



# **Budget Process and Budget Outlook**

**January 16, 2019**

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**Office of Program Research**

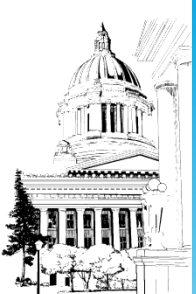


# **The Four Year Balanced Budget & Outlook**



# Four Year Balanced Budget and Four Year Outlook Requirements

- ▶ Statutory creation: Chapter 8, Laws of 2012 (SSB 6636)
- ▶ Two separate (but related) requirements.
  - "The legislature must adopt a four-year balanced budget..."
  - Four Year Outlooks must be periodically prepared.
- ▶ Applies only to the operating budget.
- ▶ Simple question: Are assumed resources greater than assumed spending?
- ▶ Focuses on three covered accounts – State General Fund, Education Legacy Trust Account, and Opportunity Pathways Account. (NGF-O).



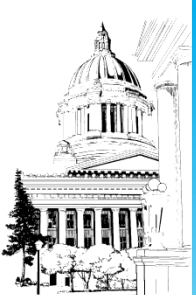
# Balanced Budget Requirement

- ▶ The budget must balance in both the ensuing and the next ensuing biennium.
  - For example, budgets enacted for 2019-21 (budget biennium) must balance.
  - In the next ensuing fiscal biennium (2021-23, the Outlook biennium), the projected maintenance level cannot exceed the available fiscal resources based on statutory methodology.
- ▶ The requirement applies to the legislature when budgets are being adopted – balance status can change based on veto actions or updates to the revenue forecast.



# Exceptions To The Balanced Budget Requirement(s)

- ▶ The biennium balance requirement does not apply to the Outlook biennium in a biennium in which money is appropriated from the Budget Stabilization Account (BSA). However, the budget biennium must still be balanced.
- ▶ Neither balance requirement applies to “early action” net reduction budgets such as those enacted during the recession.



# What is the Four-Year Budget Outlook (Outlook)?

- ▶ The Outlook is prepared to facilitate compliance with the four-year balanced budget requirement.
- ▶ The four-year balanced budget law determines which resources to include as well as which costs to include or exclude.
  - For the budget biennium, the outlook uses appropriated amounts (less any assumed reversions).
  - For the outlook biennium, the outlook uses the projected maintenance level of the omnibus appropriations bill enacted by the Legislature.
- ▶ The State Budget Outlook Workgroup, subject to the approval of the Economic and Revenue Forecast Council (ERFC), prepares the budget outlook and related methodology.



# What Resources Are Assumed In Preparing An Outlook?

- ▶ The beginning fund balance.
- ▶ Estimated NGF-O revenue:
  - For the budget biennium, the official revenue forecast is used.
  - For the Outlook biennium, the greater of the revenue forecast or the forecasted NGF-O for the 2nd fiscal year increased by 4.5% per year. (Statutory provision).
- ▶ Adjustments for enacted legislation, including:
  - Required transfers to the Budget Stabilization Account;
  - Other transfers to and from NGF-O accounts directed in the operating budget or other legislation; and
  - Legislation that impacts state revenues.
- ▶ Outlooks for proposed budgets include adjustments for assumed legislation (such as increased or reduced taxes).





# What Expenditures Are Used In Preparing An Outlook?

- ▶ Appropriated amounts are used for 2019-21
- ▶ Projected spending for 2021-23 (Outlook biennium):
  - Continuation of current programs
  - Estimated growth of current entitlement programs.
  - Actions required by law, including legislation with a future implementation date.
- ▶ Outlook biennium excludes:
  - Legislation not yet enacted
  - Changes to salaries and benefits, unless required by statute.
  - Collective bargaining agreements not yet approved.
  - Costs of court rulings issued during or within fewer than 90 days before the legislative session.
  - Other policy changes.
- ▶ Outlooks for proposed budgets include adjustments for assumed legislation (such as new or eliminated programs).





