



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

Budget Outlook Adoption Meeting

May 1, 2014
9:00 a.m.

- Call to order
- Presentation by Budget Outlook Work Group members on methodology and budget outlook
- Adoption

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Budget Outlook:

Overview

April 14, 2014

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Enacted 2014 Supplemental Budget Outlook

The State Budget Outlook Work Group has prepared a draft outlook for the enacted 2014 supplemental operating budget, Chapter 221, Laws of 2014 Partial Veto (ESSB 6002), for review by the Economic and Revenue Forecast Council at its April 16 meeting.

Attached is the methodology used by the Work Group in preparing the draft Outlook on the enacted budget.

The following table summarizes the differences between the outlooks prepared by legislative staff to reflect the budget as passed by the Legislature and the draft outlook to reflect the enacted budget; the specific changes follow this summary table.

<i>(In Millions)</i>	Enacted Budget Outlook			Conference Budget Outlook			Difference
Resource Differences	2013-15	2015-17	Total	2013-15	2015-17	Total	Total
Veto (Energy Freedom and Life Science Discovery)	-	52.7	52.7	21.0	52.7	73.8	(21.0)
Lapses (E3SSB 5887 - Medical and Recreational Marijuana)	-	-	-	(2.0)	(4.4)	(6.4)	6.4
Corrections (Legislation Impacts & Budget Driven Revenue- LCB)	10.6	5.1	15.7	12.7	9.7	22.4	(6.7)
Total Resource Differences	68.4			89.7			(21.3)
Policy Level Expenditure Differences	Enacted Budget Outlook			Conference Budget Outlook			Difference
	2013-15	2015-17	Total	2013-15	2015-17	Total	Total
Veto/lapses							
K-12	61.0	153.0	214.0	62.8	157.7	220.6	(6.6)
Children's/Economic Services/Child Care	9.9	50.9	60.8	10.0	50.9	60.9	(0.1)
All Other (DOH, Disaster Response, etc.)	22.1	23.7	45.8	23.0	25.7	48.7	(2.9)
Total Expenditure Differences	320.6			330.1			(9.5)
Net Differences (Resources changes minus expenditure changes)							(11.8)

Error Corrections

Resources

- Chapter 207, Laws of 2014 (ESHB 1287 - Indian Tribes/Property Tax); the As Passed outlooks reflected revenue of \$600,000 in FY 15 and \$4.5 million in the 2015-17 biennium; the estimated revenue of \$400,000 in 2015-17 reflects the updated fiscal note.
- Budget driven revenue for the Liquor Control Board in FY 2015 is reduced by \$1.3 million.

Lapses/Vetoes

Resources

- E3SSB 5887 (medical and recreational marijuana) did not pass; decreased revenue to the General Fund of \$2 million in FY 2015 and \$4.3 million in the 2015-17 biennium attributable to this bill and assumed in the As Passed outlooks is corrected.

Expenditures

- E3SSB 5887 (medical and recreational marijuana) did not pass; \$2.1 million in FY 2015 and \$4.2 million in 2015-17 of expenditures attributable to this bill were assumed in the As Passed outlooks and are removed from the enacted outlook.

Vetoes

Resources

- The Governor vetoed a \$20 million fund transfer in FY 2015 from the Life Sciences Discovery Fund to the Education Legacy Trust Account. The Governor's veto did not affect the Legislature's expressed intent to transfer \$52.7 million in the 2015-17 biennium.
- The Governor vetoed a \$1 million transfer in 2013-15 from the Energy Freedom Account to the General Fund.

Expenditures

- The Governor vetoed a \$1.5 million reduction in the FY 2015 General Fund appropriation to the Disaster Response Account; this reduces resources in the General Fund
- The Governor vetoed a \$163,000 FY 2015 General Fund appropriation to the State Actuary for enhanced actuarial analysis of Medicaid programs
- The Governor vetoed a reduced General Fund appropriation of \$87,000 for the Caseload Forecast Council in the 2013-15 biennium.

- The Governor vetoed a \$35,000 FY 2015 General Fund appropriation to the DSHS-Child and Family Services to develop and pay a special rate add-on for providers serving children on the Children's Long-Term Inpatient Program Placement (CLIP) waitlist
- The Governor vetoed a \$1.99 million FY 2015 General Fund appropriation to the Office of the Superintendent of Public Instruction to compensate for reduced revenues from federal forest lands.

