AGENDA

Budget Outlook Meeting

January 15, 2015 10:00 a.m.

- Call to order
- Adopt meeting minutes: November 19, 2014
- Adopt the corrected November Outlook
- Presentation by Budget Outlook Work Group members on guidance for preparing the Outlooks on the Governor's proposed budget





ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 - Olympia, Washington 98504-0912 - (360) 534-1560

Meeting Minutes Revenue Review

November 19, 2014 John L. O'Brien, Hearing Room A

Economic and Revenue Forecast Council

Members Present

Ross Hunter, House of Representatives, Chair Andy Hill, Senate Jim Hargrove, Senate Terry Nealey, House of Representatives (via phone) James McIntire, State Treasurer Carol Nelson, Department of Revenue David Schumacher, Office of Financial Management

Staff Steve Lerch, ERFC Pam Davidson, OFM Melissa Palmer, House

Richard Ramsey, Senate

Call to Order

The meeting was called to order by Representative Hunter at 10:03 a.m.

Motion

Senator Hill, made a motion to approve the meeting minutes from the November 6, 2014, seconded by Representative Hunter. Council approved the motion at 10:03 a.m.

Presentation on the Budget Outlook

Members of the Budget Outlook Work Group presented information on the methodology and the November 2014 Outlook for the 2015-17 biennium.

Presentation on Revenue Forecast

Dr. Lerch presented information on the final economic and revenue forecast. Dr. Lerch summarized the forecast changes.

Motion

Senator Hill moved, seconded by Treasurer McIntire that the baseline revenue forecast be adopted. Council unanimously approved the motion at 10:36 a.m.

Motion

Director Schumacher moved, seconded by Senator Hill that the budget outlook be adopted as proposed by the Budget Outlook Work Group. Council unanimously approved the motion at 10:37 a.m.

Other Business

Representative Hunter announced Senator Hill will take over chairmanship on January 1, 2015. This is a two-year term that alternates between party and house of government.

Adjournment

Meeting adjourned at 10:38 a.m.

Budget Outlook:

Request for Guidance, January 2015

January 12, 2015

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Guidance for preparing the Outlooks on the Governor's proposed budget

On January 28, 2015, the Economic and Revenue Forecast Council is scheduled to adopt a 4-year Outlook on the Governor's proposed budget. In order to prepare the Outlook, the work group seeks guidance from the Council on Thursday, January 15 on the following items:

1. **November Outlook Corrected.** On December 5, 2014, the work group sent the Council an Outlook correcting errors in the Outlook adopted on November 19, 2014. That Outlook and explanation are attached. Does the Council wish to approve the corrected November Outlook?



- 2. **Current Law, New Law Outlooks.** In January, 2013, the Council approved an Outlook on the Governor's proposed current law "book 1" budget as well as an Outlook on the Governor's proposed new law "book 2" budget. Should the work group continue to prepare Outlooks on the Governor's "book 1" and "book 2" budgets?
- 3. **Extraordinary Revenue.** The Office of Financial Management submitted a correction to the budget the Governor submitted in December. Without correction, the calculation of extraordinary revenue growth under current law would result in additional revenues being transferred to the Budget Stabilization Account, which was not the intent of the Governor's proposal. The correction dedicates new law revenues proposed in the budget to the Education Legacy Trust Account, rather than the general fund. Does the Council wish to use the most recent release for the Outlook preparation reflecting the Governor's proposed new law budget?
- 4. **Initiative-1351.** The Governor's budget assumes passage of legislation that exempts the requirements of I-1351 from the 4-year outlook. As a result of the exemption, the Outlook prepared for the Governor's proposed budget will not reflect I-1351. A footnote will be included describing the Governor's proposed exemption.

Budget Outlook:

November Outlook Documents

December 5, 2014

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Corrections to the November 2014 Outlook

At the November 19, 2014 meeting, the Council adopted the November 2014 Outlook for the 2015-17 Biennium to reflect the Governor's Preliminary Maintenance Level (attached). That analysis projected unrestricted negative ending fund balances of \$2,159.4 million and \$4,726.5 million in 2015-17 and 2017-19, respectively.

