

Enacted Budget Outlook: Adoption

April 25, 2024



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ENACTED BUDGET OUTLOOK: ADOPTION

April 25, 2024
9:00 a.m.

- Call to order
- Approval of meeting minutes from April 10, 2024
- Budget Outlook presentation
 - Possible motions
- 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
Enacted Budget Outlook: Methodology
April 10, 2024
Conference Call

Economic and Revenue Forecast Council

Lynda Wilson, Senate, Chair
April Berg, House of Representatives
Chris Gildon, Senate
Timm Ormsby, House of Representatives
June Robinson, Senate
Ed Orcutt, House of Representatives
Mike Pellicciotti, Treasurer
Drew Shirk, Department of Revenue

Staff

Dave Reich, Executive Director
Rachel Knutson, Office of Financial
Management
Corban Nemeth, Senate Ways and
Means
Andy Toulon, House Appropriations

Call to Order

Senator Wilson called the meeting to order at 10:01 a.m.

Approval of the Minutes

Representative Ormsby moved, seconded by Senator Wilson, to adopt the meeting minutes from February 14, 2024. Motion passed at 10:02 a.m.

Budget Outlook: Methodology

The Budget Outlook Work Group members presented five issues to the council to provide guidance in preparation of the outlook for the enacted 2024 Supplemental Operating Budget.

Issue #1 Motion

Representative Orcutt moved, seconded by Senator Wilson, to direct the budget outlook workgroup to use 0.8% in FY24, 0.5% in FY25, 0.5% in FY26, and 0.5% in FY27 as per the council's previous recommendation made last June 2023. Motion passed with 9 votes at 10:08 a.m.

Issue #2a Motion

Senator Wilson moved, seconded by Representative Orcutt, to grant staff the authority to assume an adjustment for gain share remittances for CY21 Medicaid Managed Care contracts utilizing the actual numbers when received. Motion passed with 9 votes at 10:11 a.m.

Issue #2b Motion

Senator Wilson moved, seconded by Representative Orcutt, to approve staff assume an adjustment for gain share remittance for CY22 Medicaid Managed Care contracts and assume \$17 million as in the conference outlook. Motion passed with 9 votes at 10:14 a.m.

Issue #3 Motion

Representative Orcutt moved, seconded by Senator Wilson, that the workgroup not assume the \$11.5 million cost of a basic foster care rate increase in the 2025-27 biennium. Motion passed with 9 votes at 10:16 a.m.

Issue #4 Motion

Representative Ormsby moved, seconded by Representative Orcutt, that the outlook workgroup not assume the \$30 million of federal Medicaid funds. Motion passed with 9 votes at 10:21 a.m.

Issue #5 Motion

Representative Orcutt moved, seconded by Representative Ormsby, that the workgroup be directed to develop and use an alternative revenue estimate based on information they glean from other states which operate both medical and recreational cannabis markets and report back on the number and how they arrived at that number at a later date. Motion passed with 9 votes at 10:29 a.m.

Adjournment

With no further business, the meeting adjourned at 10:29 a.m.

DRAFT

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Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

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 (GF-S), the Education Legacy Trust Account (ELTA), the Opportunity Pathways Account (OPA), and the Workforce Education Investment Account (WEIA). These funds are collectively referred to as the Near General Fund Outlook (NGF-O) funds.

During the 2021 legislative session, the Fair Start for Kids Account (FSKA) was added to the NGF-O definition in Chapter 199, Laws of 2021 (E2SSB 5237). The enacted budget contains no resources deposited into or expenditures from the Fair Start for Kids 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:

Beginning Fund Balance

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 Fiscal Years (FY) is equal to the projected ending balance for the previous FY.

Revenue Forecast

Current revenues for the 2023-25 and 2025-27 biennia reflect the adopted February 2024 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 revenue (in this instance, the 2025-27 biennium) to be 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.

The February 2024 forecast projected revenue growth of less than 4.5 percent per year in the 2025-27 biennium. Given the February 2024 forecast projects revenue growth of less than 4.5 percent per year in the 2025-27 biennium, the Outlook includes an adjustment for estimated FY 2026 and FY 2027 revenues. The adjustment for ensuing biennium revenues increases estimated resources in the Outlook by \$1.121 billion.

