

November 5, 2018

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the November 2018 Outlook

The State Budget Outlook Work Group (work group) provides the following updates and poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the November 2018 Outlook.

Methodology for November 2018

Resource Updates

- The November 2018 Outlook will be updated for the November 2018 revenue forecast. However, the budget stabilization account and extraordinary revenue growth (ERG) calculations based on the November 2018 forecast will not be available. The work group will use the ERG calculation from the September 2018 forecast.
- Reversions for fiscal year 2018 will reflect actuals. Future year reversion assumptions will not be changed from the enacted Outlook.

Maintenance Level Updates

- The November 2018 Outlook will begin with the enacted budget and include a preliminary estimate by the Office of Financial Management of projected maintenance level costs. These estimates are to reflect projected expenditures based on the estimated cost of providing services currently authorized in the enacted budget. The 2019-21 maintenance level projection will be the basis for the 2021-23 projection using the Outlook growth factors and adding any mandatory items that start in 2021-23. This estimate of the Governor's projected maintenance level is not final.
- Consistent with prior direction from the ERFC, the November 2018 Outlook will assume a FY 2019 supplemental maintenance level budget resulting in updated estimated expenditures for the FY 2017-19 budget. The FY 2019 supplemental will be based on a preliminary estimate by the Office of Financial Management of projected maintenance level costs and is not final.

Other Items

The work group requests further direction from the ERFC in preparing the November 2018 Outlook for the following items:

- **Transfers.** The 2018 enacted budget Outlook assumed \$255 million in transfers in the FY 2019-21 biennium that are not currently directed in statute. The enacted budget act includes legislative intent to do the transfers in FY 2019-21 consistent with criteria previously adopted by the ERFC.

- *Should the November 2018 Outlook reflect the FY 2019-21 transfers assumed in the enacted 2018 Outlook budget.*
- **FY 2019 Fire Costs.** Costs related to fire suppression/mobilization in 2018 will continue to be further refined but initial costs are estimated to be approximately \$53 million. While this amount will be a policy level item, the ERFC included the supplemental budget costs related to the fire season in the prior November 2017 Outlook with a footnote related to their inclusion.
 - *Does the ERFC want to include policy level fire suppression/mobilization costs in the November 2018 Outlook?*
 - *For all future November Outlooks, does the ERFC want to include an estimate for fire suppression/mobilization costs for the recently concluded fire season?*
- **Trueblood Litigation.** The Department of Social and Health Services continues to incur fines for the Trueblood case, which deals with delays in providing court-ordered forensic mental health services. The fines are based on the number of days a person waits for forensic mental health services in excess of court-mandated timelines. The fines are running in the range of \$3.5 to \$4.0 million per month. DSHS and the plaintiffs have filed a joint settlement agreement with the court which if implemented will result in significant costs and may result in a suspension of the fines. Funding of the proposed settlement agreement will be a policy level decision so the workgroup does not intend to include this in the November 2018 Outlook. For the 2017 November Outlook, the ERFC directed the workgroup to include the estimated costs of Trueblood fines for fiscal year 2018 only.
 - *Does the ERFC want to include any costs related to the Trueblood litigation in the November 2018 Outlook?*
- **Early Childhood Education and Assistance Program (ECEAP) entitlement and phase-in.** ECEAP costs are part of the November Outlook because it includes costs at the current funded level through FY 2023. There are currently 13,491 funded ECEAP slots. Under current law, ECEAP becomes an entitlement in FY 2023. Current caseload projections estimate the demand for ECEAP slots in FY 2023 to be 19,417 slots. RCW 43.216.556 requires a phase in of ECEAP funding but does not specify how to phase in the program. The estimated additional cost in FY 2023 is approximately \$48 million.
 - *Should the November 2018 Outlook reflect funding growth for the entitlement only in FY 2023, a linear phase-in, or assume some other phase-in for FY 2020, 2021, and 2022?*

NOTE: In November 2016, the ERFC decision was that the November 2016 outlook must assume the full cost of the entitlement in FY2021 but not to assume any phase in costs prior to FY2021.

- **Managed Care Dental Rates:** The 2017-19 Operating Budget bill directed the Health Care Authority (HCA) to change purchasing of dental services from a fee for service to managed care basis. HCA has conducted a procurement and the estimated cost of implementing the requirement are significantly higher than what was estimated during the 2018 budget process, which assumed there would be savings from the change in purchasing method. HCA has delayed implementation of the change until further direction is provided by the 2019 Legislature. The preliminary estimate of the four-year NGF-P budget impact, if the change in purchasing method is implemented in the FY 2019-21 biennium, is over \$200 million.

- *Should the November 2018 Outlook reflect the preliminary estimated costs of implementing the change in purchasing method for dental services directed in the FY 2017-19 operating budget bill?*
- **K-12 Forest Revenue.** In May 2018, OSPI implemented a rule change that excludes state forest revenues from the list of local funds that must be deducted from payments to school districts. This rule change was not assumed in the 2018 enacted budget. The preliminary estimate of the NGF-P budget impact related to this rule change is \$71 million including estimates for the FY 2019 supplemental budget.
 - *Should the November 2018 Outlook reflect the preliminary estimated costs of implementing the rule change?*
- **Initiatives.** There are four initiatives on the statewide ballot. The fiscal impact statements for these initiatives indicate that three would have an indeterminate impact on NGF-P resources and/or expenditures. The election results will not be officially certified until after the November Outlook is presented to the ERFC on November 20th. The Work Group needs guidance from the ERFC on whether the November Outlook should reflect any costs related to the initiatives based on initial election results.

NOTE: In November 2016, the ERFC decision was that the Work Group should incorporate the quantifiable fiscal impact of initiatives on the November ballot that appear to be passing and requested these by identified as distinct items.

Here follows a listing of the three initiatives that potentially may have an impact on NGF-P resources and/or expenditures if they pass:

- Initiative 940- Concerns Law Enforcement: The fiscal impact statement identifies indeterminate costs for training required by the initiative, which are driven by uncertainty in the number of hours that will be required. The fiscal impact statement provides some estimated costs if certain assumptions are made. Staff are working to clarify the assumptions but it appears that costs will be in the \$1-2 million range per year. *Should the November 2018 Outlook reflect any costs associated with I-940 if the initiative appears to be passing based on initial election results?*
- Initiative 1631- Concerns Pollution: There are estimated revenues of \$2.3 billion between FY 2020 and FY 2023 but none of these revenues will go into NGF-P accounts under the initiative. There are estimated expenditures associated with administering the initiative of \$27 million between FY 2019 and FY 2023. The initiative allows for reasonable administrative expenses to be covered with revenues. *Should the November 2018 Outlook reflect the FY 2019 costs associated with administering I-1631 if the initiative appears to be passing based on initial election results?*
- Initiative 1639- Concerns Firearms: The fiscal impact statement identifies indeterminate costs for increasing the number of required mental health background checks and for the Department of Licensing to maintain certain records under the initiative. The fiscal impact statement provides some estimated costs if certain assumptions are made. Staff are working to clarify the assumptions but it appears that costs will include a one-time cost of \$1.1 million and ongoing annual costs of approximately \$600,000. *Should the November 2018 Outlook reflect any costs*

associated with I-1639 if the initiative appears to be passing based on initial election results?