The Outlook Work Group has identified three errors in the adopted Outlook. These errors occur in the calculations in the 2017-19 biennium and total \$398 million.

- 1. In the adopted Outlook, the Adjustments to the FY 2017 Baseline (from the underlying 2013-15 biennium budget) for FY 2019 failed to reflect the compounding of the adjustments made in FY 2018. Correcting this error increases the projected appropriations in 2017-19 by \$317.9 million.
- 2. The Hospital Safety Net Assessment in the 2013-15 budget is scheduled to phase-out over 5 years, expiring after FY 2017. In the Maintenance Level adjustments, the adopted Outlook includes additional funding of \$60 million in each year of the 2017-19 biennium. The correct phase-out of the Hospital Safety Net is \$100 million per year in 2017-19. Correcting this error increases the projected appropriations in 2017-19 by \$80 million.
- 3. The adopted Outlook for calculating the K-12 MSOC Adjustments to the FY 2017 baseline contains a formula error. Correcting this error increases the projected appropriations in 2017-19 by \$38.8 million; this amount is included in Item 1 (above).

These adjustments will result in a projected unrestricted negative ending fund balance of \$5,124.5 million in 2017-19; the ending fund balance for 2015-17 is not affected. The corrected Outlook is attached; the items that have changed with this correction are highlighted.

The Outlook Work Group proposes the ERFC formally adjust the November 2014 Outlook at its January 15, 2015 meeting.

Please let us know if you have questions.

Attachments

November 2014 Outlook for 2015-17 Biennium--Governor's Preliminary Maintenance Level Corrected December 3, 2014

(Near GF-S & Opportunity Pathways Account, Dollars in Millions)

