

Overview of the Methodology for the State Budget Outlook (July 2015)

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, and 1st sp. sess. (SSB 6636) on the 2015-17 enacted budget, Chapter 4, Laws of 2015, 3rd Special Session, Partial Veto (ESSB 6052). 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, the Education Legacy Trust Account, and the Opportunity Pathways Account.

Resources

Pursuant to Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636), 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

The amounts for 2013-15, 2015-17, and 2017-19 reflect the May 2015 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 2017-19 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 year for that ensuing biennium. Because the May 2015 forecast projects revenue growth of less than 4.5 percent per year in the 2017-19 biennium, the July 2015 Outlook uses the 4.5 percent growth rate.

Other Revenue Legislation

The Enacted budget assumes passage of legislation either increasing or decreasing revenue. The totals for these revenue changes follow, in millions:

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
Revenue Increases		\$200.5	\$282.0
Revenue Decreases		(\$35.2)	(\$65.9)
Marijuana Regulation	\$6.9	\$14.8	\$41.3

Other Enacted Fund Transfers

This category reflects all previously enacted fund transfers made in the 2013 and 2014 legislative sessions (including special sessions). For more information, see the 2013 and 2014 Legislative Budget Notes at <http://leap.leg.wa.gov/leap/budget/lbns/2014Operating.pdf>

Fund Transfers

The newly enacted budget transfers total \$1.9 million for 2013-15, \$178.1 million for 2015-17 and \$101.2 million in 2017-19. The largest among these transfers are: Public Works Assistance Account,

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\$73 million in both 2015-17 and 2017-19, Tobacco Settlement Account, \$51.4 million in 2015-17, Treasurer's Service Account, \$20 million in both 2015-17 and 2017-19 and \$11 million from the Life Science Discovery Fund in 2015-17.

Transfers to Budget Stabilization Account

Pursuant to a constitutional amendment approved by the voters in 2007, this reflects the transfer of 1 percent of general state revenues for each fiscal year (FY) to the Budget Stabilization Account. This transfer is legally required and estimated transfer amounts are based on the May revenue forecast plus revenue legislation impacting general state revenues.

Extraordinary Revenue Growth

Pursuant to a constitutional amendment approved by the voters in 2011, this reflects the transfer of three-quarters of extraordinary revenue growth into the budget stabilization account. Extraordinary revenue growth is defined in the state Constitution as 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 state Constitution also provides that the transfer only occur to the extent that it exceeds the normal transfer amount into the budget stabilization account.

The Enacted budget assumes projected transfers of extraordinary revenue growth from the general fund to the budget stabilization account in fiscal years 2015, 2017 and 2019 are returned to the general fund.

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget. In this case, this is based on the 2014 supplemental budget appropriation levels, and then reflects adjustments for carryforward level (CFL) and preliminary maintenance level (ML). For more information on the 2014 supplemental Budget, please see http://leap.leg.wa.gov/leap/budget/index_lbns.asp

Assumed Reversions

In the enacted budget, reversions are assumed to be \$86 million per year in fiscal years 2016, 2017, 2018, and 2019. In fiscal year 2015, reversions are expected to be \$160 million. The greater reversion assumption reflects guidance from the Office of Financial Management to the Health Care Authority associated with the Governor's veto of changes to the general fund appropriation for fiscal year 2015. This is expected to generate, on a one-time basis, a larger reversion than is typical.

Carryforward Level Revisions

The Outlook then adjusts the most recently enacted spending level (2013-15 including the 2014 Supplemental) to the CFL. In short, the CFL is a relatively mechanical calculation based on the removal of any one-time items and adjusting for the bow wave impact of items assumed in existing appropriations (costs or savings). In many instances, this means simply biennializing to the second year enacted funding levels. CFL adjustments total \$1.35 billion in 2015-17 and \$702 million in 2017-19 reflecting the increasing the base budget by the growth factors adopted by the ERFC. For more information on the CFL adjustments, please see: http://www.erfc.wa.gov/forecast/documents/bo_201501_NovemberOutlookCorrected.pdf

Maintenance Level Revisions

In this section, additional adjustments are made to reflect the expenditure level based on the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated by using the

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CFL as a starting point and making adjustments for the forecasted changes in the entitlement caseload/enrollment and other mandatory expenses.

K-12 Education

This is based on the February 2015 enrollment forecast and budget driver information for required K-12 entitlement changes. This estimate will continue to be updated as more information like staff-mix is received from local school districts. The K-12 funding will be adjusted 0.66 percent from FY 2017 each year of the ensuing biennium. The Materials, Supplies, and Operating Costs (MSOC) amount is adjusted by both enrollment and the implicit price deflator (IPD).

Larger adjustments in the 2015-17 ML include: enrollment/workload adjustments (\$335 million), Local Effort Assistance (\$49 million), K-12 staff mix (\$48 million savings), and MSOC (\$741 million). In 2015-17, these items total \$1.370 billion. In 2017-19, these same items are expected to total \$2.054 billion.