Attachment

Budget Outlook:

Methodology

Overview of the Methodology for the State Budget Outlook April 2014

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 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 reflect the February 2014 quarterly revenue forecast by the Economic and Revenue Forecast Council. The provisions of Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636) call for the ensuing biennium (in this instance, the 2015-17 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. Since the February 2014 forecast projects revenue growth of less than 4.5 percent per year in the ensuing biennium, this Outlook uses the 4.5 percent growth rate.

Transfer to Budget Stabilization Account

Pursuant to a constitutional amendment approved by the voters in 2007, this reflects the transfer of one percent of general state revenues for each fiscal year to the Budget Stabilization Account. See more information on the Budget Stabilization Account below.

Enacted Fund Transfers (Net) and Capital Budget Transfers

This category reflects all enacted fund transfers made in the 2013 legislative session (including special sessions). For more information, see the 2013 Legislative Budget Notes at http://leap.leg.wa.gov/leap/budget/index_lbns.asp. Since the fund transfers are one-time, no assumption is made regarding the Legislature deciding to make additional fund transfers after the 2013-15 Biennium with the exception of a statutory transfer from the General Fund to the Child and Family Reinvestment Account.

Prior Period Adjustments

Prior period adjustments are the write-off of prior period unliquidated accruals not needed for anticipated vendor payments.

2014 Enacted Budget Resource Changes:

The 2014 enacted budget includes a total of \$6 million in transfers; the governor vetoed \$21 million in transfers. The 2015-17 Outlook reflects \$52.7 million in resources in 2015-17 related to the tobacco strategic contribution. Other resource changes related to budget driven revenue, liquor excise for local governments, and legislation total \$4.9 million in the enacted 2014 supplemental

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budgets. In this case, the 2013-15 Biennial Budget, including Chapter 1, Laws of 2013 3rd sp.s. (EHB 2088). For more information, please see http://leap.leg.wa.gov/leap/budget/index_lbns.asp

Actual and Assumed Reversions

The reversions for 2013-15 reflect those assumed on the enacted budget balance sheet for the current biennium. That assumption regarding reversions is carried into the 2015-17 Budget for planning purposes.

Adjustments to the FY 2015 Baseline

The 2015-17 Biennium reflects the assumptions made in the July Official Outlook, except for the Initiative 732 being recalculated using the February 2014 inflation factors, and the Projected Pension cost being updated using the State Actuary's October 2013 estimate.

Annual growth rates for fiscal years 2016 and 2017 are the same as was assumed in the July outlook (e.g. 4.32% for low income health care, 6.0% for debt service, 0.5% for certain K-12 costs; and 2% for most other entitlement programs).

Enacted 2014 Supplemental Budget

In this section, adjustments are made to reflect the expenditure level based on the estimated cost of providing currently authorized services in the current biennium as well as policy enhancements. Maintenance level adjustments reflect forecasted changes in the entitlement caseload/enrollment programs, as well as other mandatory expenses. Pursuant to the provisions of Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636), the outlook excludes 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.

The components included in this Outlook are:

K-12 Education

The amounts depicted reflect the February 2014 enrollment forecast and other 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 a staff mix savings of \$33 million and assessment system savings of \$10 million. Assumed future growth is estimated at 0.5 percent per year from Fiscal Year 2015. Additional funding was provided for MSOC. The 2015-17 MSOC impacts are based on the estimated cost, rather than a growth factor.

Higher Education

The amounts depicted reflect the estimated costs of the College Bound program of \$12.3 million in 2013-15 and \$20 million in 2015-17. Otherwise, there is no assumed future growth in higher education

from Fiscal Year 2015. Additionally, \$25 million is provided Opportunity Scholarships under RCW 28B.145.040. The amount required in FY 2017 for Opportunity Scholarships is reduced to reflect the \$25 million appropriation.

DSHS Mental Health, Long Term Care, and Developmental Disabilities

The amounts depicted reflect the February 2014 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 2 percent per year from Fiscal Year 2015. Funding also provided for the children's mental health settlement and for enhanced mental health services, the impacts in 2015-17 reflect the estimated cost of these two policies, rather than a growth factor. Additionally, the Outlook includes \$49 million in savings in 2015-17 related to Community First Choice as reflected in Chapter 139, Laws of 2014 (SSB 6387) and Chapter 166, Laws of 2014 (ESHB 2746).

Department of Corrections, DSHS Juvenile Rehabilitation and Special Commitment Center

The amounts depicted reflect the February 2014 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 2 percent per year from Fiscal Year 2015.