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	FY 2014	FY 2015	2013-15	FY 2016	FY 2017	2015-17	FY 2018	FY 2019	2017-19
Beginning Balance	156.4	410.8	156.4	430.1	(940.9)	430.1	(2,159.5)	(3,206.7)	(2,159.5)
Current Revenues November 2014 Forecast Assumed 4.5% Revenue Growth	16,693.7	17,373.2	34,066.9	18,062.1	18,922.7	36,984.8	19,751.5 22.8	20,563.7 100.3	40,315.2 123.1
Other Resource Changes Transfer to BSA	(144.5)	(170.5)	(315.0)	(177.3)	(185.4)	(362.7)	(193.0)	(200.6)	(393.6)
SJR 8206 Extraordinary Revenue Growth Enacted Fund Transfers (Net)	204.9	225.2	430.1	-	-	-	-	(426.5)	(426.5) -
Revised Child & Family Reinvestment Account Prior Period Adjustments Alignment to the CAFR	(1.7) (4.7)	(0.2) 20.4	(1.8) 15.7	20.4	20.4	- 40.8	20.4	20.4	40.8
Total Revenues/Resources/Beginning balance)	(2.9) 16,901.3	17,858.9	(2.9) 34,349.5	18,335.3	17,816.8	37,093.0	17,442.1	16,850.7	37,499.5
Enacted Appropriations/Baseline	16,573.5	17,220.7	33,794.1	16,573.5	17,220.7	33,794.1	17,220.7	17,220.7	34,441.3
Adjustments to FY 2017 Baseline	10,5/3.5	17,220.7	33,/34.1	10,3/3.3	17,220.7	33,/34.1	304.0	617.7	921.7
K-12 Education	7,384.3	7,878.4	15,262.8	6,526.2	6,826.3	13,352.5	45.1	90.4	135.5
K-12 MSOC Higher Education	1,569.3	1,515.5	- 3,084.7	858.1 1,569.3	1,052.4 1,528.9	1,910.5 3,098.2	24.836 4.6	51.335 9.2	76.2 13.8
Early Learning	70.6	92.3	162.9	70.6	92.3	162.9	0.5	1.0	1.5
Low Income Health Care	1,867.8	1,940.5	3,808.3	2,144.8	2,161.9	4,306.7	69.6	141.5	211.1
Children's/Economic Services	975.1	970.8	1,946.0	669.6	673.1	1,342.7	13.0	26.2	39.2
Mental Hlth/DD/Long Term Care DOC/JRA/SCC	669.6	673.1	1,342.7 4,306.7	1,867.8 975.2	1,940.5 971.0	3,808.3 1,946.2	66.4 31.0	135.0 62.9	201.4 93.9
Debt Service	2,144.8 857.2	2,161.9 990.7	4,306.7 1,847.9	857.2	990.7	1,946.2	43.9	89.7	133.6
All Other	1,034.7	997.4	2,032.1	1,034.6	983.6	2,018.3	5.2	10.5	15.7
Adjustments to Reach Carryforward Level				1,015.5	339.9	1,355.4	347.5	355.2	702.7
K-12 Education				359.5	59.4	418.9	59.8	60.2	119.9
K-12 MSOC Higher Education				232.3 25.2	38.0 64.9	270.3 90.2	38.9 65.1	39.9 65.3	78.8 130.5
Early Learning				14.8	(4.9)	9.9	(4.9)	(5.0)	(9.9)
Low Income Health Care				3.7	(16.8)	(13.1)	(17.4)	(17.9)	(35.3)
Children's/Economic Services				75.4	67.1	142.5	68.4	69.7	138.1
Mental Hlth/DD/Long Term Care				92.0	19.7	111.8	20.4	21.1	41.5
DOC/JRA/SCC Debt Service				17.4 246.1	17.6 91.0	35.0 337.1	18.1 95.03	18.7 99.24	36.8 194.3
All Other				(51.2)	3.9	(47.2)	3.97	3.99	8.0
Maintenance Level		104.1	104.1	562.8	953.2	1,516.0	1,452.3	1,630.4	3,082.6
K-12 Education		21.3	21.3	85.6	155.6	241.2	206.5	207.8	414.4
K-12 MSOC		3.1	3.1	24.7	52.2	76.9	53.5	54.9	108.3
K-12 Assessment		16.8	16.8	10.8	11.7	22.5	11.8	11.9	23.6
Initiative 732 (1.9%/1.3%) Higher Education		0.1	- 0.1	90.2 2.7	174.9 4.2	265.1 6.9	280.0 4.2	404.2 4.3	684.2 8.5
