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. 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, 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:

<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 amounts for 2015-17, 2017-19, and 2019-21 reflect the November 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 2019-21 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 November 2016 forecast projects revenue growth of less than 4.5 percent per year in the 2019-21 biennium, the November 2016 Outlook uses the 4.5 percent growth rate.

<u>Transfers to Budget Stabilization Account</u>
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 (FY) to the Budget Stabilization Account. The estimated transfer amounts are based on the calculation of estimated general state revenues as defined in Article VIII, section 1, of the Constitution. The calculation of estimated general state revenues based on the November 2016 revenue forecast is not yet complete so this outlook uses the estimates based on the September 2016 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 (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 occurs to the extent that it exceeds the normal transfer amount into the budget stabilization account. A transfer of $526 million in 2015-17 is reflected from the GF-S into the BSA. The calculation of estimated general state revenues based on the November 2016 revenue forecast is not yet complete so this outlook uses the estimates based on the September 2016 revenue forecast for purposes of calculating the estimated ERG required transfer.

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. A transfer of $75 million is projected to be deposited back to the GF-S in 2015-17.

Enacted Fund Transfers
This category reflects all enacted fund transfers made in the 2015 and 2016 legislative sessions (including special sessions) after accounting for vetoes. For more information, see the 2015 and 2016 Legislative Budget Notes at:

- http://leap.leg.wa.gov/leap/budget/lbns/2015operating1517.pdf
- http://leap.leg.wa.gov/leap/budget/lbns/2016LBNOp.pdf

Transfers for the FY 2017-19 biennia are only included to the extent they are either statutorily required or there was intent language adopted to maintain the transfers in the FY 2017-19 biennium. In accordance with prior ERFC guidance, transfers are not assumed in cases in which the Governor vetoed a transfer or the intent language to continue the transfer in the FY 2017-19 biennium.

Consistent with the adopted outlook for the enacted 2016 supplemental budget, a technical adjustment was made to the estimated transfer from the Disaster Response Account to the GF-S. This adjustment was made to reflect the impact of the Governor's veto of provisions specifying criteria for fire insurance premium distributions and language directing undistributed funds to the Disaster Response Account.

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 2016 supplemental budget appropriation levels, and then reflects adjustments for carryforward level (CFL) and preliminary maintenance level (ML). For more information on the 2016 supplemental Budget, please see: http://leap.leg.wa.gov/leap/budget/lbns/2016LBNOp.pdf

Assumed Reversions
The general methodology for calculating future reversions was updated during the 2016 session to be based on 0.5% of the GF-S budget. Additionally, reversions were increased across the four-year timeframe to reflect amounts agencies were directed to hold in un-allotted status. Reversion assumptions for fiscal year 2016 have been updated to reflect

actuals of $122 million. In addition, an adjustment was made to the FY 2016 balance of the Budget Stabilization Account to reflect $37 million less in spending of funds appropriated out of the BSA for fires. Reversions assumed for the remainder of the outlook period are as follows:

- FY 2017: $105 million
- FY 2017-19 biennium: $206 million
- FY 2019-21 biennium: $223 million

Carryforward Level Revisions

The Outlook then adjusts the most recently enacted spending level to the Carryforward Level (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. Some examples of the larger Carry Forward Level adjustments are:

<u>Kindergarten – Grade 12 (K-12) Schools</u>

The total K-12 CFL adjustment for 2017-19 is $524 million. The largest adjustment translates school year costs to FY costs ($205 million). Other larger CFL adjustments include K-3 compliance adjustment ($202 million), enrollment/workload ($135 million), levy equalization ($26 million) and biennialization for inflation ($17 million). There is also a CFL savings of $78 million assumed for adjustments related to costs for initiative 732.

<u>Low-Income Health Care</u>

The total Low Income Health Care CFL adjustment for FY 2017-19 is $63 million. Some of the larger increases are related to: Medicare cost share changes ($36 million), managed care adjustments ($33 million), caseload adjustments ($33 million), federal match adjustments ($23 million), utilization changes (-$23 million), and adjustments related to innovative health care purchasing (-$32 million).