DSHS Children's Services and Economic Services

The amounts depicted reflect the February 2014 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 costs are adjusted by 2 percent per year from Fiscal Year 2015. Additionally, the outlook includes the estimated impacts of the child care provider rate increase, WorkFirst Program changes, and reflects a savings associated with child care payments due to the Department of Early Learning implementing an electronic time, attendance, and payment system.

Low-Income Health Care

The amounts depicted reflect the February 2014 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 medical inflation, as well as a Medicaid expansion adjustment, a presumptive SSI-FMAP adjustment, and a Certified Public Expenditure (CPE) adjustment. Assumed future growth is estimated at 4.32 percent per year from Fiscal Year 2015.

Additional savings are assumed associated with:

- Chapter 223, Laws of 2014 (E2SHB 2572); the Outlook includes savings based on amounts identified in the fiscal note but are dampened to reflect a phased implementation of full and partial integration of physical and behavioral health care services delivery. The savings reflected in 2015-17 are the same amount that was assumed in the Outlook materials prepared for the Conference Budget.
- Chapter 198, Laws of 2014 (HB 2798); the Outlook reflects savings of \$61 million by authorizing the Health Care Authority to make payments to Medicaid Managed care plans with

the Basic Health Plan Trust Account, which will receive 50% of the revenues related to Initiative-502.

Debt Service for Currently Authorized Capital Projects

This adjusts total debt service funding to reflect the estimated cost of all currently authorized bonds. Assumed future growth is estimated at 6 percent per year from Fiscal Year 2015.

State Employee Health Benefits

The enacted 2014 Supplemental Budget assumes approval of a collective bargaining agreement which specifies the health benefit package and employee/employer share of the cost.

The underlying biennial budget relies upon a one-time use of a surplus in the Public Employees Benefits Board (PEBB) fund to reduce rates paid by state agencies. The effect on the next biennium of the use of the PEBB surplus had not been reflected in outlooks prior to January 2014 adopted by the Council.

The enacted 2014 Supplemental Budget includes savings from an additional one-time use of the PEBB surplus and savings from updated trend information. In 2015-17, only the trend-related savings related are included, this totals \$12 million in savings.

The amounts depicted represent a restoration of the savings attributable to the PEBB surplus in the underlying budget, resulting in a \$112 million (GF-S) per year increase in the 2015-17 to maintain the benefit package and employee/employer cost share.

All Other Items

The remaining \$62.5 million, \$29.1 million in 2013-15 and \$33.4 million in 2015-17, reflects the balance of all other items as contained in the enacted 2014 Supplemental Budget. This includes appropriations for wildfire suppression and savings related to Lean efficiencies.

Projected Balance

The unrestricted ending fund balance reflects the projected combined Near General Fund and Opportunity Pathways Account balance at the end of each respective fiscal year and is calculated by taking the beginning fund balance, adding resources and subtracting expenditures.

Budget Stabilization Account (BSA) Balance

This balance is calculated by taking the beginning balance, adding the mandated transfers from the state general fund and subtracting any appropriations made from the BSA. The balances shown on this version of the Outlook do not reflect any appropriations from the BSA. Mandated transfers from the state general fund include 1% of general state revenues plus a portion of any “extraordinary revenue growth.” Based on current revenue forecasts, no transfers triggered by “extraordinary revenue growth” are expected for the time period covered by the Outlook at this time.

While the provisions of Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636) specifically exclude the BSA balance in determining compliance with balanced budget requirements, it is displayed for information purposes in this document.

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Budget Outlook:

Outlook

Enacted Budget Outlook 2014 Supplemental
(Near GF-S & Opportunity Pathways Account, Dollars in Millions)