The larger 2015 supplemental items include: enrollment and workload adjustments (\$31 million) and local effort assistance (\$4.0 million).

Initiative 732 K-12 and Community College Staff Increases

Funding is provided for costs associated with cost of living increases to K-12 and certain community college staff pursuant to Initiative 732. The costs are generally based on the February 2015 Seattle consumer price index (CPI) forecast with projections for a 1.8 percent increase in FY 2016, 1.2 percent increase in FY 2017, 2.4 percent increase in FY 2018, and 2.1 percent increase in FY 2019; these costs total \$244 million for 2015-17.

Higher Education

The largest adjustment is related to the College Bound Scholarship program and is based on the most recent caseload information. Other Higher Education items are related to maintenance and operations and lease adjustments. The cost of College Bound is displayed separately. The remaining Higher Education items are adjusted by 0.3 percent per year from FY 2017.

The larger adjustment in the 2015-17 ML is related to College Bound (\$17 million).

Low-Income Health Care

The amounts depicted reflect the caseload and per capita as well as other mandatory maintenance level changes. Some of the major cost components include utilization and medical inflation. Assumed future growth is estimated at 3.22 percent per year from FY 2017.

Larger adjustments in the 2015-17 ML are related to caseload and utilization changes (-\$228 million). Other adjustments include managed care rates (\$155 million) and expansion state Federal Medical Assistance Percentage (FMAP) changes (\$58 million). In 2017-19, the impact of expansion state FMAP changes is expected to be approximately \$350 million.

The larger adjustments in the 2015 supplemental budget is related to caseload and utilization -\$155 million).

Hepatitis C

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This item reflects costs identified in Health Care Authority, Department of Corrections, Mental Health, and the Special Commitment Center associated with the new Hepatitis C drug treatment and include \$55 million in the 2015 supplemental budget and \$68 million in 2015-17.

Expiration of Hospital Safety Net GF-S Offset

This reflects the GF-S required to cover the rate increases that were allowed as a result of the establishment of a hospital safety net assessment (HSNA). The HSNA phases down during FY 16 and FY 17 and is set to expire June 30, 2017. Based on legislative expectations, funding is adjusted assuming the replacement of a portion of the hospital safety net assessment revenue with state funds (consistent with statute); these costs are \$60 million in 2015-17 and \$200 million in 2017-19.

DSHS Mental Health, Long-Term Care, and Developmental Disabilities

The amounts depicted reflect the February 2015 caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. Some of the major cost components include utilization and severity of client needs. Assumed future growth is estimated at 3.42 percent per year from FY 2017.

Larger adjustments in the 2015-17 ML include: implementation of community first choice (-\$73 million), caseload and utilization changes (\$106 million), and continued implementation of the children's mental health settlement (\$17 million).

Larger adjustments in the 2015 Supplemental ML include funding for the Rekhter decision (\$35 million),

DSHS Children's Services and Economic Services

The amounts depicted reflect the February 2015 caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. Some of the major cost components include foster care and adoption support caseload, eligibility experience and revised growth trends. Assumed future growth is estimated at 1.93 percent per year from FY 2017.

Larger adjustments in the 2015-17 ML are related to caseload adjustments (-\$29 million).

Larger adjustment in the 2015 supplemental budget is related to caseload (\$6.3 million).

Department of Corrections, DSHS Juvenile Rehabilitation and Special Commitment Center

The amounts depicted reflect the February 2015 caseload and per capita cost information prepared through joint effort by legislative and executive branch staff, as well as other mandatory maintenance level changes. A major cost component is the proportion of community and institution population. Assumed future growth is estimated at 3.19 percent per year from FY 2017.

Larger adjustments in the 2015-17 ML include: mandatory caseload adjustment (\$14 million) and utility rate adjustments (\$2 million).

Mandatory caseload adjustment (\$3 million) is the largest adjustment in the 2015 supplemental ML.

Other

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This area includes all other agencies not reflected in the proceeding Outlook groups. Many are general government agencies, smaller human service agencies, natural resource agencies, legislative agencies and judicial agencies. Assumed future growth is estimated at 0.53 percent per year from FY 2017.

Special Appropriation Items (Part of Other in the Outlook)

This category reflects the typical special appropriation items that are removed in the development of the CFL, but have historically been restored in the ML. It also includes a few new items associated with recent legislation or budgetary actions. An itemization is listed in the table below:

Dollars in Millions

Detail of Items in Special Appropriations

	2015-17	2017-19
Governor's Emergency Fund	\$ 1.7	\$ 1.7
K-20 Network	\$ 16.0	\$ 16.0
County Public Health Assistance	\$ 72.8	\$ 72.8
Fire Contingency	\$ 8.0	\$ 8.0
O'Brien Building COP Payment	\$ 5.9	\$ 5.9
SERA Account Repayment	\$ 10.2	\$ 10.2
Common School Construction Account	\$1.2	\$1.2
Real Property Replacement Account	\$0.6	\$0.6
Impaired Driving	\$0.7	\$0.7
Local Public Safety Enhancement Account RCW 41.26.802	\$ 20.0	\$ 50.0
Total	\$ 127	\$157

Initiative 1351

Maintenance level in the Enacted budget reflects the cost of I-1351 (class size reduction): \$2.043 billion in 2015-17 and \$2.755 billion in 2017-19.

