

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 State (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. Beginning with budgets proposed for the 2021-23 biennium, the Outlook will also include the Workforce Education Investment (WEI) account pursuant to Chapter 218, Laws of 2020.

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 2019-21 and 2021-23 biennia reflect the February 2020 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, 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 fiscal year (FY).

Given the February 2020 forecast projects revenue growth of less than 4.5 percent per year in the 2021-23 biennium, the April 30, 2020 Outlook is based on the 4.5 percent growth rate.

Additionally, during development of the 2020 supplemental operating budget (ESSB 6168), legislative staff were notified of a minor technical adjustment needed to the adopted February 2020 revenue forecast. In preparing information for the ERFC's February 2020 adopted revenue forecast, the Department of Revenue inadvertently did not account for the expiration of the Stadium & Exhibition Center 0.016% Sales and Use Tax. This tax is credited against the state sales tax (reducing what would otherwise be deposited into the general fund). The estimated impact of the technical error resulted in understating estimated NGF-O revenues by an estimated \$42 million during the Outlook period. The \$42 million is included in the April 2020 Outlook.

Transfers to Budget Stabilization Account

Pursuant to Article VII, section 12(1) of the Constitution, one percent of general state revenues for each 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 February 2020 revenue forecast adjusted for estimated revenue impacts of legislation enacted during the 2020 session (see enacted revenue legislation section later in this document).

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 biennia by one-third. The transfer only occurs to the extent that it exceeds the normal one percent transfer mentioned above. An ERG transfer was not triggered in the 2020 legislative session.

Prior Period Adjustments

The Outlook assumes NGF-O prior period adjustments of \$38.5 million in the 2019-21 biennium and \$40.8 million in the 2021-23 biennium, totaling \$79.3 million over the Outlook period. Each FY is adjusted by \$20 million with the exception of FY 2020, which is adjusted due to unliquidated prior FY accrual balances. Funding is adjusted by -\$2.3 million in FY 2020 provided for cost settlements for Federally Qualified Health Centers for state FY 2018 and FY 2019.

Enacted Revenue Legislation

The Outlook assumes NGF-O revenue changes from the following bills that were enacted in the 2020 legislative session:

Revenue Legislation (\$ in Millions)	2019-21	2021-23	4-Year Total
Chapter 272, Laws of 2020 (HB 2230)	-0.21	-0.79	-1.00
Chapter 273, Laws of 2020 (SHB 2384)	-0.04	-0.14	-0.18
Chapter 341, Laws of 2020 (SHB 2486)	-0.41	-0.87	-1.28
Chapter 132, Laws of 2020 (SHB 2803)	-4.14	-8.52	-12.66
Chapter 237, Laws of 2020 (SHB 2950)	0.04	-0.14	-0.18
Chapter 350, Laws of 2020 (ESSB 5147)	-4.13	-9.43	-13.56
Chapter 138, Laws of 2020 (ESSB 5323)	3.79	7.39	11.18
Chapter 304, Laws of 2020 (SSB 6068)	0.0	-6.40	-6.40
Chapter 159, Laws of 2020 (SB 6312)	-0.01	-0.02	-0.03
Chapter 165, Laws of 2020 (ESB 6690)	134.00	229.00	363.00
Vetoed Revenue Legislation (detail follows)	-14.24	-36.34	-50.58
New Revenue Legislation Total:	114.58	173.74	288.32

The table below reflects revenue legislation, passed by the Legislature, which was vetoed by the Governor. The vetoes account for \$14.2 million in the 2019-21 biennium and \$36.3 million in the 2021-23 biennium, totaling \$50.6 million over the Outlook period.

Vetoed Revenue Legislation (\$ in Millions)	2019-21	2021-23	4-Year Total
1368 Cooperative Finance Organizations	0.15	0.39	0.54
1948 Warehouse & Manufacturing Jobs	6.73	13.08	19.81
2248 Community Solar Projects	0.30	4.40	4.70
2505 BPA Ratepayer Assistance	0.60	1.32	1.92
2634 Affordable Housing / REET	0.49	1.10	1.59
2797 Housing / Sales Use Tax	0.50	2.00	2.50
2903 Auto Dealers / Cash Incentive	0.74	3.83	4.56
2919 REET County Fees	0.64	1.20	1.83
2943 Behavioral Health Administrative Orgs	4.10	9.00	13.10
Vetoed Revenue Legislation Total:	14.24	36.34	50.58

Enacted Fund Transfers

This category reflects the NGF-O impact of previously enacted fund transfers made in the 2019 session after accounting for vetoes. For more information, see the 2019 Legislative Budget Notes (LBN) at:

- 2019: <http://leap.leg.wa.gov/leap/budget/lbns/2019LBN.pdf>

New Fund Transfers

This category reflects the NGF-O impact of transfers enacted in the 2020 session.

