Budget Outlook: Methodology

May 29, 2025

Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

BUDGET OUTLOOK METHODOLOGY

May 29, 2025
11:00 a.m.

- Call to order
- Approval of meeting minutes from March 18, 2025
- Budget Outlook Methodology presentation
- Adjournment

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STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL
PO Box 40912 • Olympia, Washington 98504-0912 • (360) 534-1560

Meeting Minutes
Revenue Review

March 18, 2025
John A. Cherberg Bldg., Room A/B/C and Zoom

Economic and Revenue Forecast Council

June Robinson, Senate, Chair
April Berg, House of Representatives
Travis Couture, House of Representatives
Chris Gildon, Senate
Timm Ormsby, House of Representatives
Ed Orcutt, House of Representatives
Nikki Torres, Senate
Yasmin Trudeau, Senate
Mike Pellicciotti, Treasurer
Katherine Chapman-See, Office of Financial Management
Drew Shirk, Department of Revenue

Staff
Dave Reich, Executive Director

Call to Order
Senator Robinson called the meeting to order at 2:00 p.m.

Approval of the Minutes
Representative Ormsby moved, seconded by Representative Orcutt, to adopt the meeting minutes from February 27, 2025. Motion passed at 2:01 p.m.

Revenue Forecast Presentation
Dr. Reich presented information on the economic and revenue forecast. Dr. Reich summarized the forecast changes.

Motion
Representative Orcutt moved, seconded by Representative Ormsby, to adopt the forecast as presented. Motion passed at 2:20 p.m.

Adjournment
With no further business, the meeting adjourned at 8:28 a.m.

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May 29, 2025

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the Enacted 2025 Supplemental Operating Budget Outlook

The State Budget Outlook Work Group (work group) poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the outlook for the enacted 2025-27 biennial operating budget.

1. Reversions Assumption.

For the purposes of the Budget Outlook, reversions are the estimated appropriations that will be unspent and revert, making those amounts available for future appropriation. For fiscal years that are closed, official Outlooks use actual reversion amounts. Estimates are used for fiscal years that are not closed. Reversions are displayed in the Outlook summary as a negative to appropriations and increase projected ending fund balances.

Prior to the outlook prepared for the enacted 2023-25 biennial budget, the ERFC directed that reversions for fiscal years that are not closed be estimated at 0.5% of general fund-state appropriations. Actual reversion levels over the past five years have been larger than typical. Beginning with the 2023-25 biennial budget, reversion assumptions in outlooks prepared for proposed budgets and for enacted budgets have varied. Table 1 shows the recent history of actual general fund reversions and the reversion percentage.

Table 1: GF-S Reversion History (Dollars in Millions)

FY	GF-S Appropriations	GF-S Reversions	Percentage
2014	16,159	80	0.5%
2015[1]	16,846	85	0.5%
2016	18,293	121	0.7%
2017	19,496	157	0.8%
2018	20,528	80	0.4%
2019	23,023	86	0.4%
2020	24,506	540	2.2%
2021	24,988	404	1.6%
2022	28,379	410	1.4%
2023	31,808	792	2.5%
2024	32,800	402	1.2%

[1] *Actual reversions in 2015 were $175.3 million. However, $90.4 million of that reversion amount was attributable to a Governor veto in the Health Care Authority budget that was put in to unallotted status. Consistent with past practice, this amount is removed from the reversion calculations presented as it is not representative of typical assumed reversions.*

Note: In addition to annual general fund reversions, there are reversions that occur in the three NGF-O accounts which are appropriated and revert on a biennial, rather than annual, basis. The ERFC has not historically directed a reversion assumption for these accounts. Over the last three biennia, the reversions from the other three NGF-O accounts were as follows:

- 2017-19 biennium: $1 million
- 2019-21 biennium: $23 million
- 2021-23 biennium: $33 million

The outlook prepared for the conference budget assumed a different level of reversions than the amounts assumed in the official 2024 session outlook and the amounts assumed in the ERFC adopted 2025 session outlook for Governor Inslee's proposed budget. Consistent with past years, these amounts are in addition to reversion assumptions specifically for K-3 enrollment allocations that are tied to class sizes. For the full historical analysis of general fund reversions, please refer to the September 13, 2024 memo to the ERFC.

Table 2 shows reversions for the 2025 outlook using the assumptions adopted by conference budget writers in comparison to those adopted by the ERFC for the official 2024 session outlook and the outlook for Governor Inslee's proposed 2025 session budget. [2]

Table 2: Comparison of Reversion Assumption Options
$ in millions

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	5-Year
Enacted Budget GF-S Appropriations	**35,933**	**35,970**	**36,720**	**37,147**	**38,061**	**183,831**
Option 1. Legislative Budget Writers Assumptions for 2025 Session Conference	*1.00%*	*1.00%*	*0.75%*	*0.75%*	*0.75%*	
Assumed Reversions	**359**	**360**	**275**	**279**	**285**	**1,558**
Option 2. ERFC Adopted Assumptions for 2025 Session Governor (Inslee) Proposed	*1.25%*	*1.00%*	*0.75%*	*0.50%*	*0.50%*	
Assumed Reversions	**449**	**360**	**275**	**186**	**190**	**1,460**
Option 3. ERFC Adopted Assumptions for 2024 Session Enacted	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	
Assumed Reversions	**180**	**180**	**184**	**186**	**190**	**919**
Difference- Option 1 compared to Option 2	**-90**	**0**	**0**	**93**	**95**	**98**
Difference- Option 1 compared to Option 3	**180**	**180**	**92**	**93**	**95**	**639**

