

Overview of the Methodology for the State Budget Outlook (2016 Enacted)

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). 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 (GF-S), the Education Legacy Trust Account (ELTA), 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 2015-17, and 2017-19 reflect the February 2016 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 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. The February 2016 Outlook for the enacted 2016 supplemental budget assumes 4.5 percent per year for the ensuing biennium.

Other Enacted Fund Transfers

This category reflects all enacted fund transfers made in the 2015 legislative sessions (including special sessions). For more information, see the 2015 Legislative Budget Notes at http://leap.leg.wa.gov/leap/budget/index_lbns.asp

Fund Transfers and Resources

The enacted 2016 supplemental budget funds transfers, after accounting for vetoes and ERFC guidance, total \$29.4 million for 2015-17 and \$14.8 for 2017-19. The Governor vetoed the intent language in the budget regarding the Public Works Assistance Account in the 2017-19 language, as a result, the \$154 million transfer in 2017-19 is not included. The governor vetoed the language specifying criteria for the fire insurance premium distributions and language directing undistributed funds to the Disaster Response Account. The Outlook reflects a \$14.8 million transfer from the Disaster Response Account to the GF-S, this amount is adjusted to reflect fire insurance premium veto impact. The enacted outlook also does not include \$46 million related to royalty tax payments to reflect the veto impact.

Additionally, pursuant to ERFC guidance, the Outlook for the enacted 2016 Supplemental Budget does not include \$33.8 million related to expected audit payments.

Transfers to Budget Stabilization Account

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

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 (ERG) 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. A transfer of \$64 million in 2015-17 and \$8 million in 2017-19 is reflected from the GF-S into the BSA.

Chapter 2, Laws of 2015, 3rd sp. sess. (EHB 2286) directs the State Treasurer to transfer amounts attributable to extraordinary revenue growth that were deposited into the BSA to the GF-S. The transfer amounts were capped at \$75 million for 2015-17 and \$550 million for 2017-19. The transfer of \$64 million is projected to be deposited back to the GF-S in 2015-17 and \$8 million in 2017-19.

Expenditures

As the starting point for the expenditure projection, the enacted 2016 supplemental budget Outlook utilizes the Outlook adopted in July 2015 for the enacted budget. For more information on the 2015-17 supplemental Budget, please see http://leap.leg.wa.gov/leap/budget/index_lbns.asp

Assumed Reversions

The methodology for calculating reversions was updated during the 2016 session to be based on 0.5% of the GF-S budget. This change results in total reversions of \$392.9 million over the four-years. The reversion assumption in the previously adopted Outlook was based on average of the prior 10 years and totaled \$345 million over the four-years.

Additionally, reversion were increased across the four-year timeframe to reflect amounts agencies were directed to hold in unallotted status.

Maintenance Level Revisions

In this section, additional adjustments are made to reflect the costs of continuing to comply with current law provisions. This is often referred to as Maintenance Level (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 collective bargaining agreements not approved by the Legislature, other proposed compensation increases, costs of any adverse court rulings within 90 days of each respective legislative session, and the phase-in of K-12 McCleary-related funding.

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 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).

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Larger adjustments in ML include: pupil transportation (\$58 million in 2015-17 and \$48.4 million in 2017-19), I-732 adjustments for revised inflation estimates (-\$104.4 million in 2017-19), Local Effort Assistance (\$23.6 million in 2015-17 and -\$28.7 million in 2017-19), class size (-\$17.4 million in 2015-17 and -\$1.9 million in 2017-19), enrollment/workload adjustments (\$2 million in 2015-17 and \$1.3 million in 2017-19), and K-12 staff mix (-\$20.9 million in 2015-17 and -\$15.4 million in 2017-19).

Higher Education

Higher Education adjustment are related to the College Bound Scholarship program and to maintenance and operations and lease adjustments. Higher Education items are adjusted by 0.3 percent per year from FY 2017.

The larger adjustment in ML is related to the College Bound caseload adjustment (-\$18.5 million in 2015-17 and -\$12.95 million in 2017-19).

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

The amounts depicted reflect the most recent 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 ML include: caseload, workload, and utilization changes (-\$7.3 million in 2015-17 and \$16.3 million in 2017-19), nursing home rebasing (\$6.6 million in 2015-17 and \$13.9 million in 2017-19) and hospital revenue adjustments (\$5.3 million in 2015-17 and \$5.9 million in 2017-19).

Department of Corrections, DSHS Juvenile Rehabilitation and Special Commitment Center

The amounts depicted reflect the most recent 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 ML include: caseload changes (\$21.8 million in 2015-17 and \$23.4 million in 2017-19), and equipment and facility maintenance (\$3 million in 2015-17).

DSHS Children's Services and Economic Services

The amounts depicted reflect the most recent 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 caseload and per capita cost increases and revised growth trends. Assumed future growth is estimated at 1.93 percent per year from FY 2017.

The larger adjustments in ML is related to caseload and per capita adjustments (\$13.8 million in 2015-17 and \$23.3 million in 2017-19).

Low-Income Health Care

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

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Larger adjustments in ML are related to managed care rates (\$196.2 million in 2015-17 and \$282.98 million in 2017-19) and Medicare cost share changes (\$65.6 million in 2015-17 and \$93.3 million in 2017-19), Individual and Family Services program (\$11.2 million in 2015-17 and \$19.2 million in 2017-19), caseload and utilization changes (-\$75.8 million in 2015-17 and -\$116.9 million in 2017-19), adjustments in the Federal Medical Assistance Percentage (FMAP) rates related to the Affordable Healthcare Act (ACA) (-\$8.7 million in 2015-17 and -\$22 million in 2017-19), and savings from the initial cost estimates associated with the new Hepatitis C drug treatment (-\$16.3 million in 2015-17 and -\$5.7 million in 2017-19).