Higher Education Higher Education-College Bound		0.1	- 0.1	11.2	14.4	25.6	19.4	24.5	43.9
Early Learning		-	-	(0.3)	0.2	(0.1)	0.2	0.2	0.4
Low Income Health Care		(23.9)	(23.9)	29.4	73.6	103.0	76.0	78.4	154.4
Hospital Safety Net ACA FMAP Phase-in			-	20.1	40.2 54.5	60.2 50.2	100.0	100.0	200.0
Children's/Economic Services		6.6	6.6	(4.3) (10.3)	(1.6)	(12.0)	131.5 (1.6)	159.8 (1.6)	291.3 (3.2)
Mental Hlth/DD/Long Term Care		(2.7)	(2.7)	22.9	59.2	82.1	61.3	63.3	124.6
Children's Mental Health Settlement			-	4.3	12.2	16.6	20.2	20.2	40.4
Community First Choice		0.0	-	(30.7)	(20.1)	(50.8)	(17.5)	(17.5)	(35.0)
Corrections/JRA/SCC Hepatitis C Treatment		8.8 74.7	8.8 74.7	8.4 71.0	7.8 32.6	16.2 103.6	8.0 33.6	8.3 34.7	16.3 68.3
Projected Pension Rate Changes (Incl. K-12)		-	-	131.5	158.0	289.4	289.2	348.8	638.0
Debt Service for currently authorized projects		(6.0)	(6.0)	(14.6)	40.6	26.0	42.4	44.3	86.7
Public Safety (See RCW 41.26.802)		-	-	20.0	-	20.0	50.0	-	50.0
All Other		5.2	5.2	90.3	83.1	173.4	83.58	84.02	167.6
Supplemental Policy Items (likely Must-do)		170.9	170.9	-	-	-	-	-	-
Disaster Response Account		27.0	27.0						-
Fire Suppression/Fire Mobilization Rekhter Decision		100.0 43.9	100.0 43.9						
Other Outlook Items				1,194.5	1,532.5	2,727.0	1,394.4	2,221.2	3,615.6
I-1351 K-12 Education Class Size Initiative				890.0	1,150.0	2,040.0	970.0	1,690.0	2,660.0
K-12 MSOC Phase-in (2776)				317.3	406.3	723.6	418.2	429.0	847.1
Effect of Higher PEBB Rate in 2015-17 (less am	ount in CFL)			14.7	14.7	29.5	14.7	14.7	29.5
Use Basic Health Plan Account Balance				(15.1)	(46.0)	(61.1)	(46.00)	(46.00)	(92.0)
Hi Ed-Opportunity Scholarships				- (12 5)	20.0 (12.5)	20.0 (25.0)	50.00 (12.50)	50.00 (12.50)	100.0 (25.0)
DEL Child Care IT Savings Increase Early Childhood Education Program				(12.5) -	(12.5) -	(25.0) -	(12.50) -	96.00	(25.0) 96.0
Actual/Estimated Reversions Other Fund Adjustments	(79.7) (3.2)	(70.0) 3.2	(149.7)	(70.0)	(70.0)	(140.0)	(70.0)	(70.0)	(140.0)
Revised Appropriations	16,490.5	17,428.8	33,919.4	19,276.2	19,976.4	39,252.6	20,648.8	21,975.2	42,624.0
Projected Unrestricted Ending Balance	410.8	430.1	430.1	(940.9)	(2,159.5)	(2,159.5)	(3,206.7)	(5,124.5)	(5,124.5)
Budget Stabilization Account				1/	. , ,	, , ====/	, , ,	, ,,	. ,,
Beginning Balance	269.7	414.4	269.7	585.3	763.2	585.3	949.4	1,143.3	949.4
Transfer From GFS	144.5	170.5	315.0	177.3	185.4	362.7	193.0	627.1	820.1
Interest Earnings	0.3	0.4	0.7	0.6	0.8	1.3	0.9	1.1	2.1
Ending BSA Balance	414.4	585.3	585.3	763.2	949.4	949.4	1,143.3	1,771.5	1,771.5
Near GF-S Unrestricted & BSA Ending Balance	825.2	1,015.4	1,015.4	(177.7)	(1,210.2)	(1,210.2)	(2,063.4)	(3,352.9)	
5 5 5 Mestricted & DSA Ending balance	323.2	±,0±J.4	1,013.4	(2///)	(1,210.2)	(1,210.2)	(2,000.4)	(3,332.3)	(3,332.3)

