

November 4, 2014

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Criteria for use of resources and preparation of the November 2014 Outlook

The State Budget Outlook Work Group poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the November 2014 Outlook.

### **Criteria for Resources Assumed in the Outlook**

At the 1 May 2014 Outlook meeting, the ERFC directed the workgroup to develop options regarding criteria for when resources may be reflected in the outlook and present these to the ERFC at the June 17th meeting. Representative Hunter makes the following proposal for considering when resources may be assumed in the Outlook.

The Outlook may assume a resource related to a revenue redirection or transfer in the ensuing biennium, provided:

- A. Enactment of separate legislation requiring the revenue redirection or transfer in the ensuing biennium, or
- B. Absent separate legislation, the current biennium's budget provides legislative intent language to continue the current budget's revenue redirection or transfer in the ensuing biennium's budget. The revenue redirection or transfer in the ensuing biennium (1) may be assumed only to the extent there is a projected balance in the fund in the ensuing biennium; and (2) must be consistent with and not exceed the policy in the current budget. Fund balance determination in the ensuing biennium must reflect the continuation of the current budget's policy and the official revenue forecast as adjusted to reflect the current budget's policy.

The Outlook adopted on May 1, 2014 reflects \$52.7 million in resources in the 2015-17 biennium related to the Life Sciences Discovery Fund (LSDF). The 2014 Supplemental budget includes language expressing the Legislature's intent to direct all the resources from the strategic contributions to the Education Legacy Trust Account (ELTA) rather than to the LSDF in the 2015-17 biennium. The Governor vetoed the transfer of LSDF in the 2013-15 budget. With the above criteria, a November outlook would not include LSDF resources in the ensuing biennium because the Governor's veto severed the continuation of the current budget's policy.

### **Outlook Growth Factors**

At its September 4, 2014 meeting the ERFC adopted updated growth factors for the Outlook. The K-12 growth factor has two components: K-12 enrollment growth is 0.66% and K-12 Materials, Supplies and Operating Costs (MSOC) is 2.01%. The K-12 MSOC factor is increased by enrollment growth and the Implicit Price Deflator (IPD) for the biennium.

The Budget Outlook Work Group seeks clarity regarding whether the ERFC would like MSOC growth factor updated with each ERFC Forecast to reflect the revised IPD. All other growth factors will remain constant for Outlooks prepared during the 2015-17 biennium, from November 2014 through the Outlook on the enacted 2016 supplemental budget.

### **Initiative 1351**

Initiative 1351, concerning K-12 Education, is on the November 4<sup>th</sup> General Election ballot. The Outlook Work Group needs guidance from the ERFC on whether the November Outlook should reflect the initiative costs based on initial election results. The election results will not be officially certified until November 28<sup>th</sup>, after the November Outlook is prepared.

If the ERFC would like to include I-1351, the Work Group proposes the November Outlook would reflect the fiscal impact statement for the Initiative prepared by the Office of Financial Management. It should be noted that there is discretion regarding the phase in of costs and other funding levels; actual funding levels would be determined through the Legislative process.

### **2015 Supplemental Budget**

While no Outlook is prepared for the 2015 supplemental budget, the revenues and appropriations in FY 2015 affect the beginning balance in FY 2016 for the 2015-17 Outlook. For the November 2014 Outlook the Work Group proposes including items that appear at both policy and maintenance level and include, but are not limited to Fire Suppression & Emergency Response for approximately \$100 million

The November 2014 Outlook will also reflect actual reversions in FY 2014.

### **Other Issues**

The Outlook on the Enacted 2014 Supplemental budget included items affecting the ensuing biennia, both 2015-17 and 2017-19, that are not included in either Carry-forward or Maintenance Level for 2015-17. The work group proposes displaying these under a category titled "Other Outlook Items" for the November Outlook.

Should the November 2014 Outlook separately reflect these items:

1. Low Income Health Care (Basic Health Plan Account): Savings in FY 16 and FY 17 of \$15 million and \$46 million, respectively. Would the ERFC propose to continue the \$46 million in the 2017-19 biennium?
2. DEL Electronic Child Care System: Savings of \$12.5 million per year were assumed in the 2015-17 biennium however the IT system will no longer be implemented on July 2015 therefore savings in the first year would not be achieved. Should the amounts reflected in 2015-17 be adjusted and what amounts, if any should be included in the 2017-19 biennium?
3. ECEAP phase-in: ECEAP becomes an entitlement in 2019. ECEAP costs are part of the November Outlook because it includes costs through FY 2019. A linear phase-in has costs in fiscal years 2016-2018. Should the November outlook reflect the entitlement only in FY 2019 or the linear phase-in?