

# Budget Outlook Methodology

June 5, 2023



Washington State  
Economic and Revenue Forecast Council

*This page left intentionally blank.*



WASHINGTON STATE  
**ECONOMIC AND REVENUE FORECAST COUNCIL**

---

## AGENDA

### **BUDGET OUTLOOK METHODOLOGY**

June 5, 2023  
10:00 a.m.

- Call to order
- Approval of meeting minutes from March 20, 2023
- Budget Outlook Methodology presentation
- Adjournment

*This page left intentionally blank.*



STATE OF WASHINGTON  
ECONOMIC AND REVENUE FORECAST COUNCIL  
PO Box 40912 • Olympia, Washington 98504-0912 • (360) 534-1560

**Meeting Minutes**  
**Revenue Review**  
March 20, 2023  
Conference Call

**Economic and Revenue Forecast Council**

Lynda Wilson, Senate, Chair  
Christine Rolfes, Senate  
Ed Orcutt, House of Representatives  
Tim Ormsby, House of Representatives  
Mike Pellicciotti, Treasurer  
John Ryser, Department of Revenue  
David Schumacher, Office of Financial Management

*Staff*

Steve Lerch, 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 Senator Wilson, to adopt the meeting minutes from March 3, 2023. Motion passed at 2:02 p.m.

**Revenue Forecast Presentation**

Dr. Lerch presented information on the economic and revenue forecast. Dr. Lerch summarized the forecast changes.

**Motion**

Senator Rolfes moved, seconded by Senator Wilson, to adopt the revenue forecast and the unofficial optimistic and pessimistic revenue forecast. Motion passed at 2:23 p.m.

**Adjournment**

With no further business, the meeting adjourned at 2:34 p.m.

*This page left intentionally blank.*

June 5, 2023

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the Enacted 2023-25 Biennial 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 2023-25 Biennial Operating Budget.

- 1. Additional Reversions Assumption.** The proposed 2023-25 biennial operating budget (ESSB 5187) outlook assumes additional general fund-state reversions. For the purposes of the Budget Outlook, reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation. For several years, the ERFC has directed that reversions be estimated at approximately 0.5% of general fund appropriations. Additional adjustments for reversions are made in accordance with direction from the ERFC.

The outlook published for the conference budget assumed 1% reversions in fiscal year 2023 and 0.8% reversions in fiscal year 2024 based on larger than typical reversions over the prior three fiscal years. Reversions for the published conference outlook returned to 0.5% in FY 2025, FY 2026, and FY 2027. The higher reversion assumptions for FY 2023 and FY 2024 results in reduced expenditure projections of \$159 million in fiscal year 2023, and \$256 million over the four-year outlook period.

Additionally, the proposed outlook includes a reversion assumption based on K-3 enrollment. Funding for the average K-3 class size is 17 full time equivalent students per teacher. However, K-3 allocations to districts may only be allocated only to the extent of, and proportionate to, the school district's demonstrated actual class size in grades K-3, up to the funded class sizes. Allocated class sizes have been higher than 17. The reversions estimated based on this requirement are \$65 million in the 2023-25 biennium and \$95 million over the four-year outlook period. The ERFC has included K-3 reversions in prior enacted outlooks.

**Question 1a:** Does the ERFC want the Enacted Budget Outlook being prepared by the work group to assume the \$256 million savings from additional general fund-state reversions?

**Question 1b:** Does the ERFC want the Enacted Budget Outlook being prepared by the work group to assume the \$95 million savings from additional K-3 reversions?

- 2. Vetoed Office Space Use Reductions.** Section 743 of the 2023-25 biennial operating budget as passed the Legislature contained an \$18.8m reduction in funding related to a decrease in expected office space needs that was vetoed by the Governor. This is related to Section 915 of the Governor's proposed 2023-25 biennial operating budget (SB 5187), which directed state agencies to reevaluate the amount of physical office space required as they continue to implement hybrid work environments and adopt expanded telework opportunities. The outlook for the Governor's budget adopted by the ERFC assumed \$19.8m in NGF-O savings as an additional reversion.

The Governor's veto message indicated the following:

"This section refers to outdated data for leases that have already been renewed. For this reason, I

have vetoed Section 743. However, I am directing the Office of Financial Management, in collaboration with the Department of Enterprise Services, to identify expiring leased office space that can be reduced. Funds saved will be moved to reserve status."

Question 2: Does the ERFC want the Enacted Budget Outlook being prepared by the work group to assume additional reversions from Office Space Use Reductions and if so at the level assumed in the adopted outlook for the Governor's budget, the amount that was vetoed in the enacted budget, or some other amount?

- 3. Health Care Authority Gain Share and Risk Corridor Prior Period Adjustment.** The preliminary outlooks published for the 2023-25 operating budget as passed the Legislature include a prior period adjustment to account for the state share of remittances paid back to the state by Medicaid Managed Care organizations pursuant to gain share and risk corridor provisions of contracts with the Health Care Authority. The prior period adjustment represents total additional resources of \$84 million in fiscal year 2023 (\$15 million in actual collections for calendar year (CY) 2020 and \$69 million in estimated collections for CY 2021).

Question 3: Does the ERFC want the Enacted Budget Outlook being prepared by the work group to assume the \$15 million in received gain sharing remittances for CY 2020 and the \$69 million in estimated gain share remittances for CY 2021 in the prior period adjustment section of the Outlook?