Transfers to Budget Stabilization Account (BSA)

Pursuant to a constitutional amendment approved by the voters in 2007 (Article VII, section 12(1), of the Constitution), this reflects the transfer of one percent of general state revenues (GSR) for each FY to the BSA. The estimated transfer amounts are based on the calculation of estimated GSR as defined in Article VIII, section 1, of the Constitution. The calculation of estimated GSR is based on the February 2024 revenue forecast adjusted for the estimated revenue impacts of legislation enacted during the 2024 legislative session (see enacted revenue legislation). The Outlook assumes BSA 1% transfers each biennium to include \$640 million in the 2023-25 biennium and \$685 million in the 2025-27 biennium.

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

Extraordinary Revenue Growth

Pursuant to a constitutional amendment approved by the voters in 2011 (Article VII, section 12 of the Constitution), this reflects the transfer of three-quarters of extraordinary revenue growth (ERG) into the BSA. 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 BSA and that no ERG transfer shall occur in a fiscal biennium following a fiscal biennium in which annual average state employment growth averaged less than one percent per fiscal year. The adopted February 2024 revenue forecast does not project ERG for the 2023-25 or 2025-27 biennia so no additional BSA transfer is assumed in this Outlook.

Prior Period Adjustments

The Outlook assumes NGF-O prior period adjustments of \$119 million in the 2023-25 biennium and \$40.8 million in the 2025-27 biennium. The larger amount for the 2023-25 biennium reflects an adjustment for FY 2024 and FY 2025, as directed at the April 10th ERFC meeting, to account for the state share of remittances paid back to the state by Medicaid Managed Care Organizations pursuant to gain share and risk corridor provisions of contracts with the Health Care Authority.

Prior Enacted Fund Transfers

This category reflects all enacted NGF-O fund transfers made through the 2023 legislative session after accounting for vetoes. For more information, see the 2023 session Legislative Budget Notes at:

<https://fiscal.wa.gov/statebudgets/LBNs>

Enacted Fund Transfers in the 2024 Legislative Session

The Outlook assumes transfers to and from NGF-O accounts that were enacted in the 2024 supplemental operating budget as follows:

Fund Transfers in the Operating Budget (\$ in 1,000s)	2023-25	2025-27	4 Yr
Death Investigations Account	-3,000	0	-3,000
Disaster Response Account	-22,500	0	-22,500
Local Government Archives Account	-1,900	0	-1,900
Long-Term Services and Supports Trust Account	1,719	0	1,719
Motor Vehicle Account	-14,000	0	-14,000
Savings Incentive Account	819	0	819
Stadium World Cup Capital Account	-10,000	10,000	0
WA Rescue Plan Transition Acct	798,000	0	798,000
Washington Student Loan Account	10,000	0	10,000
Wildfire Resp, Forest Restoratn, & Comm Resilience	-19,143	0	-19,143
Total NGF-O Fund Transfers in the Operating Budget	739,995	10,000	749,995

Notes

- 1. The impact of transfers included in separate legislation is reflected in the Revenue Legislation table below.*
- 2. Positive numbers reflect a transfer from a non-NGF-O account to a NGF-O account.*
- 3. Negative numbers reflect a transfer from a NGF-O account to a non-NGF-O account*

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

Enacted Revenue Legislation in the 2023 Legislative Session

The Outlook assumes NGF-O revenue changes from the following bills that were newly enacted in the 2024 legislative session:

Revenue Legislation Enacted in the 2024 Session (\$ in 1,000s)

	2023-25	2025-27	4 Yr
Chapter 79, Laws of 2024 (SHB 1453)	-939	-8,377	-9,316
Chapter 222, Laws of 2024 (2EHB 1757)	-163	-66	-229
Chapter 141, Laws of 2024 (ESHB 1862)	-18	-57	-75
Chapter 85, Laws of 2024 (HB 1976)	-13,870	-33,460	-47,330
Chapter 115, Laws of 2024 (EHB 2199)	-1,100	-5,800	-6,900
Chapter 93, Laws of 2024 (ESHB 2306)	-630	-1,060	-1,690
Chapter 218, Laws of 2024 (SSB 5986)	0	10	10
Chapter 195, Laws of 2024 (ESSB 6038)	-360	-1,140	-1,500
Chapter 279, Laws of 2024 (ESB 6087)	-601	-1,313	-1,914
Chapter 332, Laws of 2024 (E2SSB 6175)	0	-2,147	-2,147
Chapter 281, Laws of 2024 (SSB 6316)	-15,130	-22,360	-37,490
Total Revenue Legislation Enacted in the 2024 Session	-32,811	-75,770	-108,581