New Fund Transfers (\$ in Millions)	2019-21	2021-23	4-Year Total
Disaster Response Account	-14.27	2.73	-11.55
Economic Development Strategic Reserve Account	-1.00	0.00	-1.00
Home Security Fund Account	-4.50	-9.00	-13.50
Community Preservation and Development Authority Account	-1.50	0.00	-1.50
Sea Cucumber Dive Fishery Account	-0.00	0.00	0.00
Sea Urchin Dive Fishery Account	-0.00	0.00	0.00
Child Care Facility Revolving Account	1.50	0.00	1.50
Gambling Revolving Account	6.00	0.00	6.00
Vetoed Fund Transfers (detail follows)	-41.34	20.13	-21.21
New Fund Transfers Total:	-55.12	13.86	-41.26

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 fund transfer in the 2021-23 biennium.

The next table reflects transfers, passed by the Legislature, which were vetoed by the Governor:

Vetoed Fund Transfers (\$ in Millions)	2019-21	2021-23	4-Year Total
Workforce Education Investment Account (WEIA)	41.34	0.00	41.34
WEIA Payback to GF-S	0.00	-20.13	-20.13
Vetoed Fund Transfers Total:	41.34	-20.13	21.21

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 February 2020 revenue forecast.

Budget Driven Revenue (\$ In Millions)	2019-21	2021-23	4-Year Total
2870 Marijuana Retail Licenses	2.51	9.98	12.49
Liquor & Cannabis Board (Liquor)	-2.39	-1.02	-3.41
Liquor & Cannabis Board (Marijuana)	-3.74	-5.52	-9.26
Lottery	-0.00	-0.00	-0.00
Budget Driven Revenue Total:	-3.63	3.43	-0.20

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget. It is based on the 2019-21 biennial budget appropriation levels. Adjustments are then made for maintenance level (ML) and policy level (PL) changes. For more information on the 2019-21 biennial budget, please see:

<http://leap.leg.wa.gov/leap/budget/lbns/2019LBN.pdf>

Estimating Costs for the 2019-21 and 2021-23 Fiscal Biennium

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 fiscal year 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

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.

- **Kindergarten-12 (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 continually 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 with adjustments to remove estimates for passage of future bond bills and capital budgets. To estimate debt capacity, the bond model assumes the enactment of future bond bills in ensuing biennia. 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 fiscal year of the current biennium. This occurs primarily when a policy is being phased in during the second year 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 specifically excludes additional future costs related to collective bargaining agreements (CBAs) not approved by the Legislature, or salaries and benefits.

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 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.

The 2019-21 biennial budget ML adjustments total:

- an increase of \$121 million in the 2019-21 biennium; and
- a savings of -\$341 million in the 2021-23 biennium.

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 fiscal year (FY) 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.

ML adjustments total savings of -\$33 million in the 2019-21 biennium and savings of -\$398 million in the 2021-23 biennium. The larger increases are related primarily to enrollment, workload, and transportation funding adjustments. The largest savings in this category are related primarily to the most recent actuarial projections of employer pension contributions rates by state actuaries and reductions in the estimated costs for local effort assistance payments. In addition, there is a budget savings associated with a technical correction to the state Learning Assistance Program high-poverty calculations to better align with amounts actually allocated to school districts for this purpose.

Higher Education

The amounts depicted are generally related to maintenance, operations and lease adjustments.

- The growth factor for the 2021-23 biennium is estimated at 0.1 percent per FY from FY 2021 levels.

ML adjustments total savings of -\$1 million in the 2019-21 biennium and no impact in the 2021-23 biennium.

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 the major cost components include utilization, caseload, and family managed care 2020 rate.