[2] *The conference budget appropriations in Table 2 are not yet adjusted for veto impacts so final reversion calculations will vary slightly from the amounts reflected.*

Question 1: *Does the ERFC want the 2025 session enacted budget outlook being prepared by the work group to use the reversion assumptions adopted by legislative budget writers (option 1) or some other assumptions?*

2. 4.5% Additional Revenue Assumption.

Per chapter 43.88.055 RCW, forecasted revenues for the ensuing biennium for purposes of an outlook, prior to adjustment for enacted legislation, are the greater of: "(i) the official general fund and related funds revenue forecast for the ensuing biennium, or (ii) the official general fund and related funds forecast for the second fiscal year of the current fiscal biennium, increased by 4.5 percent for each fiscal year of the ensuing biennium". Even though forecasted revenue growth is less than 4.5% per year in the 2027-29 biennium, budget writers chose not to assume the 4.5% increase for outlooks published for the conference budget. This approach differs from the statute and reduces the projected ending fund balance for the 2027-29 biennium by $995 million.

Question 2: *Does the ERFC want the estimates for ensuing biennium revenues for the enacted outlook being prepared by the work group to assume the additional $995 million in revenues as provided for in chapter 43.88.055 RCW or to exclude these additional estimated revenues as was done in outlooks published for the conference budget?*

3. Health Care Authority Gain Share and Risk Corridor Prior Period Adjustment.

The outlook published for the conference budget as passed the Legislature includes prior period adjustments to account for the state share of remittances from Medicaid Managed Care Organizations (MCOs) pursuant to gain share and risk corridor provisions of contracts with the Health Care Authority (HCA). Table 3 provides information related to the status of these remittances and what was assumed in the conference outlook.

Table 3. HCA Gain Share/Risk Corridor
$ in 1,000s

	FY 2024	FY 2025	FY 2026	Notes
CY 2021 Gain Share Payments Received From MCOs	54,781	2,829	0	Assumed in Conference Outlook
CY 2022 Gain Share Payments Received From MCOs	0	59,432	0	Assumed in Conference Outlook
CY 2022 Gain Share Payments- Dispute Dropped By MCOs	0	11,810	0	Not Assumed in Conference Outlook
CY 2022 Gain Share Payments-Still Disputed By MCOs	0	1,659	0	Not Assumed in Conference Outlook
CY 2023 Gain Share Preliminary Calculations	0	0	37,704	Assumed in Conference Outlook

The technical workgroup presumes that amounts that have already been remitted will be included in the enacted outlook but is seeking guidance from the ERFC on whether the ERFC would like to assume amounts that have not yet been remitted to HCA.

Question 3a: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume a FY 2025 prior period adjustment for the $11.8m in CY 2022 gain* *share remittances that are no longer being disputed by the MCOs but have not been received yet?*

Question 3b: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume a FY 2025 prior period adjustment for the $1.7m in CY 2022 gain share remittances that are still being disputed by the MCOs?*

Question 3c: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume a FY 2026 prior period adjustment for the $37.7m in CY 2023 gain share remittances based on the preliminary calculations provided by HCA?*

4. Behavioral Health- Administrative Services Organization Reserves

HCA contracts with ten regional Behavioral Health- Administrative Services Organizations (BH-ASOs) to administer regional crisis services and other behavioral health services for low-income individuals that are not covered by Medicaid. The annual contracts allow for a certain level of reserves to be retained by the BH-ASOs at the end of a contract period and specify maximum reserve levels.

In December 2024, HCA notified the ten regional BH-ASOs that the reserve levels retained at the end of fiscal year 2024 exceeded projected needs and instructed the BH-ASOs to remit roughly $82m of the $171m in reserves to HCA. Several of the BH-ASOs disputed amounts to be returned and are in negotiations with HCA. Through these negotiations, HCA has agreed to reduce the remittance amounts to $72m. The conference budget outlook assumed $60m of the reserves would be received and processed as a prior period adjustment.

A recent update provided by HCA has identified the following:

- 6 of the BH-ASOs have remitted excess reserves to HCA totaling $22m.
- 3 of the BH-ASOs have either agreed to return or have proposed returning a total of $16m to HCA which is expected to be received before June 30th.
- The King County BH-ASO continues to dispute remitting any reserves and the disputed amount for this BH-ASO is $22m.
- Three BH-ASO regions included in the first bullet have only remitted a portion of reserves leaving an additional $12m in dispute in those regions.