Chapter 79, Laws of 2024 (SHB 1453) creates an excise tax exemption for medical cannabis patients and providers purchasing qualifying products. Pursuant to direction from the ERFC at the meeting on April 10, 2024, the revenue impact for Chapter 79, Laws of 2024 (SHB 1453) is updated to a staff estimate based on a comparison to other states. Oregon, California, and Colorado were identified as comparison states. As a percentage of the total cannabis market, medical sales represent:

- Less than 1% in Washington,
- 5.2% in Oregon,
- 7.3% in California, and;
- 12.1% in Colorado.

The staff estimate included in the table above utilizes the average medical market size Oregon and California and excludes Colorado because it is a large outlier to the other identified states. The estimate above is calculated by using a linear monthly phase-in to the average medical market size of Oregon and California (6.3%) over five years (the duration of the tax exemption included in Chapter 79, Laws of 2024), applied to Washington's forecasted cannabis excise tax revenue. Revenue impacts to the general fund are estimated at 32% of the cannabis excise tax revenue reduction pursuant to the distribution formula in RCW 69.50.540. No adjustment is made for future policy-level budget impacts, such as backfilling lost revenue for the basic health plan trust account at the Health Care Authority.

Chapter 79, Laws of 2024 also includes a tax preference evaluation on the excise tax exemption to be conducted by the Joint Legislative Audit and Review Committee due by December 1, 2028.

For more information, please see the April 10th memo to the ERFC which can be found at:

https://erfc.wa.gov/sites/default/files/public/documents/budget/20240410_budget_outlook_methodology.pdf

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

Budget Driven Revenue Adjustments

Adjustments are made to reflect the difference between assumed transfers of cannabis, liquor and lottery revenue to GFS in the February 2024 forecast and what is estimated to be available after adjusting for the 2024 legislative session spending levels. Adjustments are also made based on revenues received pursuant to the Health Care for the Uninsured program at the Health Care Authority.

Budget Driven Revenue (\$ in 1,000s)	2023-25	2025-27	4 Yr
Health Care for the Uninsured	483	0	483
Liquor Control Board (Liquor)	-1,517	38,614	37,097
Liquor Control Board (Marijuana)	-2	-7	-9
Lottery	-52	286	234
Total Budget Driven Revenue Adjustments	-1,088	38,893	37,805

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget (the 2023-25 biennial operating budget). Adjustments are then made for the FY 2024 supplemental operating budget Maintenance Level (ML) and Policy Level (PL) changes and adjustments for Governor's vetoes. For more information on the 2023-25 biennial operating budget, please see:

<https://fiscal.wa.gov/statebudgets/LBNs>.

Estimating Costs for the 2023-25 and 2025-27 Fiscal Biennia

Estimated costs for the 2023-25 biennium are based on appropriations through the enacted 2024 supplemental operating budget. Per statute, the estimated expenditures in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law in the subsequent fiscal biennium (i.e., the 2025-27 biennium). The general approach to estimating the cost to continue current programs and growth in entitlement programs is by applying a historical growth factor to the FY cost/savings associated with a budget item.

The historical growth factors used to estimate increased costs in the subsequent fiscal biennium are updated each biennium through a joint effort by legislative and executive branch staff and are ultimately adopted by the ERFC. Per direction provided by the ERFC on November 4, 2022, the growth factors adopted on November 18, 2020, will continue to be used for Outlooks prepared for the 2023 and 2024 sessions. Additional information on the calculation of the historical growth factors adopted by the ERFC for the current Outlook can be found in the following document available on the ERFC website:

- <https://erfc.wa.gov/sites/default/files/public/documents/forecasts/rev20201118.pdf>
- <https://erfc.wa.gov/sites/default/files/public/documents/meetings/20221104%20Outlook%20Growth%20Factor%20Update.pdf>

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

The current adopted growth rates are shown below:

2022 Outlook Growth Rates Summary Table	
Default Growth Rate Category	Adopted 2020 Growth Factors
All Other	0.00%
Corrections	1.53%
Debt Service	Use Bond Model
Department of Social and Health Services	3.31%
Higher Education	0.69%
K-12 Education	Use K-12 Model
Low Income Health Care & Community Behavioral Health	2.86%

There are some cases whereby simply applying the growth factor to the cost or savings of a budget item is not used to estimate costs in the subsequent fiscal biennium. These include the following situations:

- K-12 Education.** K-12 Outlook calculations are derived from the K-12 model, which is updated quarterly based on the caseload forecast for growth and inflationary factors. The K-12 model is periodically updated for other factors such as levy equalization and student transportation.
- Debt Service.** Debt service calculations are derived from the debt service model. The Outlook statute specifies that "estimates of ensuing biennium expenditures must exclude policy items including, but not limited to, legislation not yet enacted by the legislature." Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2025-27 biennium bond bill and capital budget.
- Custom adjustments.** Custom adjustments are used when the estimated annual costs in the subsequent fiscal biennium are expected to be significantly different from the second FY of the current biennium. This occurs primarily when a policy is being phased in during the second FY of a biennium or may be delayed until the subsequent fiscal biennium. In most cases, the growth factor is applied after a custom adjustment is made to reflect the phase in for the policy item. In a small number of cases, the custom adjustment already accounts for the types of growth captured by the growth factor and so the growth factor is not applied.
- One-Time costs.** Certain items in the budget are one-time for the current biennium and therefore the related costs or savings are not carried forward into the subsequent biennium.
- Compensation items.** Because the Outlook statute specifically excludes any additional future costs related to collective bargaining agreements (CBAs) not approved by the Legislature, or salaries and benefits, no growth factor is applied to compensation related items. However, a custom adjustment is applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.

Maintenance Level Items

In this section, adjustments are made to reflect the NGF-O costs of continuing to comply with provisions of current law. These adjustments are 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 CBAs not approved by the Legislature, other proposed compensation increases, and costs of any adverse court rulings within 90 days of each respective legislative session.

Following are the total statewide ML impacts, by biennial period:

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

- ❖ 2023-25 biennium: \$1.107 billion increased costs.
- ❖ 2025-27 biennium estimate: \$1.163 billion increased costs.

Kindergarten – Grade 12 (K-12) Education

The amounts depicted reflect the February 2024 caseload forecast and 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 periodically updated for other factors such as levy equalization and student transportation.

ML adjustments total \$191 million increased costs in the 2023-25 biennium and \$228 million increased costs in the 2025-27 biennium.

The larger increases are related primarily to enrollment and workload adjustments and safety net adjustments. The largest savings in this category is related to K-12 salary inflation adjustments.

Low-Income Health Care and Community Behavioral Health

The amounts depicted reflect the February 2024 caseload forecast and per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include utilization, caseload, and medical inflation. The average growth factor for this grouping is 2.86 percent per FY from FY 2025 levels.

ML adjustments total \$391 million increased costs in the 2023-25 biennium and \$404 million increased costs in the 2025-27 biennium.

The larger increases are related primarily to mandatory caseload changes, Medicaid managed care rate adjustments, and increases in the state share of prescription drug costs for clients with dual eligibility for Medicaid and Medicare. The larger savings are related to caseload reductions in Long-Term Care programs, utilization changes, and a decrease in claims related to stays in Institutions of Mental Disease that are unallowable for federal matching funds.

Social and Health Services

The amounts depicted reflect the February 2024 caseload forecast and updated per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include caseload, utilization, and severity of client needs. The average growth factor for this grouping is 3.31 percent per FY from FY 2025 levels.

ML adjustments total \$351 million increased costs in the 2023-25 biennium and \$375 million increased costs in the 2025-27 biennium.

The larger increases are related to cost and service utilization changes in long-term care facilities, mandatory caseload adjustments for Economic Services Administration programs, backfilling reductions in federal Disproportionate Share Hospital grants used in lieu of state funds for operating costs at Eastern State Hospital, and costs to pay contempt fines related to the Trueblood, et al. v. DSHS class action lawsuit. The larger savings are due to changes in revenue received by the Department pursuant to the Disproportionate Share Hospital program.