November 2014 Outlook for 2015-17 Biennium--Governor's Preliminary Maintenance Level

(Near GF-S & Opportunity Pathways Account, Dollars in Millions)

Parimaina Balanca	FY 2014 156.4	FY 2015 410.8	2013-15 156.4	FY 2016 430.1	FY 2017 (940.9)	2015-17 430.1	FY 2018 (2,159.5)	FY 2019 (3,159.9)	2017-19 (2,159.5)
Beginning Balance	150.4	410.8	150.4	430.1	(940.9)	430.1	(2,159.5)	(3,159.9)	(2,159.5)
Current Revenues November 2014 Forecast Assumed 4.5% Revenue Growth	16,693.7	17,373.2	34,066.9	18,062.1	18,922.7	36,984.8	19,751.5 22.8	20,563.7 100.3	40,315.2 123.1
Other Resource Changes Transfer to BSA SJR 8206 Extraordinary Revenue Growth	(144.5)	(170.5)	(315.0)	(177.3)	(185.4)	(362.7)	(193.0)	(200.6) (426.5)	(393.6) (426.5)
Enacted Fund Transfers (Net)	204.9	225.2	430.1	-	-	-			-
Revised Child & Family Reinvestment Account Prior Period Adjustments Alignment to the CAFR	(1.7) (4.7)	(0.2) 20.4	(1.8) 15.7	20.4	20.4	40.8	20.4	20.4	40.8
Total Revenues/Resources/Beginning balance)	(2.9) 16,901.3	17,858.9	(2.9) 34,349.5	18,335.3	17,816.8	37,093.0	17,442.1	16,897.6	37,499.5
Enacted Appropriations/Baseline Adjustments to FY 2017 Baseline K-12 Education	16,573.5 7,384.3	17,220.7 7,878.4	33,794.1 15,262.8	16,573.5 6,526.2	17,220.7 6,826.3	33,794.1 13,352.5	17,220.7 297.2 45.1	17,220.7 306.6 45.4	34,441.3 603.8 90.4
K-12 MSOC	,	·	-	858.1	1,052.4	1,910.5	18.0	19.4	37.4
Higher Education	1,569.3	1,515.5	3,084.7	1,569.3	1,528.9	3,098.2	4.6	4.6	9.2
Early Learning Low Income Health Care	70.6 1,867.8	92.3 1,940.5	162.9 3,808.3	70.6 2,144.8	92.3 2,161.9	162.9 4,306.7	0.5 69.6	0.5 71.9	1.0 141.5
Children's/Economic Services	975.1	970.8	1,946.0	669.6	673.1	1,342.7	13.0	13.2	26.2
Mental Hith/DD/Long Term Care	669.6	673.1	1,342.7	1,867.8	1,940.5	3,808.3	66.4	68.6	135.0
DOC/JRA/SCC	2,144.8	2,161.9	4,306.7	975.2	971.0	1,946.2	31.0	32.0	62.9
Debt Service All Other	857.2	990.7	1,847.9	857.2	990.7	1,847.9	43.9	45.8	89.7
	1,034.7	997.4	2,032.1	1,034.6	983.6	2,018.3	5.2	5.2	10.5
Adjustments to Reach Carryforward Level				1,015.5 359.5	339.9 59.4	1,355.4 418.9	347.5 59.8	355.2 60.2	702.7 119.9
K-12 Education K-12 MSOC				232.3	38.0	270.3	38.9	39.9	78.8
Higher Education				25.2	64.9	90.2	65.1	65.3	130.5
Early Learning				14.8	(4.9)	9.9	(4.9)	(5.0)	(9.9)
Low Income Health Care				3.7	(16.8)	(13.1)	(17.4)	(17.9)	(35.3)
Children's/Economic Services Mental Hlth/DD/Long Term Care				75.4 92.0	67.1 19.7	142.5 111.8	68.4 20.4	69.7 21.1	138.1 41.5
DOC/JRA/SCC				92.0 17.4	17.6	35.0	18.1	18.7	36.8
Debt Service				246.1	91.0	337.1	95.03	99.24	194.3
All Other				(51.2)	3.9	(47.2)	3.97	3.99	8.0
Maintenance Level		104.1	104.1	562.8	953.2	1,516.0	1,412.3	1,590.4	3,002.6
K-12 Education		21.3	21.3	85.6	155.6	241.2	206.5	207.8	414.4
K-12 MSOC		3.1	3.1	24.7	52.2	76.9	53.5	54.9	108.3
K-12 Assessment		16.8	16.8	10.8	11.7	22.5	11.8	11.9	23.6