<u>Mental Health/Long Term Care/ Developmental Disability Services</u>

The total CFL adjustment for this Outlook area in FY 2017-19 is $235 million. Larger items include caseload and utilization adjustments ($88 million), the In-Home Provider agreement ($32 million), individual provider overtime ($15 million), adjustments for one-time savings associated with excess Southwest Washington Regional Support Network reserves ($11 million) and adjustments made for one-time transitional funding provided for Western State Hospital (-$11 million).

<u>Children's/Economic Services</u>

The total CFL adjustment for this Outlook area in FY 2017-19 is $102 million. Some of the larger items include adjustments for one-time savings on employment services ($25 million), 12-month eligibility for Working Connections Child Care ($22 million), child care rate adjustments ($15 million), caseloads ($14 million) and reversing one-time use of an excess Workfirst fund balance ($10 million)

Department of Corrections/ Special Commitment/ Juvenile Rehabilitation
The total CFL adjustment for this Outlook area in FY 2017-19 is $20 million. The largest item is related to the Teamsters arbitration award ($16 million). There are also adjustments restoring one-time savings related to fund shifts ($7 million).

Debt Service
The total CFL adjustment for this Outlook area in FY 2017-19 is $68 million. The largest adjustments reflect the debt service for the adopted capital budget ($86 million). There is also an adjustment related to changes in bond debt costs resulting from refunding and changes in interest rates (-$18 million).

Higher Education
The total CFL adjustment for this Outlook area in FY 2017-19 is $42 million. Some of the larger adjustments for this area include: state backfill related to capping of tuition ($55 million), compensation related adjustments ($43 million), and reductions related to reversing one-time funding for the state need grant (-$18 million), the Moore Settlement (-$20 million), and the Opportunity Scholarship Program (-$41 million.)

Other
The total CFL adjustment related to this outlook area is -$119 million. The larger adjustments are related to zero-basing Special Appropriations (-$187 million). Other larger adjustments are related to adjusting for one-time program shifts ($54 million), early achievers and tiered reimbursement adjustments ($18 million), chemical dependency rate adjustments ($10 million), reversing one-time funds provided for the Moore Settlement (-$11 million), and reversing one-time funding provided for the presidential primary and voter's pamphlet (-$11 million).

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, and costs of any adverse court rulings within 90 days of each respective legislative session.

Note: The January 2017 Outlook will be updated based on the assumptions, including policy level enhancements, used in the Governor's proposed budget submitted in December 2016.

Kindergarten – Grade 12 (K-12) Schools
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 each year of the ensuing biennium using the K-12 model which updates the growth and inflationary factors with each forecast. The K-12 model is also continually updated for other factors such as levy equalization, student transportation, and staff mix.

Larger adjustments in the 2017-19 ML include: K-3 class size reductions ($484 million in 2017-19 and $576 million in 2019-21), enrollment/workload adjustments ($385 million in 2017-19 and $843 million in 2019-21, MSOC inflation ($76 million in FY 2017-19 and $203 million in FY 2019-21), national board bonus costs ($33 million in FY 2017-19 and $81 million in FY 2019-21), grandfathered salary adjustments (-$17 million in FY 2017-19 and -$19 million in FY 2019-21, local effort assistance (-$67 million in FY 2017-19 and -$139 million in FY 2019-21, and staff mix adjustments (-$81 million in FY 2017-19 and -$92 million in FY 2019-21.

The larger adjustments in the FY 2017 supplemental include enrollment/workload adjustments ($43 million), local effort assistance ($9 million), and staff mix adjustments (-$11 million).

<u>Low-Income Health Care</u>
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 3.04 percent per year from FY 2019.

The largest adjustments in the 2017-19 ML are related to utilization changes and federal match adjustments ($394 million in FY 2017-19 and $891 million in FY 2019-21). Other large items include a reduction in federal funds used to support the Certified Public Expenditure hospital program ($13 million in FY 2017-19 and $18 million in FY 2019-21), and caseload adjustments (-$13 million in FY 2017-19 and $13 million in FY 2019-21).

The larger adjustments for the FY 2017 supplemental budget are related to caseload changes (-$41 million).

<u>Mental Health/Long Term Care/ Developmental Disability Services</u>
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 4.12 percent per year from FY 2019.