Higher Education

Higher Education adjustments are generally related to the Initiative 732 cost of living adjustments, the Washington College Grant program, the College Bound Scholarship program, and maintenance, operations, and lease adjustments. The amounts depicted reflect the February 2024 caseload forecast. The average growth factor for this grouping is 0.69 percent per FY from FY 2025 levels.

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

ML adjustments total \$96 million increased costs in the 2023-25 biennium and \$134 million increased costs in the 2025-27 biennium.

The larger increases are related to an increase in the forecasted Washington College Grant program caseload and the College Bound Scholarship program. The larger savings are due to reductions in the College in the High School program caseload and an adjustment to the College Bound Scholarship program based on median family income requirements.

Corrections

The amounts depicted reflect the February 2024 caseload forecast, as well as other mandatory maintenance level changes. The average growth factor for this grouping is 1.53 percent per FY from FY 2025 levels.

ML adjustments total \$59 million increased costs in the 2023-25 biennium and \$51 million increased costs in the 2025-27 biennium.

The larger increases are related to forecasted increases in the male prison and community violator caseloads. The larger savings are due to forecasted reductions in the female offender and community supervision caseloads.

All Other

This area includes all other agencies not reflected in the preceding Outlook groups, such as general government agencies, smaller human service agencies, the department of child youth and families (DCYF), natural resource agencies, legislative agencies, and judicial agencies. The average growth factor for this grouping is zero percent per FY from FY 2025 levels.

ML adjustments total \$115 million increased costs in the 2023-25 biennium and \$38 million increased costs in the 2025-27 biennium.

The larger increases are related to payments pursuant to legal obligations at DCYF, mandatory rate increases and caseload adjustments for the Working Connections Child Care program and subsidized childcare tiered reimbursement payments, foster care maintenance payments, and caseload for the foster care program. The larger savings are related to reductions in the February 2024 forecast for the Working Families Tax Credit program.

Debt Service

The amounts depicted reflect the cost of the debt on all capital budget bonds that were authorized through the 2023 session using the bond model to calculate estimated costs for the 2025-27 biennium. Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2025-27 biennium bond bill and capital budget.

ML adjustments total \$96 million in savings for the 2023-25 biennium, and \$66 million in savings for the 2025-27 biennium.

Policy Level Items

In this section, adjustments are made to reflect the policy level (PL) expenditures included in the enacted budget as well as appropriations made in other legislation. Growth in the ensuing biennium is calculated using the same growth factors and methodologies as outlined above.

The total statewide PL impacts, by biennial period:

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

- ❖ 2023-25 biennium: \$1.033 billion increased costs.
- ❖ 2025-27 biennium estimate: \$1.005 billion increased costs.

K-12 Education

PL adjustments total \$336 million increased costs in the 2023-25 biennium and \$425 million increased costs in the 2025-27 biennium.

The larger increases are related to increased transportation allocations to school districts, funding for increases to staff allocations for paraeducators, office supports, and noninstructional aids pursuant to Chapter 191, Laws of 2024 (2SSB 5882), and additional resources for maintenance, supplies, and operating costs pursuant to Chapter 262, Laws of 2024 (ESHB 2494). The larger savings are due to underspends in paraeducator training.

Low-Income Health Care and Community Behavioral Health

PL adjustments total \$226 million increased costs in the 2023-25 biennium and \$274 million increased costs in the 2025-27 biennium.

The larger increases are related to a GF-S backfill for reductions in Dedicated Cannabis Account funding, restoring program integrity savings on a one-time basis, increasing rates for Community Long-Term Involuntary Treatment Act services in inpatient settings, and implementing Community Behavioral Health Support Services in long-term care settings. The larger savings are due to a higher federal Medicaid matching rate through the end of the declared Public Health Emergency and utilization changes for community long-term civil commitment beds.

Social and Health Services

PL adjustments total \$251 million increased costs in the 2023-25 biennium, and \$265 million increased costs in the 2025-27 biennium.

The larger increases are related to operating the Olympic Heritage Behavioral Health Hospital, the expansion of forensic behavioral health beds at Western and Eastern State Hospitals, a reduction in assumed federal revenue for the Maple Lane campus, and the creation of a Lake Burien residential treatment facility aimed at supporting youth with complex needs. The larger savings are due to the assumption that the federal government will continue to delay reductions to Disproportionate Share Hospital grants, program underspends, and delayed facility opening dates.

