

November 3, 2020

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Growth factors for Outlooks prepared during the 2021-23 biennium

In accordance with prior practice, the State Budget Outlook Work Group (Workgroup) is in the process of updating growth factors for the Outlook functional areas. These revised growth factors will be presented to the Economic and Revenue Forecast Council (Council) for consideration during the November 18th meeting. If adopted, these growth factors would apply for all Outlooks prepared for the 2021-23 biennium including the Outlook for the 2022 Supplemental budget.

The Workgroup intends to mirror the approach that was done in 2018 with one possible exception identified in the questions section below.

Background

Per statute, the estimated expenditures in the Outlook are to reflect the cost to continue current programs, entitlement program growth, and actions required by law. The cost to continue current programs and growth in entitlement programs is estimated in the Outlook by using growth factors. Other changes that are required by law, including items with future implementation dates, are generally reflected separately or accounted for by custom adjustments in the Outlook. The Outlook statute specifically excludes any future costs related to policy items to include, but not limited to, collective bargaining agreements not approved by the Legislature, or salaries and benefits, unless required by statute.

Methodology Overview

The growth factors are updated through a joint effort by legislative and executive branch staff. The 2020 update will use budgeted appropriations for the four accounts covered by the Outlook from the 2011-13 biennium to the 2019-21 biennium. Generally, the approach compares the fiscal year (FY) change within each biennium through Maintenance Level (ML) of the budget.

The low-income health care & community behavioral health methodology combines the general approach for community behavioral health with a custom approach for low-income health care which calculates the average annual change in forecasted services. Growth for K-12 education and Debt Service is calculated through specific models, which calculate out FY growth rather than by applying a growth factor.

Questions for the Council:

1. Higher Education Growth Factor.

Chapter 406, Laws of 2019 (E2SHB 2158) changed the nature of the state's responsibilities for funding financial assistance for higher education. The act replaced the State Need Grant (SNG) with the Washington College Grant (WCG). While the funding of the SNG was previously discretionary and done

in policy level, Chapter 406, Laws of 2019 (E2SHB 2158) includes the following language that will make future funding of the WCG a ML rather than policy level decision.

"The Legislature shall appropriate funding for the Washington college grant program. Allocations must be made on the basis of estimated eligible participants enrolled in eligible institutions of higher education or apprenticeship programs. All eligible students are entitled to a Washington college grant beginning in academic year 2020-21."

Because of this change, the Workgroup believes that the prior methodology for assigning growth for higher education ML spending is likely to underestimate the ML expenditures moving forward. The group identified the option summarized below as a way to address this issue.

Higher Education Alternative Growth Factor Option

- Growth for non-financial aid, which accounts for roughly 80% of expenditures, would be calculated using the traditional methodology.
- Growth for financial aid, which accounts for roughly 20% of expenditures, would be calculated based on historical average tuition changes and forecasted population changes for persons between the ages of 18 and 24.
- A weighted growth factor for higher education would then be calculated to combine these factors.

While the Workgroup has not been able to finalize calculations, which are dependent on the November 10th population forecast update, the range of impact expected from changing the methodology, if applied to the higher education carryforward level budget, is roughly an increase in projected expenditures in the range of \$26-\$30 million in the 2023-25 biennial outlook period to which the growth factor will be applied.

Question 1: Does the ERFC want the Workgroup to utilize the alternative growth factor option for higher education outlined above instead of the same methodology that was done in 2018?

2. Other Growth Factors. The Workgroup is planning on maintaining the 2018 methodology for all other functional areas and will update the growth factors to include the most recent budgets that were enacted subsequent to adoption of the 2018 growth factors using the same methodology.

Question 2: Does the ERFC want to direct any other methodology changes for the 2020 Outlook growth factor updates?