- The growth factor for the 2021-23 biennium is estimated at 2.89 percent per FY from FY 2021 levels.

ML adjustments total increases of \$252 million in the 2019-21 biennium and increases of \$293 million in the 2021-23 biennium. The larger increases are related primarily to increases in managed care rates which are required under federal law to be actuarially sound and hold harmless payments for Certified Public Expenditure hospitals. Larger state savings are related to declining Medicaid caseload and reductions in medical utilization across some populations.

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 FY from FY 2021 levels.

ML adjustments total increases of \$15 million in the 2019-21 biennium and increases of \$28 million in the 2021-23 biennium. The larger increases are related to long term care and developmental disabilities caseloads, workload and utilization changes. The larger savings include caseload and utilization adjustments for Long Term Care and caseload adjustments to Temporary Assistance for Needy Families.

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 proportion of community and institution populations.

- The growth factor for the 2021-23 biennium is estimated at 1.33 percent per FY from FY 2021 levels.

ML adjustments total increases of \$15 million in the 2019-21 biennium and increases of \$17 million in the 2021-23 biennium. The larger increases are related to changes in the community supervision and community violator caseloads. The larger savings include reductions in prison female institution population.

All Other

This area includes all other agencies not reflected in the preceding 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 FY from FY 2021 levels.

ML adjustments are savings of -\$70 million in the 2019-21 biennium and savings of -\$81 million in the 2021-23 biennium. The larger increases are related to early childhood education assistance program caseload adjustments, worker compensation adjustments, and tiered reimbursement adjustments. The larger savings include reductions in working connections childcare caseload adjustments.

Debt Service

The amounts depicted reflect the cost of the debt on all capital budget bonds that were authorized through the 2020 legislative session using the bond model to calculate estimated costs for the 2021-23 biennium.

ML adjustments are savings of -\$55 million for the 2019-21 biennium and savings of -\$81 million in the 2021-23 biennium.

Employee Health and Benefits

The amounts depicted reflect the cost projected for employer health and benefits. This includes updated employer funding rates for PEBB, and savings associated with the most recent actuarial projections of employer pension contribution rates by the Office of the State Actuary

ML adjustments are savings of -\$119 million 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 PL.

The PL adjustments total \$690 million in the 2019-21 biennium and \$586 million in the 2021-23 biennium, totaling \$1.276 billion over the Outlook period.

K-12 Education

The PL budget adjustments for K-12 Education is \$185 million in the 2019-21 biennium and increases of \$214 million in the 2021-23 biennium, totaling \$399 million over the Outlook period.

The largest increases are for levy equalization, K-12 guidance counselors, and transportation funding.

The Governor vetoed multiple K-12 education items to include, but not limited to, K-12 guidance counselors (shown in reversion section), paraeducator training, excess transportation allocation, and small school grants.

SEBB Rate

The PL budget adjustments for the School Employees' Benefits Board (SEBB) are savings of -\$71 million in the 2019-21 biennium and savings of -\$186 million in the 2021-23 biennium, totaling savings of -\$257 million over the Outlook period.

Funding is adjusted based on updated rates for FY 2021 for the SEBB program. Modeling for prior rate estimates used assumptions based on experience from the Public Employees' Benefits Board. The adjusted rate incorporates new data from SEBB open enrollment especially regarding plan choice and demographic information.

Higher Education

The PL budget adjustments for Higher Education is \$22 million in the 2019-21 biennium and \$18 million in the 2021-23 biennium, totaling \$40 million over the Outlook period.

- The growth factor for the 2021-23 biennium is estimated at 0.1 percent per FY from FY 2021 levels.

The largest increases are related to central service charges, compensation, and the job skills program.

The Governor vetoed multiple higher education items to include, but not limited to, soil health initiative, chlorpyrifos pesticide research, housing coordination, and career connected learning.

Low-Income Health Care and Community Behavioral Health

The PL budget adjustment for Low Income Health Care and Community Behavioral Health is \$31 million in the 2019-21 biennium and savings of -\$49 million in the 2021-23 biennium, totaling savings of -\$18 million over the Outlook period.

- The growth factor for the 2021-23 biennium is estimated at 2.89 percent per FY from FY 2021 levels.

The largest increases are related to primary care provider rates, rural health clinic reconciliations, and restoration of funds previously reduced in association with assumed savings from program integrity activities.