Question 4: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume a FY 2025 prior period adjustment related to BH-ASO reserves and if so, does the ERFC want to assume:*

a) $22m which represents the current amount that has been remitted to date;
b) $38m representing the amounts that have been received to date plus amounts that other BH-ASOs have agreed to or proposed to return;
c) $60m which represents the amounts assumed by budget writers for the conference Outlook;

d) *$72m which represents the amounts reflected in a and b above and a full return of disputed amounts requested for return by King County and other regions; or*
e) *Some other amount?*

5. Voluntary Disclosure

In October 2024, the Washington Supreme Court upheld the Department of Revenue's (DOR's) interpretation of the Business and Occupation (B&O) tax investment deduction which limits the deduction to income that is earned through investments that are incidental to the main purpose of the taxpayer's business. This means that a taxpayer cannot deduct investment income if the investment activity generating the income is the main business activity of the taxpayer.

During the legislative budget development process, DOR notified budget writers that inclusion of language for an expanded voluntary disclosure program related to this decision was estimated to result in an additional $50 million in revenues in fiscal year 2026. The enacted budget includes the following language as requested by DOR:

> *"(5) Within existing resources, during the 2025-2027 fiscal biennium, the department of revenue shall implement an expanded voluntary disclosure program for all entities engaged in investment activities that are not a banking, lending, or security business, as defined in RCW 82.04.4281. Unless an audit has been commenced by the department as of July 1, 2025, all such entities may participate in the expanded voluntary disclosure program. During the 2025-2027 fiscal biennium, the department shall waive all penalties and interest for participating entities of the expanded voluntary disclosure program for the purpose of registering and collecting revenue due from businesses."*

The conference budget outlook assumed the $50 million in additional revenues projected by DOR.

> ***Question 5:*** *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume $50 million in additional revenues related to the expanded voluntary disclosure program?*

6. The Evergreen State College Operating Costs

State funding for operating costs to support The Evergreen State College (TESC) has been higher on a per full-time equivalent (FTE) student average than the level provided for other state institutions. In FY 2025, the state funding per FTE student at TESC is $21,302 while the average for the other four-year institutions ranges from $10,707 to $16,429. The enacted operating budget included a reduction of $2.7m in funding that supports the operating costs of The Evergreen State College (TESC) beginning in FY 2027. For the conference budget outlook, budget writers chose to assume additional reductions will be made in FY 2028 and FY 2029.

At the level assumed by the conference outlook, the average state funding per FTE student at TESC would be roughly $18,000 in FY 2029, assuming FY 2025 enrollments. As displayed in Table 5, the NGF-O savings in the 2027-29 biennium of assuming further reductions in the ensuing biennium are $6.2 million in the conference budget outlook.

Table 5: TESC Operating Support Savings $ in 1,000s			
	Savings Assumed in Conference Outlook	**Savings Assuming No Additional 2027-29 Policy Level Reduction**	**Difference**
FY 2026	0	0	0
FY 2027	-2,690	-2,690	0
FY 2028	-4,755	-2,690	-2,065
FY 2029	-6,820	-2,690	-4,130
4-Year	**-14,265**	**-8,070**	**-6,195**

RCW 82.33.060 directs that the estimate of ensuing biennium expenditures "must exclude policy items including, but not limited to, legislation not yet enacted by the legislature, collective bargaining agreements not yet approved by the legislature, and changes to levels of funding for employee salaries and benefits unless those changes are required by statute." There is no statutory requirement for further reductions for TESC operating costs in the 2027-29 biennium so these additional savings would require a policy level decision in the 2027-29 operating budget that will be deliberated in the 2027 legislative session.

> **Question 6:** *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume the $6.2 million savings associated with future policy level budget reductions for the operating costs at TESC as was assumed in the published conference budget outlook?*

7. Employment Security FY 2025 Supplemental Budget Veto

The Employment Security FY 2025 supplemental operating budget included several policy changes where funding was shifted from NGF-O accounts to the Administrative Contingency Account. There is also an item that shifts funding from General Fund-State to the Employment Service Administrative Account.

The Governor vetoed the top line reductions to the NGF-O accounts ($37 million) and some, but not all, of the provisos which shifted costs to the Administrative Contingency Account. The veto letter indicates that the Governor is directing the Office of Financial Management, in collaboration with the Employment Security Department, to place any unexpended NGF-O amounts in unallotted status. From the Governor's veto letter:

> *This section changes the funding source for multiple items by using the Administrative Contingency Account instead of the General Fund and Workforce Education Investment Account. Several of these items do not fall within the allowable uses of the*

Administrative Contingency Account. For this reason, I am vetoing Section 1223, page 1058, line 28, and page 1059, lines 7-9. However, I am directing the Office of Financial Management, in collaboration with the Employment Security Department, to place any unexpended amounts in unallotted status.

The cost shift from NGF-O to the Administrative Contingency Account and the Employment Service Administrative Account for proviso items that were not vetoed totals $23.7m. In some prior outlooks, the ERFC has directed that amounts ordered to be placed in unallotted status as a result of a veto be accounted for as an additional reversion in the Outlook.

Question 7: *Does the ERFC want the enacted budget outlook being prepared by the workgroup to assume $23.7m in additional reversions related to the Governor's direction to place unexpended amounts into unallotted status for provisos that shift costs from NGF-O to the Administrative Contingency Account and the Employment Service Administrative Account that were not vetoed?*