Pursuant to direction from the ERFC at the meeting on April 10, 2024, \$30 million in assumed federal funding for Olympic Heritage Behavioral Health Hospital in FY 2027 is not included and is shifted to GF-S. For more information, please see the April 10th memo to the ERFC which can be found at:

https://erfc.wa.gov/sites/default/files/public/documents/budget/20240410_budget_outlook_methodology.pdf

Higher Education

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

PL adjustments total \$121 million increased costs in the 2023-25 biennium and \$70 million increased costs in the 2025-27 biennium.

The larger increases are related one-time support for the University of Washington and Harborview medical centers and the Behavioral Health Teaching Facility, and an assumption of funding in the 2025-27 biennium to continue policies related to income eligibility for the Washington College Grant program. The larger savings are related to assumptions that income eligibility policies in the 2025-27 biennium for the College Bound Scholarship program will be consistent with the 2023-25 income eligibility policies.

Corrections

PL adjustments total \$49 million increased costs in the 2023-25 biennium and \$43 million increased costs in the 2025-27 biennium.

The larger increases are related to reopening units at Washington State Penitentiary, Clallam Bay Corrections Center, and Coyote Ridge Corrections Center, and additional community supervision staffing. The larger savings are related to the closure of the Larch Corrections Center.

All Other

PL adjustments total \$316 million increased costs in the 2023-25 biennium and \$59 million in savings in the 2025-27 biennium.

The larger increases are related to housing and homeless services, fire suppression costs, and a rate increase for ECEAP providers. The larger savings are due to shifts in funding for energy programs at the Department of Commerce from the operating budget to the capital budget.

Pursuant to direction from the ERFC at the meeting on April 10, 2024, \$11.5 million in funding for an assumed foster care rate increase effective in FY 2026 is not included. For more information, please see the April 10th memo to the ERFC which can be found at:

https://erfc.wa.gov/sites/default/files/public/documents/budget/20240410_budget_outlook_methodology.pdf

Federal Funds Shift

PL adjustments total \$262 million savings in the 2023-25 biennium. These adjustments reflect state savings from utilization of federal Coronavirus State Fiscal Relief funds.

Employee Compensation and Health Benefits:

The PL budget adjustment for employee compensation is \$1 million savings in the 2023-25 biennium and \$13 million savings in the 2025-27 biennium. There is no growth factor applied to these items although custom adjustments are applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.

Governor Vetoes & Lapses

The Outlook separately reflects the NGF-O impacts of budget items vetoed by the Governor as well as funding lapses from legislation that were not enacted into law. The NGF-O impacts from the Governor's budget vetoes and funding lapses total \$2 million savings in the 2023-25 biennium.

Draft Overview of the Methodology for the State Budget Outlook (April 25, 2024)

Reversions

Reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation. Per direction by the ERFC at the April 10, 2024 meeting, reversion assumptions for the 2024 supplemental budget are the same as those used for the 2023-25 operating budget as follows:

- ❖ 0.8% of GF-S appropriations for FY 2024, and;
- ❖ 0.5% of GF-S appropriations for FY 2025, FY 2026, and FY 2027.

Consistent with prior Outlooks and direction from the ERFC, additional reversions are assumed in relation to estimated adjustments in K-3 allocations as a result of actual K-3 class sizes being less than what was funded.

Reversion Assumptions (\$ in 1,000s)	2023-25	2025-27	4 Yr
Standard 0.5% Assumption	340,243	353,256	693,499
Additional 0.3% Reversion Assumption for FY 2024	98,401	0	98,401
K-3 Reversion Assumption	44,072	19,574	63,646
Total Reversion Assumptions	482,716	372,830	855,546

Additional information regarding reversion assumptions is available in the April 10th memo to the ERFC which can be found at:

https://erfc.wa.gov/sites/default/files/public/documents/budget/20240410_budget_outlook_methodology.pdf

Total Reserves

Pursuant to the direction of the ERFC, the summary document for the Outlook shows reserves in the NGF-O Accounts, the Washington Rescue Plan Transition Account (WRPTA) created in Chapter 334, Laws of 2021 (ESSB 5092), and the Budget Stabilization Account. To calculate percentage of reserves to revenues and other resources, ending balances are divided by the sum of forecasted revenues and total resource changes. Beginning fund balances are not included in the percentage calculation.