Debt Service

The amounts depicted reflect the cost of debt service for the capital budget. Assumed future growth is estimated at 3.22 percent per year from FY 2017. ML savings are due to refunding and changes in interest rates (-\$33.6 million 2015-17 and -\$55.5 million in 2017-19)

Other

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.

Larger adjustments in ML include: funding adjustments for rate adjustments for Behavioral Health Organizations (\$9.3 million in 2015-17 and \$15.9 million in 2017-19), waiver savings (-\$7.9 million in 2015-17 and -\$13 million in 2017-19), Washington State Patrol cost allocation (\$2.3 million in 2015-17 and \$2.3 million in 2017-19) and savings related to COP repayments adjustments (-\$5.9 million). Both transfers and lean savings increase the "Other" functional area of the outlook but net to zero in the budget across all outlook areas.

Policy Level Revisions

In this section, adjustments are made to reflect the policy level expenditures included in the enacted 2016 supplemental budget.

K-12 Education

Enhancements in PL for K-12 \$9.7 million in 2015-17 and \$27.9 million in additional funding. Larger adjustments include funding for the reenactment of charter laws (\$3.9 million in 2015-17 and \$9.8 million in 2017-19), foster youth education outcomes (\$1.4 million in 2015-17 and \$3 million in 2017-19). Additionally \$5.25 million was provided in 2015-17 for recruitment and retention. Savings in 2017-19 are included to reflect changes in K-12 pension growth rate assumptions (-\$10.4 million).

Higher Education

In 2015-17, \$48 million was provided and in 2017-19, \$18 million was provided in 2017-19. Larger items funded on a one-time basis in 2015-17 include \$19.8 million for Moore v HCA settlement and \$18 million for maintain the state need grant. A total of \$21.4 million over the four-years was provided to backfill institutes of higher education related to capping tuition.

Early Learning

In 2015-17, funding was provided for the ECLIPSE program (\$2.2 million) and funding for health and safety work (\$935,000). Savings of \$21 million over four-years are a result of using federal Child Care Development Funds (CCDF) rather than GF-S.

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Child Care Collective Bargaining Agreement (CBA)

The enacted 2016 supplemental budget includes funding for the reopener for the SEIU 925 CBA, which includes increased tiered reimbursement rates, a base rate increase, and funding for training (\$12.7 million in 2015-17 and \$25.7 million in 2017-19).

DSHS Mental Health, Developmental Disabilities and Long Term Care

The enacted 2016 supplemental budget includes funding for enhancements to the state hospitals (\$35.2 million in 2015-17 and \$22.8 million in 2017-19), Individual Provider over-time (\$29.4 million in 2015-17 and \$38.8 million in 2017-19), and community mental health (\$4 million in 2015-17 and \$7.4 million in 2017-19). Saving of \$24.4 million are achieved in 2015-17 related to under expenditures and Southwest RSN reserve savings.

Department of Corrections, DSHS Juvenile Rehabilitation Administration and Special Commitment Center

The enacted 2016 supplemental budget includes \$3 million in 2015-17 and \$11 million in 2017-19. Larger adjustments include: high acuity interventions/services (\$3.2 million in 2015-17 and \$4.5 million in 2017-19), SBCTC contract (\$1.3 million in 2015-17 and \$2.3 million in 2017-19). Savings include changes to supervision of offenders (-\$2.3 million in 2015-17 and -\$4.9 million in 2017-19) and fund shifts (-\$6 million in 2015-17).

DSHS Children's Administration and Economic Services

The enacted 2016 supplemental budget includes funding for Medicaid cost allocation (\$4.9 million in 2015-17). Savings are achieved in GF-S through fund shifts to federal or other funds (-\$58.3 million in 2015-17 and -\$60 million in 2017-19) and under-expenditures (-\$11.9 million in 2015-17 and -\$2.5 million in 2017-19).

Low-Income Health Care

The enacted 2016 supplemental budget includes funding for Healthier WA and waiver savings restorations (\$28.1 million in 2015-17 and \$17.5 in 2017-19), health home services (\$3.9 million in 2015-17 and -\$3.8 million in 2017-19). Savings are achieved through shifting cost from GF-S to the Dedicated Marijuana Account (-\$43 million in 2015-17) and from managed care rate reforms (-\$13.3 million in 2015-17 and -59.4 million in 2017-19).

All Other

Funding is provided for a variety of items including the Information Technology Pool (\$1.7 million in 2015-17) and the data processing revolving account shortfall (\$3.4 million in 2015-17). Savings are achieved from under-expenditures related to drought (-\$7.3 million in 2015-17), shifting costs from GF-S (-\$14.2 million in 2015-17 and -\$5 million in 2017-19). Funding is provided for the Moore Settlement in the respective Outlook areas, the overall total is \$36 million for the three accounts covered by the Outlook (a portion of the total appears in this area of the Outlook).

Fires

The enacted 2016 supplemental budget provides funding for fire suppression from the Budget Stabilization Account (\$189.5 million). This amount includes shifting funding in the underlying budget from the GF-S to the BSA (\$18 million).