Policy Level Revisions in 2015-17

In this section, adjustments are made to reflect the policy level expenditures included in the recently enacted 2015-17 budget.

K-12 Education

Enhancements include Full Day Kindergarten (\$180 million in 2015-17 and \$309 million in 2017-19), K-3 Class Size Reduction (\$350 million in 2015-17 and \$1,114 million in 2017-19), K-12 Health Benefits (\$24 million in 2015-17 and \$28 million in 2017-19) and a one-biennium salary increase (\$152 million in 2015-17 and \$21 million in 2017-19).

The budget assumes the enactment of HB 2266 (class size & school staffing) (Chapter 38, Laws of 2015, 3rd Special Session) which amends I-1351 by delaying the implementation date; the outlook assumes savings of \$2.042 billion in 2015-17 and \$2.755 billion in 2017-19.

Savings associated with K-12 staff mix are \$36 million in 2015-17 and \$98 million in 2017-19.

Higher Education

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Funding for the Opportunity Scholarship program is \$41 million in 2015-17; the enacted budget assumes a "pay-as-you-go" approach where state funding will be contingent upon the actual contribution subject to the state match.

Higher education compensation enhancements and a general fund back-fill associated with tuition reduction totals \$189 million in 2015-17 and \$259 million in 2017-19.

Early Learning

Funding for the Department of Early Learning and the Early Start Act total \$83 million in 2015-17 and \$101 million in 2017-19. Expansion of the Early Childhood Education and Assistance Program (ECEAP) is \$41 million in both 2015-17 and 2017-19.

DSHS Mental Health, Developmental Disabilities and Long Term Care

The enacted budget provides funding to meet the requirements of mental health-related lawsuits and includes: \$31.4 million for single bed certification, \$26.6 million for a competency restoration ward at Western State Hospital and \$10.8 million for assisted outpatient treatment. \$28.5 million is provided for vendor rate increases for community-based care the developmental disabled and the aged. Note: non-employee collective bargaining agreements are summarized below.

DSHS Children's Administration and Economic Services

The enacted budget provides funding for the FPAWS litigation (\$12.5 million), Braam compliance and child protective service staffing (\$6.4 million), increasing the TANF grant (\$30.6 million) and Working Connections Child Care 12-month eligibility (\$22.2 million).

Low Income Health Care/I-502

Revenue generated from the regulation of recreational and medical marijuana offsets general fund costs of low income health care (\$201 million savings)

Hospital Safety Net

The budget assumes savings of \$152 million in 2015-17 and \$292 million in 2017-19 attributable to extending and increasing the amount collected under the Hospital Safety Net Assessment by 5.5 percent.

ACA CHIP Match

Savings associated with the federal extension of the Child Health Insurance Program (CHIP) are \$115 million in 2015-17 and \$137 million in 2017-19.

Public Safety Enhancement Account

The enacted budget suspends a \$20 million transfer from the general fund to the Public Safety Enhancement Account in 2015-17. The outlook reflects a \$50 million transfer from the general fund to the Public Safety Enhancement Account in fiscal year 2018.

IT Pool

The enacted budget provides funding for information technology projects in some agencies; however, many IT projects were funded by a IT pool with a general fund appropriation of \$25 million. The costs

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shown in the outlook include both the IT Pool and the system replacement project at the Department of Revenue. The total of the two items is \$36.5 million in 2015-17 and \$21.0 million in 2017-19.

Collective Bargaining Agreements

The Enacted budget provided funding for collective bargaining agreements for represented employees and comparable salary increases for non-represented employees; these total \$223 million in 2015-17 and \$293 million in 2017-19. Additionally, funding is provided for agreements for non-employee agreements which include home care providers and agency parity, licensed family child care providers and exempt-providers; these agreements total \$151 million in 2015-17 and \$211 million in 2017-19.

Health Benefits

The Enacted budget provides funding for state government and higher education employees' health benefits. The budget assumes a growth rate of 4.2% in claims experience in fiscal years 2016 and 2017

Anticipated 2015 Supplemental (June 2015 Caseloads)

The outlook reflects costs of \$36 million in 2015-17 and \$45 million in 2017-19 attributable to the effects of the June 2015 Caseload Forecast. The enacted budget does not appropriate these funds; such appropriations would be considered in the 2016 supplemental budget.