	FY 2014	FY 2015	2013-15	FY 2016	FY 2017	2015-17
Beginning Balance	156.4	327.1	156.4	296.3	(35.0)	296.3
Current Revenues						
February 2014 Forecast	16,595	17,042	33,637	17,781	18,548	36,329
Additional Revenue Based on 4.5% Growth Rate Assumption				28	63	91
	16,595	17,042	33,637	17,809	18,610	36,420
Other Resource Changes						
Transfer to BSA	(143.7)	(168.5)	(312.2)	(175.6)	(183.3)	(358.9)
Enacted Fund Transfers (Net)	57.5	82.9	140.4	-	-	-
Capital Budget Transfers	138.6	138.6	277.2	-	-	-
Prior Period Adjustments	20.4	20.4	40.8	20.4	20.4	40.8
Supplemental Budget						
Revised Child and Family Reinvestment Account	2.1	1.7	3.8	-	-	-
Correct Education Savings Account Deficit	(0.0)	-	(0.0)	-	-	-
DNR PILT Adjustment	(0.2)	-	(0.2)	-	-	-
Liquor Excise Tax fix for locals	(4.6)	(4.8)	(9.4)	-	-	-
Liquor Control Board Budget Driven Revenue	4.2	3.7	7.9	-	-	-
Tobacco Strategic Contribution/Life Science Discovery Fund	-	-	-	26.4	26.4	52.7
Lottery Transfer	4.0	-	4.0	-	-	-
Business and Professions Account	1.0	1.0	2.0	-	-	-
HB 6505 Marijuana Industry Tax Preference	-	2.73	2.73	2.73	2.73	5.5
ESHB 1287 Indian tribes/property tax	-	0.0	0.0	0.2	0.2	0.4
ESSB 6440 (Natural gas/fuel tax)	-	-	-	(0.3)	(0.4)	(0.7)
Other Legislative changes impacting revenue	-	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)
Total Revenues and Resources (Including Beginning Balance)	16,830.5	17,446.9	33,950.3	17,979.0	18,441.5	36,455.5
Enacted Appropriations	16,465.2	17,166.1	33,631.3			
EHB 2088 Aerospace Appropriations	0.8	9.8	10.5			
Continue FY 2015 Appropriation Level				17,174.6	17,174.1	34,348.6
Adjustments To FY 2015 Baseline				607.2	1,029.2	1,636.5
Actual/Estimated Reversions	(70.0)	(70.0)	(140.0)	(70.0)	(70.0)	(140.0)
Maintenance Level	8.7	80.5	89.2	97.9	105.3	203.2
Policy Level	98.7	(35.6)	63.1	204.3	183.3	387.7
K-12 Education	(0.4)	3.4	3.0	3.5	3.5	7.0
MSOC	-	58.0	58.0	72.8	73.2	146.0
Higher Education	0.3	5.0	5.3	5.0	5.0	10.1
Opportunity Scholarship (See 28B.145.040)	25.4	-	25.4	-	20.0	20.0
SB 6523 Higher Education Opportunities	-	5.0	5.0	5.0	5.0	10.0
Mental Health/Dev. Disabilities/Long Term Care	1.2	2.3	3.5	2.3	2.4	4.7
DSHS/LTC Community First Choice (SSB 6387 & ESHB 2746)	-	-	-	(24.5)	(24.5)	(49.0)
Children's Mental Health Settlement	0.3	8.0	8.2	16.0	24.0	40.0
Mental Health Service Enhancements	-	11.8	11.8	11.4	11.4	22.8
Corrections/JRA/SCC	(0.7)	5.3	4.6	5.4	5.5	10.8
Children's/Economic Svcs	2.69	1.75	4.44	1.8	1.8	3.6
Dept of Early Learning	0.3	5.0	5.3	2.9	2.9	5.7
DEL Electronic Child Care System	-	-	-	(12.5)	(12.5)	(25.0)
Child Care CBA + CC Centers	-	20.5	20.5	25.6	26.7	52.3
WorkFirst	(5.0)	(10.0)	(15.0)	10.0	10.0	20.0
Low Income Health Care	(25.0)	(9.8)	(34.8)	(10.2)	(10.6)	(20.8)
Health Care Innovation (E2SHB 2572)	0.6	(3.4)	(2.8)	(18.9)	(38.1)	(57.0)
Low Income Health Care BHP Account (HB 2798)	-	-	-	(15.1)	(46.0)	(61.1)
Debt Service	91.0	(91.0)	-	-	-	-
Lean savings	-	(10.0)	(10.0)	(10.0)	(10.0)	(20.0)
All Other	8.2	23.9	32.1	21.9	21.9	43.7
Effect of Higher PEBB Rate in 2015-17	-	-	-	118.0	118.0	236.0
PEBB Surplus and Trend Savings	-	(61.4)	(61.4)	(6.1)	(6.1)	(12.2)
Revised Appropriations	16,503.4	17,150.7	33,654.1	18,014.0	18,421.9	36,435.9
Projected Unrestricted Ending Balance	327.1	296.3	296.3	(35.0)	19.5	19.5
Budget Stabilization Account						
Beginning Balance	269.7	413.6	269.7	582.5	758.5	582.5
Transfer From GFS	143.7	168.5	312.2	175.6	183.3	358.9
Interest Earnings	0.3	0.4	0.7	0.4	0.4	0.8
Ending BSA Balance	413.6	582.5	582.5	758.5	942.2	942.2
Combined Near GF-S Unrestricted & BSA Ending Balance	740.6	878.8	878.8	723.6	961.8	961.8