Larger adjustments in the 2017-19 ML include: caseload, workload, and utilization changes ($162 million in 2017-19 and $253 million in 2019-21), loss of federal participation in facilities classified as Institutions of Mental Diseases ($44 million in FY 2017-19 and $47 million in FY 2019-21), reductions in federal Disproportionate Share Hospital funding ($28 million in FY 2017-19 and $50 million in FY 2019-21), addressing the civil and forensic waitlists at the state hospitals ($29 million in FY 2017-19 and $30 million in FY 2019-21, changes in federal Medicaid match rates ($20 million in FY 2017-19 and $21 million in FY 2019-21, and nursing home rebasing ($18 million in FY 2019-21).

The larger adjustments for the FY 2017 supplemental budget are related to caseload and utilization changes (-$30 million).

Children's/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 1.20 percent per year from FY 2019.

The larger adjustments in the 2017-19 ML are related to caseload changes (-$34 million in 2017-19 and -$29 million in 2019-21).

The larger adjustments for the FY 2017 supplemental budget are related to caseload changes (-$13 million).

Department of Corrections/ Special Commitment/ Juvenile Rehabilitation
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 1.58 percent per year from FY 2019.

Larger adjustments in the 2017-19 ML include: caseload changes ($46 million in 2017-19 and $50 million in 2019-21), and equipment and facility maintenance ($14 million in 2017-19 and $13 million in 2019-21).

The larger adjustments for the FY 2017 supplemental budget are related to caseload changes ($15 million).

Debt Service
The amounts depicted reflect the cost of debt service for the capital budget. Assumed future growth is estimated at 4.35 percent per year from FY 2019. The adjustments are $74 million for the FY 2017-19 biennium and $125 million for the FY 2019-21 biennium.

Higher Education
Higher Education adjustments are related to the College Bound Scholarship program and to maintenance and operations and lease adjustments. Higher Education items are adjusted by 0.07 percent per year from FY 2019.

Larger adjustments in the 2017-19 ML include the Opportunity Scholarship program ($14.7 million in 2017-19), and operating costs for existing capital projects ($9 million in FY 2017-19 and $11 million for FY 2019-21).

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. Larger adjustments in the 2017-19 ML include: funding for a transfer to the local public safety enhancement account required

under RCW 41.26.802 ($50 million in FY 2017-19 and $50 million in FY 2019-21), and adjustments related to federal Medicaid match for chemical dependency treatment programs ($10 million).

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. An itemization is listed in the table below:

	$ in Millions	
Detail of Items in Special Appropriations	2017-19	2019-21
County Public Health Assistance	72.8	72.9
K-20 Telecommunications Network	16.0	16.0
SERA Repayment	10.0	10.0
Communication Services Reform	10.0	0.0
COP Repayment	5.6	5.6
Governor's Emergency Fund	1.7	1.7
Common School Construction Account	1.2	1.2
Cherberg Building COP	1.1	1.1
No Child Left Inside	1.0	1.0
Legal Financial Obligations	1.0	0.9
Impaired Driving	0.7	0.7
NR Real Property Replacement Acct	0.6	0.6
Total	121.7	111.7

Other Outlook Items
These are items that are not in CFL or ML but are either statutorily obligated or otherwise required by law. These items include:

- Initiative 1351: These adjustments reflect costs associated with Initiative 1351 beginning in FY 2020 and are calculated using the K-12 model which updates the growth and inflationary factors with each forecast.
- Early Childhood Education and Assistance Program (ECEAP) Entitlement: Under RCW 43.215.456, ECEAP becomes an entitlement in FY 2021. The ERFC directed that the November 2016 outlook assume the full costs of the entitlement in FY 2021 but not to assume any phase in costs prior to FY 2021. The level of phase in is not specified under the statute and therefore will be a policy level decision prior to FY 2021.
- Hospital Safety Net: Under RCW 74.60.020, funding from Hospital Safety Net Assessments is used in lieu of state general fund payments for Medicaid hospital services. The Hospital Safety Net is set to expire in FY 2020.
- Initiative 1433 Labor Standards: Initiative 1433 was on the November 2016 ballot and currently appears to be passing with approximately 58 percent of voters approving the measure. While election results have not yet been certified, the ERFC directed that the quantifiable fiscal impacts of ballot measures that appear to be passing be included in the November 2016 outlook.