# How Often Are Outlooks Prepared?

- ▶ Official Outlooks are developed and approved by the ERFC three times per year:
  - November: Each November, the enacted budget is updated for recent forecasts (caseload and revenue);
  - January: Each January to reflect the Governor's budget proposal; and
  - Post Session: Each year 30 days after the enacted budget (adopted by the Legislature and signed by the Governor).
- ▶ Throughout the budget development process, Outlooks are prepared by legislative staff for proposed budgets.



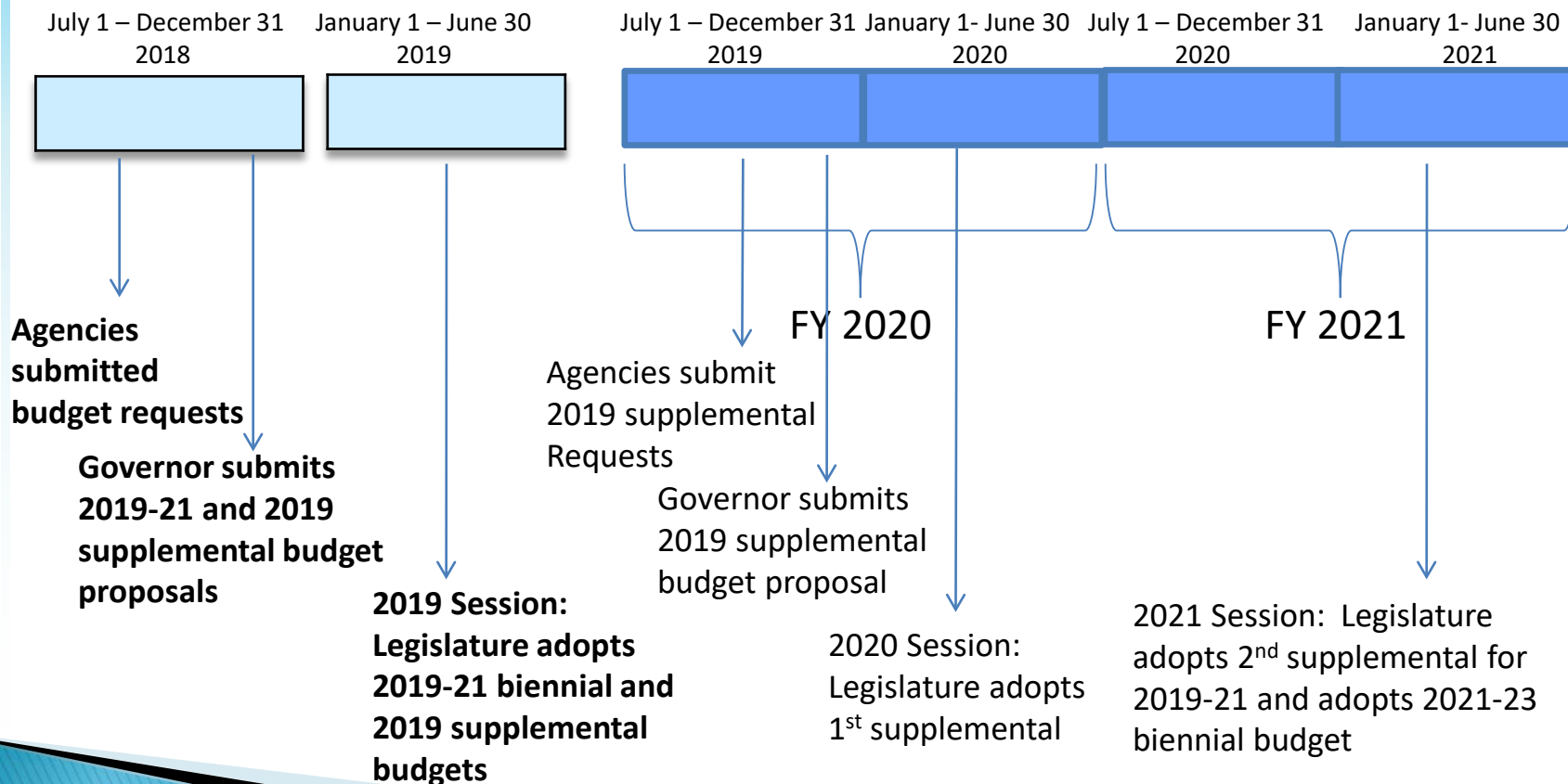
# **Operating Budget Basics**



# 2019-21 Biennial Budget Calendar

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Agencies develop budget proposals in summer, submit in the fall. Each December the Governor releases proposed budgets. The Legislature develops budgets during session(s) and sends to the Governor.



