# Overview of the Methodology for the State Budget Outlook (November 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, 1st sp.s. (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, the Education Legacy Trust Account, and the Opportunity Pathways Account.

**Resources**
Pursuant to Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636), the amounts depicted include the actual/projected revenue and other resources. Some of the largest components include:

<u>Beginning Fund Balance</u>
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.

<u>Revenue Forecast</u>
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 amounts for 2015-17, and 2017-19 reflect the November 2015 quarterly revenue forecast by the Economic and Revenue Forecast Council (ERFC).

<u>Other Enacted Fund Transfers</u>
This category reflects all enacted fund transfers made in the 2015 legislative session (including special sessions). For more information, see the 2015 Legislative Budget Notes at
http://leap.leg.wa.gov/leap/budget/lbns/2015operating1517.pdf

<u>Transfers to Budget Stabilization Account</u>
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 September 2015 revenue forecast.

<u>Extraordinary Revenue Growth</u>
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.

Additionally, pursuant to Chapter 2, Laws of 2015, 3rd sp. s. (EHB 2286), the Treasurer is to transfer amounts from the Budget Stabilization Account that are attributable to extraordinary revenue growth into the General Fund during the 2013-15, 2015-17, and 2017-19 fiscal biennia. The transfer to the General Fund must not exceed amounts specified in statute. The November 2015 Outlook updates these amounts based on the September 2015 revenue forecast.

**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 2015-17 biennial budget appropriation levels, and then reflects adjustments preliminary maintenance level (ML). For more information on the 2015-17 biennial budget, please see http://leap.leg.wa.gov/leap/budget/lbns/2015operating1517.pdf

Assumed Reversions
The November 2015 outlook continues the reversions that were assumed in the enacted budget outlook adopted by the ERFC in July for 2015-17 and 2017-19 fiscal biennia. Actual reversions are reflected for 2015.

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

The distinction is that this reflects the costs of continuing to comply with current law provisions. This is often referred to as 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, and costs of any adverse court rulings within 90 days of each respective legislative session.

K-12 Education
This is based on the most recent 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).

Higher Education
Higher Education ML adjustments total $1.3 million and are related to College Bound caseload adjustments and maintenance and operations. The Higher Education items are adjusted by 0.3 percent per year from FY 2017.

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 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 higher per capita costs from managed care rate increases ($190 million).

Hepatitis C
This item reflects adjustments due to lower than anticipated costs associated with the new Hepatitis C drug treatment (-$10.8 million)

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 the 2015-17 ML include: caseload and utilization changes ($14.6 million), rate adjustments ($2.6 million), supported living adjustment for Seattle minimum wage ($6.4 million), and state hospital revenue adjustments ($5.9 million).

Individual Provider Overtime
Funding is to pay Individual Provider (IP) homecare worker overtime in accordance with the Department of Labor (DOL) rule requiring overtime to be paid to homecare workers that was recently upheld by the US Federal Court of Appeals. This also includes funding for Agency Provider parity costs resulting from IPs receiving additional overtime pay.

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 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 ($27.7 million) and funding for the Social Service Payment System (SSPS) ($2.1 million).

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 the 2015-17 ML include: mandatory caseload adjustment ($36.7 million), equipment replacement costs ($2.4 million), and medical and food costs adjustments ($2.0 million).

All 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. The largest component of this category is related to the transfer of funding from other Outlook area's into All Other (DSHS programs into DSHS Payments to Other Agencies). The transfers steps nets to zero in the 2015-17 budget.

Other Items

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The Outlook for the enacted budget adopted by the ERFC in July 2015 included a place holder for caseload and per capita related changes.  This item totaled $81 million over the four years covered in the Outlook.  This place-holder has been removed and replaced with the preliminary maintenance numbers used to develop this outlook.

Pursuant to ERFC guidance on November 4, 2015, costs for fire suppression and *McCleary* sanctions are not included in the November 2015 Outlook calculation.  A footnote has been added to the November 2015 Outlook document noting that these items are not included.