The largest reduction is related to savings assumed from an assumed delay of a federal policy that will reduce Disproportionate Share Hospital (DSH) grants to states.

The Governor vetoed multiple low-income health care and community behavioral health items to include, but not limited to, primary care provider rates, behavioral health provider rates, and non-emergent medical transportation broker administrative rate.

Social and Health Services

The PL budget adjustment for Social and Health Services is \$64 million in the 2019-21 biennium and \$267 million in the 2021-23 biennium, totaling \$331 million over the Outlook period.

- The growth factor for the 2021-23 biennium is estimated at 3.27 percent per FY from FY 2021 levels.

The largest increases are related to state hospital operations at western state and eastern state hospitals, nursing home rate increases, and the consumer directed employer program.

The largest savings are related to an assumed delay of a federal policy that will reduce DSH grants to states, and maintenance funding for electronic health record system that has not been implemented to date.

The Governor vetoed multiple social & health services items to include, but not limited to, specialty dementia care rate add-on, and dementia act collaboration staffing.

Department of Corrections

The PL budget adjustment for the Department of Corrections is \$38 million in the 2019-21 biennium and \$33 million in the 2021-23 biennium, totaling \$71 million over the Outlook period.

- The growth factor for the 2021-23 biennium is estimated at 1.33 percent per FY from FY 2021 levels.

The larger increases include prison custody overtime, prison staffing, nursing relief, and compensation.

The largest reduction was in community supervision changes. The budget includes community supervision sentencing changes from Substitute House Bill No. 2393 (community custody), Substitute House Bill No. 2394 (community custody), and Substitute House Bill No. 2417 (community custody terms). Impacts include -\$5.5 million in FY 2021, -\$12.8 million in FY 2022 and -\$11.5 million in FY 2023.

The Governor vetoed one corrections item, which was for one additional body scanner for installation at the Washington Corrections Center for Women and one body scanner for installation at the Monroe Correctional Complex men's facility.

All Other

The PL budget adjustment for all other areas is \$571 million in the 2019-21 biennium and \$411 million in the 2021-23 biennium, totaling \$982 million over the Outlook period.

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

The larger increases include childcare rate increases, home security fund account funding, housing trust fund account funding, climate resiliency funding, housing and essential needs, and supportive housing.

The larger reductions include savings from shifting state funded prevention services to federal funds available through the Family First Prevention Services Act, streamlined sales tax mitigation, and crime victims funding adjustment.

The Governor vetoed multiple all other items to include, but not limited to, climate resiliency, reducing Working Connections Child Care (WCCC) co-payments, Early Childhood Education Assistance Program (ECEAP) rate increase (see Reversions section), and funding and staff for the Washington state equity office.

Governor's Vetoes and Lapsed Items

The impact of vetoes and lapsed items by the Governor are displayed as a discrete line on the Outlook and total -\$149 million in the 2019-21 biennium and -\$121 million in the 2021-23 biennium, totaling -\$270 million over the Outlook period. The growth rate used in the veto calculations is the same as what was used for each impacted item in budget calculations.

The veto of the \$41.3 million GF-S transfer into the WEI account in FY 2021 and a loss of -\$20.133 million payback from WEI to the GF-S may impact the financial health of the WEI account.

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 -\$420 million in the 2019-21 biennium and savings of -\$395 million in the 2021-23 biennium, totaling -\$815 million over the Outlook period.

These totals include:

- 0.5% of GF-S appropriation reversions of -\$253 million in the 2019-21 biennium and -\$274 million in the 2021-23 biennium, totaling -\$527 million over the Outlook period;
- K-3 reversions of -\$128 million in the 2019-21 biennium and -\$22 million in the 2021-23 biennium, totaling -\$150 million over the Outlook period;
- K-12 guidance counselor reversions of -\$32 million in the 2019-21 biennium and -\$84 million in the 2021-23 biennium, totaling -\$116 million over the Outlook period (vetoed by the Governor and directed to be placed in reserves); and
- ECEAP rate increase reversions of -\$7 million in the 2019-21 biennium and -\$15 million in the 2021-23 biennium, totaling -\$22 million over the Outlook period (vetoed by the Governor and directed to be placed in reserves).