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Draft Outlook for the Enacted 2024 Supplemental Operating Budget - Chapter 376, Laws of 2024, Partial Veto (ESSB 5950)

Funds Subject to Outlook

(Dollars in Millions)

	FY 2024	FY 2025	2023-25	FY 2026	FY 2027	2025-27
NGF-O Beginning Balance	5,287	4,868	5,287	2,368	808	2,368
Forecasted Revenues	32,919	34,086	67,005	35,620	37,223	72,842
February 2024 Revenue Forecast (NGF-O)	32,919	34,086	67,005	35,174	36,547	71,721
Addtl Revenue Based on 4.5% Growth Rate Assumption	0	0	0	445	676	1,121
Other Resource Changes	1,048	491	1,538	-320	-314	-634
Budget Driven Revenue	0	-1	-1	18	21	39
GF-S Transfer to BSA (1%)	-314	-325	-640	-336	-349	-685
Prior Period Adjustments	82	37	119	20	20	41
Revenue Legislation	-2	-31	-33	-41	-35	-76
Proposed WRPTA Transfer	0	798	798	0	0	0
Other Proposed Transfers	-44	-14	-58	0	10	10
Enacted Fund Transfers	1,326	26	1,353	19	19	37
Total Revenues and Resources	39,254	39,444	73,831	37,668	37,716	74,576
Enacted Appropriations	34,173	35,632	69,804	35,998	36,683	72,681
Maintenance Level Total	569	538	1,107	550	613	1,163
K-12 Education	87	104	191	108	119	228
Low Income Health Care & Comm Behavioral Health	198	193	391	199	205	404
Social & Health Services	171	180	351	184	190	375
Higher Education	36	60	96	60	74	134
Corrections	24	35	59	25	26	51
All Other	71	44	115	24	14	38
Debt Service	-18	-78	-96	-51	-15	-66
Policy Level Total	-72	1,105	1,033	502	503	1,005
K-12 Education	100	236	336	211	213	425
Low Income Health Care & Comm Behavioral Health	-15	241	226	136	138	274
Social & Health Services	68	184	251	128	138	265
Higher Education	8	113	121	34	36	70
Corrections	11	38	49	21	22	43
All Other	16	300	316	-22	-37	-59
Compensation & Benefits	3	-4	-1	-7	-6	-13
Federal Funds Shift	-262	0	-262	0	0	0
Governor Vetoes and Lapsed Items	0	-2	-2	0	0	0
Reversions	-284	-199	-483	-189	-184	-373
Revised Appropriations	34,386	37,076	71,462	36,860	37,616	74,476
NGF-O Projected Ending Balance	4,868	2,368	2,368	808	100	100
Budget Stabilization Account						
Beginning Balance	652	969	652	1,328	1,707	1,328
GF-S Transfer to BSA (1%)	314	325	640	336	349	685
Appropriations from BSA	-21	0	-21	0	0	0
Interest Earnings	23	34	58	43	50	93
Budget Stabilization Account Ending Balance	969	1,328	1,328	1,707	2,106	2,106

Draft Outlook for the Enacted 2024 Supplemental Operating Budget - Chapter 376, Laws of 2024, Partial Veto (ESSB 5950)

Funds Subject to Outlook

(Dollars in Millions)

	FY 2024	FY 2025	2023-25	FY 2026	FY 2027	2025-27
Washington Rescue Plan Transition Account						
Beginning Balance	2,100	798	2,100	0	0	0
Transfer Balance from WRPTA to GF-S	-1,302	-798	-2,100	0	0	0
Washington Rescue Plan Transition Account Ending Balance	798	0	0	0	0	0
Total Reserves	6,635	3,697	3,697	2,515	2,206	2,206
% of Reserves to Revenues and Other Resources	19.5%	10.7%		7.1%	6.0%	
NGF-O	14.3%	6.8%		2.3%	0.3%	
Budget Stabilization Account	2.9%	3.8%		4.8%	5.7%	
Washington Rescue Plan Transition Account	2.3%	0.0%		0.0%	0.0%	