WASHINGTON STATE

**ECONOMIC AND REVENUE FORECAST COUNCIL**

# AGENDA

## Budget Outlook Meeting

April 26, 2016
10:00 a.m.

- Call to order
- Discussion: Methodology for the Budget Outlook
- Adjourn

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April 22, 2016

To: Economic and Revenue Forecast Council
From: State Budget Outlook Work Group
Subject: Enacted 2016 Supplemental Budget Outlook

The State Budget Outlook Work Group poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance at its April 26th meeting on the preparation of the 4-year Outlook on the Enacted 2016 Supplemental Budget (2ESHB 2376, Chapter 36, Laws 2016, 1st Special Session PV).

1. REVISIONS TO GROWTH RATES/APPROACH

During the interim of 2014, the growth factors for the various outlook functional areas were revised. Per statute, the estimated expenditures in the Outlook are to reflect the cost to continue current programs, entitlement program growth, and actions required by law. The amounts for each outlook functional areas are increased by the growth factors to derive the ensuing fiscal year for the Outlook.

The growth factors were updated by looking at budgeted appropriations for the three accounts covered by the outlook from the 2003-05 biennium to the 2013-15 biennium. The approach generally compared the fiscal year change within each biennium through maintenance level of the budget. Debt Service, Low-income Health Care, and K-12 were handled differently and included both actual growth and projected growth.

***Should the outlook workgroup revisit how growth is projected for the purpose of the Outlook during the interim and present the ERFC with revisions in the fall, prior to the November Outlook?***

2. REVERSIONS

The 2016 Legislative Budget Outlook assumed a different methodology for calculating reversions. The reversion estimates are based on the percent of the GF-S budget that reverted over the past two fiscal years. The two year average is roughly 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 amount that was reverted over the prior 10 years, rather than the percent of the GF-S budget that was reverted. The prior approach totaled $345 million over the four-years. For comparison, the percent of the GF-S budget that was reverted over the prior ten years was an average of 0.56%.

***How should the Outlook on the enacted budget calculate reversions?***

3. OFM CENTRAL SERVICE- unallotted amounts

The Governor vetoed the reduction in OFM's GF-S appropriation which was related to funding OFM functions through central service charges rather than solely GF-S. The budget as passed the Legislature assumed certain OFM functions would be paid through central service charges, reducing the OFM funding and providing funding in agencies to pay for the newly established central service charge. The amounts provided to agencies for the central service charges were not reduced by the veto, however

OFM has indicated that they will direct agencies to put $2.8 million in unallotted status per fiscal year, as the agencies will not need to pay for the charges.
***Should the outlook on the enacted budget increase the assumption for reversion for fiscal year 2016 by $2.8 million?***

4. DEPARTMENT OF REVENUE - unallotted amounts
The Governor vetoed the revised appropriations to Department of Revenue which would have reduced the GF-S appropriation in fiscal year 2016 and 2017 and provided funds from the Performance Audit of Government Account. The veto message indicated that DOR will place resulting excess GF-S into unallotted status. OFM estimates this amount to be $8.883 million in fiscal year 2016, and $5.081 million in fiscal year 2017.
***Should the Outlook for the enacted budget increase the assumption for reversions by these amounts?***

5. DEPARTMENT OF REVENUE - PENALITIES ON UNPAID ROYALTY TAX
The Governor vetoed the section of the budget that provided funding for the Department of Revenue for administrative costs related to entering into closing agreements to waive unpaid penalties on taxed due under RCW 82.04.2907. The budget as passed the Legislature assumed $46 million in additional budget driven revenue related this item. The Department has statutory authority to waive penalties absent budget language, however with the veto there is no specific directive or funding. The ERFC has previously maintained that an Outlook resource assumption must have specific directive or funding in the budget or bill.
***Should the budget driven revenue in the Outlook for the enacted budget include the $46 million?***

6. DEPARTMENT OF REVENUE - AUDIT PAYMENTS
The Legislative budget Outlook assumed $34 million of anticipated audit payments in fiscal year 2016. The audit assessments were not included in the 2016 February forecast. Large audit assessments are generally reflected as non-economic changes in the revenue forecast. For this item, there is not a specific budget directive or implementation funding as it is from the normal DOR operations. Prior adopted Outlooks have not reflected anticipated non-economic changes, such as DOR audit payments, prior incorporation into the official forecast.
***Should the Outlook for the enacted budget include the $34 million of anticipated audit payments?***

7. FIRE INSURANCE PREMIUMS
The Governor vetoed the section that provided distributions of fire insurance premiums based on specified criteria in the budget. The section also specified that it was the intent of the Legislature to continue the distribution criteria policy into 2017-19 and to transfer any excess amounts not distributed to the Disaster Response Account. The estimated amount to the Disaster Response Account was $14.7 million over the four years.

In a separate section regarding the Disaster Response Account (DRA), the Legislature expressed intent to transfer excess fund balance from the DRA to the GF-S. The transfers for the Outlook in 2017-19

assume $29.5 million is available to transfer from the DRA to the GF-S. Part of that amount is a result of fire insurance premiums being deposited into the DRA.
***Should the transfers in the Outlook for the enacted budget assume the transfer of $29.5 million or should it be adjusted for the fire insurance premiums?***