

June 1, 2021

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the Enacted 2021-23 Operating Budget Outlook

The State Budget Outlook Work Group (work group) poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the Outlook for the enacted 2021-23 operating budget.

1. 4.5% Additional Revenue Assumption. Per chapter 43.88.055 RCW, forecasted revenue for the ensuing biennium for purposes of an outlook, prior to adjustment for enacted legislation, are the greater of: "(i) the official general fund and related funds revenue forecast for the ensuing biennium, or (ii) the official general fund and related funds forecast for the second fiscal year of the current fiscal biennium, increased by 4.5 percent for each fiscal year of the ensuing biennium". Despite the fact that forecasted revenue growth is less than 4.5% per year in the 2023-25 biennium, budget writers chose not to assume the 4.5% increase for Outlooks published for the conference budget. This approach differs from statute and the approach used for previous Outlooks and reduces the estimated ending fund balance for the 2023-25 biennium by \$1.4 billion.

Question 1: Does the ERFC want the estimates for ensuing biennium revenues for the enacted Outlook being prepared by the work group to assume or exclude the additional \$1.4 billion in revenues?

2. Nursing Home Rebase Ensuing Biennium Adjustment. Under current law, nursing home rebases occur in the 2nd Fiscal Year (FY) of each biennium. The 2021-23 enacted budget provided funding for a rebase each FY, and budget writers chose to assume in the Outlooks published for the conference budget that a rebase will occur in FY 2024 even though this rebase is not statutorily required. This increases the estimated ensuing biennium cost by approximately \$12.8 million.

Question 2: Does the ERFC want the estimates for ensuing biennium costs for the enacted Outlook being prepared by the work group to assume a nursing home rate rebase in FY 2024.

3. State Institution Bed Closures and Community Investments. The 2021-23 enacted budget included investments in community placements as alternatives for care at civil state hospital wards. The Outlooks published for the conference budget assumed that there would be additional investments in alternative community placements and reductions at western state hospital (WSH) in the 2023-25 biennium. The net impact of assuming these increased placements and bed closures was a Near General Fund - Outlook (NGFO) cost of \$11.2 million. Additional increases in community placements and reductions of state hospital beds will be policy level decisions in the 2023 legislative session when writing the 2023-35 biennial budget.

Question 3: Does the ERFC want the enacted Outlook being prepared by the work group to assume the costs and savings associated with further increases in community resources and reductions in WSH that were assumed in the Outlook prepared to support the conference budget?

4. Disproportionate Share Hospital (DSH) Reduction Delay. The federal Affordable Care Act directed reductions in DSH Medicaid grants to states, beginning in 2014. Subsequent federal legislation has delayed the reductions multiple times and under current law they are scheduled to take effect during FY 2024. The Outlooks published for the conference budget assumed that the federal government will continue to delay these reductions beyond the Outlook period. The net impact of assuming the delay is a reduction in NGF-O costs of approximately \$133 million.

Question 4: Does the ERFC want the enacted Outlook being prepared by the work group to assume the reduction of federal DSH grants will continue to be delayed beyond the Outlook period?

5. Tenant Representation Outcome Study Veto. The Governor vetoed supplemental budget reduction in proviso funding for the Office of Civil Legal Aid (OCLA) to conduct a comparative study of the differences in outcomes for tenants facing evictions because of a technical error in the drafting of the proviso. In the veto message, the governor indicated that he is directing OCLA to place \$318k for fiscal year 2021 in unallotted status. In prior Outlooks, the ERFC has directed the workgroup to adjust estimated reversions for vetoes where the Governor directs an agency to place amounts in unallotted status.

Question 5: Does the ERFC want the enacted Outlook being prepared by the work group to include an adjustment to estimated reversions for the \$318k that the Governor has directed OCLA to place in unallotted status?