Initiative 732 (1.9%/1.3%) Higher Education		0.1	0.1	90.2 2.7	174.9 4.2	265.1 6.9	280.0 4.2	404.2 4.3	684.2 8.5
Higher Education-College Bound		0.1	-	11.2	14.4	25.6	19.4	24.5	43.9
Early Learning		-	-	(0.3)	0.2	(0.1)	0.2	0.2	0.4
Low Income Health Care		(23.9)	(23.9)	29.4	73.6	103.0	76.0	78.4	154.4
Hospital Safety Net ACA FMAP Phase-in			-	20.1 (4.3)	40.2 54.5	60.2 50.2	60.0 131.5	60.0 159.8	120.0 291.3
Children's/Economic Services		6.6	6.6	(10.3)	(1.6)	(12.0)	(1.6)	(1.6)	(3.2)
Mental Hith/DD/Long Term Care		(2.7)	(2.7)	22.9	59.2	82.1	61.3	63.3	124.6
Children's Mental Health Settlement			-	4.3	12.2	16.6	20.2	20.2	40.4
Community First Choice		0.0	-	(30.7)	(20.1)	(50.8)	(17.5)	(17.5)	(35.0)
Corrections/JRA/SCC Hepatitis C Treatment		8.8 74.7	8.8 74.7	8.4 71.0	7.8 32.6	16.2 103.6	8.0 33.6	8.3 34.7	16.3 68.3
Projected Pension Rate Changes (Incl. K-12)		-	-	131.5	158.0	289.4	289.2	348.8	638.0
Debt Service for currently authorized projects		(6.0)	(6.0)	(14.6)	40.6	26.0	42.4	44.3	86.7
Public Safety (See RCW 41.26.802)		-	-	20.0	-	20.0	50.0	-	50.0
All Other		5.2	5.2	90.3	83.1	173.4	83.58	84.02	167.6
Supplemental Policy Items (likely Must-do)		170.9	170.9	-	-	-	-	-	-
Disaster Response Account		27.0	27.0						-
Fire Suppression/Fire Mobilization Rekhter Decision		100.0 43.9	100.0 43.9						
		.5.5	.5.5	1 104 5	1 522 5	2 727 0	1 204 4	2 221 2	2 615 6
Other Outlook Items I-1351 K-12 Education Class Size Initiative				1,194.5 890.0	1,532.5 1,150.0	2,727.0 2,040.0	1,394.4 970.0	2,221.2 1,690.0	3,615.6 2,660.0
K-12 MSOC Phase-in (2776)				317.3	406.3	723.6	418.2	429.0	2,660.0 847.1
Effect of Higher PEBB Rate in 2015-17 (less am	ount in CFL)			14.7	14.7	29.5	14.7	14.7	29.5
Use Basic Health Plan Account Balance				(15.1)	(46.0)	(61.1)	(46.00)	(46.00)	(92.0)
Hi Ed-Opportunity Scholarships DEL Child Care IT Savings				- (12.5)	20.0 (12.5)	20.0 (25.0)	50.00 (12.50)	50.00 (12.50)	100.0 (25.0)
Increase Early Childhood Education Program				-	- (12.5)	- (23.0)	(12.50)	96.00	96.0
Actual/Estimated Reversions Other Fund Adjustments	(79.7) (3.2)	(70.0) 3.2	(149.7) -	(70.0)	(70.0)	(140.0)	(70.0)	(70.0)	(140.0)
Revised Appropriations	16,490.5	17,428.8	33,919.4	19,276.2	19,976.4	39,252.6	20,602.0	21,624.1	42,226.1
Projected Unrestricted Ending Balance	410.8	430.1	430.1	(940.9)	(2,159.5)	(2,159.5)	(3,159.9)	(4,726.5)	(4,726.5)
Rudget Stabilization Assourt				-	,	,	,	-	
Budget Stabilization Account Beginning Balance	269.7	414.4	269.7	585.3	763.2	585.3	949.4	1,143.3	949.4
Transfer From GFS	144.5	170.5	315.0	365.3 177.3	185.4	362.7	193.0	627.1	820.1
Interest Earnings	0.3	0.4	0.7	0.6	0.8	1.3	0.9	1.1	2.1
Ending BSA Balance	414.4	585.3	585.3	763.2	949.4	949.4	1,143.3	1,771.5	1,771.5
Near GF-S Unrestricted & BSA Ending Balance	825.2	1,015.4	1,015.4	(177.7)	(1,210.2)	(1,210.2)	(2,016.5)	(2,955.0)	(2,955.0)