seconded by Senator Wilson, to approve the Fiscal Growth Factor as presented. Motion passed at 2:21 p.m.

Motion - Administrative

Representative Ormsby moved, seconded by Representative Orcutt, to nominate Senator Robinson as the next chair of the ERFC. Motion passed at 2:23 p.m.

Motion - Administrative

Representative Corry moved, seconded by Representative Orcutt, to create the title of vice-chair for the ERFC. Motion passed at 2:24 p.m.

Motion - Administrative

Representative Corry moved, seconded by Representative Berg, to elect Representative Orcutt as vice-chair. Motion passed at 2:25 p.m.

Motion - Administrative

Representative Orcutt moved, seconded by Senator Wilson, to have staff create bylaw language for later discussion. Motion passed at 2:26 p.m.

Administrative

Senator Wilson spoke of her retirement from the Legislature and the ERFC. The council thanked Senator Wilson for her service.

Adjournment

With no further business, the meeting adjourned at 2:39 p.m.

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January 14, 2025

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the Governor's 2025-27 Biennial 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 budget outlook (Outlook) for the proposed Governor's 2025-27 biennial operating budget.

- 1. Additional Reversions Assumption.** Governor Inslee's proposed 2025-27 biennial operating budget outlook assumes additional general fund-state (general fund) reversions. For the purposes of the 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 over the past five years have been larger than typical.

For the 2023 ERFC adopted budget outlook, the Council adopted a reversion assumption of 1% in FY 2023 and 0.8% in FY 2024, before returning to the historical assumption of 0.5% ongoing. For the 2024 ERFC adopted budget outlook, the Council directed that the same assumptions be used (0.8% in FY 2024, before returning to 0.5% in FY 2025, FY 2026, and FY 2027). Consistent with past years, these amounts were in addition to the ERFC adopted reversion assumptions specifically for K-3 enrollment allocations that are tied to class sizes. For the full historical analysis of general fund reversions, please refer to the September 13, 2024 memo to the ERFC.

Governor Inslee's proposed 2025-27 biennial operating budget assumes reversions of 1.25% of general fund appropriations in FY 2025, 1.0% in FY 2026, and 0.75% in FY 2027 before returning to 0.5% of general fund appropriations in FY 2028 and FY 2029. The higher reversion assumptions for FY 2025, FY 2026, and FY 2027 result in reduced expenditure projections of \$271 million in FY 2025, \$185 million in FY 2026, and \$96 million in FY 2027, totaling \$552 million over the outlook period.

Table 1 shows the history of actual general fund reversions and the reversion percentage since 2014.

Table 1. Historical GFS Appropriations and Actual Reversions, FY 2014 – FY 2024

(\$ in Millions)	GFS Appropriations	Actual GFS Reversions	Percentage
FY 2014	\$16,159	\$79.7	0.49%
FY 2015¹	\$16,846	\$84.9	0.50%
FY 2016	\$18,293	\$121.5	0.66%
FY 2017	\$19,496	\$157.4	0.81%
FY 2018	\$20,528	\$79.8	0.39%

¹ Actual reversions in 2015 were \$175.3 million. However, \$90.4 million of that reversion amount was attributable to a Governor veto in the Health Care Authority budget that was put in to unallotted status. Consistent with past practice, this amount is removed from the reversion calculations presented as it is not representative of typical assumed reversions.

FY 2019	\$23,023	\$86.0	0.37%
FY 2020	\$24,506	\$539.5	2.20%
FY 2021	\$24,988	\$403.6	1.62%
FY 2022	\$28,379	\$410.0	1.44%
FY 2023	\$31,808	\$792.2	2.49%
FY 2024	\$32,800	\$402.1	1.23%

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. Over the last three biennia, the reversions from the other three NGF-O accounts were as follows:

- 2017-19 biennium: \$1 million
- 2019-21 biennium: \$23 million
- 2021-23 biennium: \$33 million

Table 2 provides a comparison of the total amount of reversions that would be included in the Outlook using the assumptions proposed by Governor Inslee to those adopted by the ERFC in April 2024.

Table 2. Comparison of Reversions Using Governor Inslee’s Proposal vs. Enacted Outlook Assumptions

(\$'s in Millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Governor Inslee’s Proposed GFS Appropriations	\$36,141	\$37,074	\$38,314	\$39,038	\$39,640
Governor Inslee’s Proposed Reversion Assumptions	1.25%	1.0%	0.75%	0.5%	0.5%
Reversions Using Governor Inslee’s Reversion Assumptions	\$452	\$371	\$287	\$195	\$198
April 2024 ERFC Adopted Outlook Reversion Assumptions	0.5%	0.5%	0.5%	0.5%	0.5%
Reversions Using April 2024 ERFC Adopted Reversion Assumptions	\$181	\$185	\$192	\$195	\$198
Difference in Reversions	\$271	\$185	\$96	\$0	\$0

Question: Does the ERFC want Governor Inslee’s Budget Outlook being prepared by the work group to assume the \$552 million savings from additional general fund reversions?