# Some spending is mandatory and some is discretionary

## Requirements With Constitutional Elements

- K-12 Basic Ed
- Debt Service
- Some Pension Contribution Obligations
- Some Level of Funding for Judicial, Legislative & Executive Offices
- Some level of care in institutional and foster care programs\*
- Approved collective bargaining agreements & other contracts\*\*

## Federal Statutory Requirements

- Since the state participates in Medicaid:
  - Core populations & core services
  - Other requirements (i.e. rate issues)
- TANF/Maintenance of Effort (MOE)
- Cost obligations if state participates in certain federal programs (i.e., admin costs for food stamps)

## State Statutory and Other Requirements

- State-created statutory entitlements \*\*\*
- Funding that, if reduced, may increase entitlement costs
- Funding to avoid state liability in areas of responsibility
- Other statutory programs

## Discretionary

- Programs without a statutory or case law requirement

Green rectangles are illustrative only and not to scale.

\* Includes prisons, JRA facilities, state hospitals, DD facilities, foster care, SCC, etc.

\*\* Contracts may be renegotiated. Also, some contracts have termination – and/or fiscal shortfall clauses that may be invoked, while others may include “tail” periods.

\*\*\* Can be changed via legislation.



# Operating Budget Drivers

## (Covers about 90% of the 2017-19 NGFS + Opp Pathways Budget)

### Public Schools (51.0%)

- ▶ Enrollment
- ▶ Inflation
- ▶ Redefining Basic Education

### Low Income Health (11.5%)

- ▶ Caseloads
- ▶ Utilization & Inflation
- ▶ Integration of BH

### Debt Services (5.1%)

- ▶ Capital Budget (size)
- ▶ Interest Rates

### Higher Education (8.3%)

- ▶ Mostly Discretionary
- ▶ Enrollment
- ▶ Tuition & Financial Aid

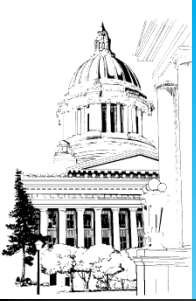
### Corrections (4.5%)

- ▶ Inmate Population
- ▶ Inmate Mix
- ▶ Community Supervision

### DD, LTC, and WSH/ESH (9.7%)

- ▶ Population/Caseloads
- ▶ Acuity Mix
- ▶ Care Settings

Note: Figures adjusted to assume the transfer of community behavioral health programs from DSHS to HCA was in place for both fiscal years.



# Budget Stabilization Account (BSA)

- ▶ Serves as a “rainy day” account.
- ▶ Constitutionally established (2007 and 2011; Art. VII, sec. 12).
- ▶ Specific requirements about when deposits must be made and accessing money within the account.
- ▶ Calculating using General State Revenues (GSR), which are constitutionally defined.



# BSA:

## How Does Money Get In?

- ▶ Treasurer, each June, transfers an amount equal to 1% of GSR from the State General Fund to the BSA. Transfers are made annually.
- ▶ Extraordinary revenue growth (ERG):
  - When GSR grows from one biennium to the next, by more than a certain amount, 75% of that amount (less the deposits pursuant to the 1% transfer) is transferred from the State General Fund to the BSA.
  - ERG is met when growth in general state revenues exceeds by one-third the average biennial percentage growth over the prior five fiscal biennia. (Except in the biennium following a biennium where state employment growth averaged less than one percent per fiscal year).
  - Transfers are made (at most) once a biennium.





# BSA:

## How may funds be appropriated?

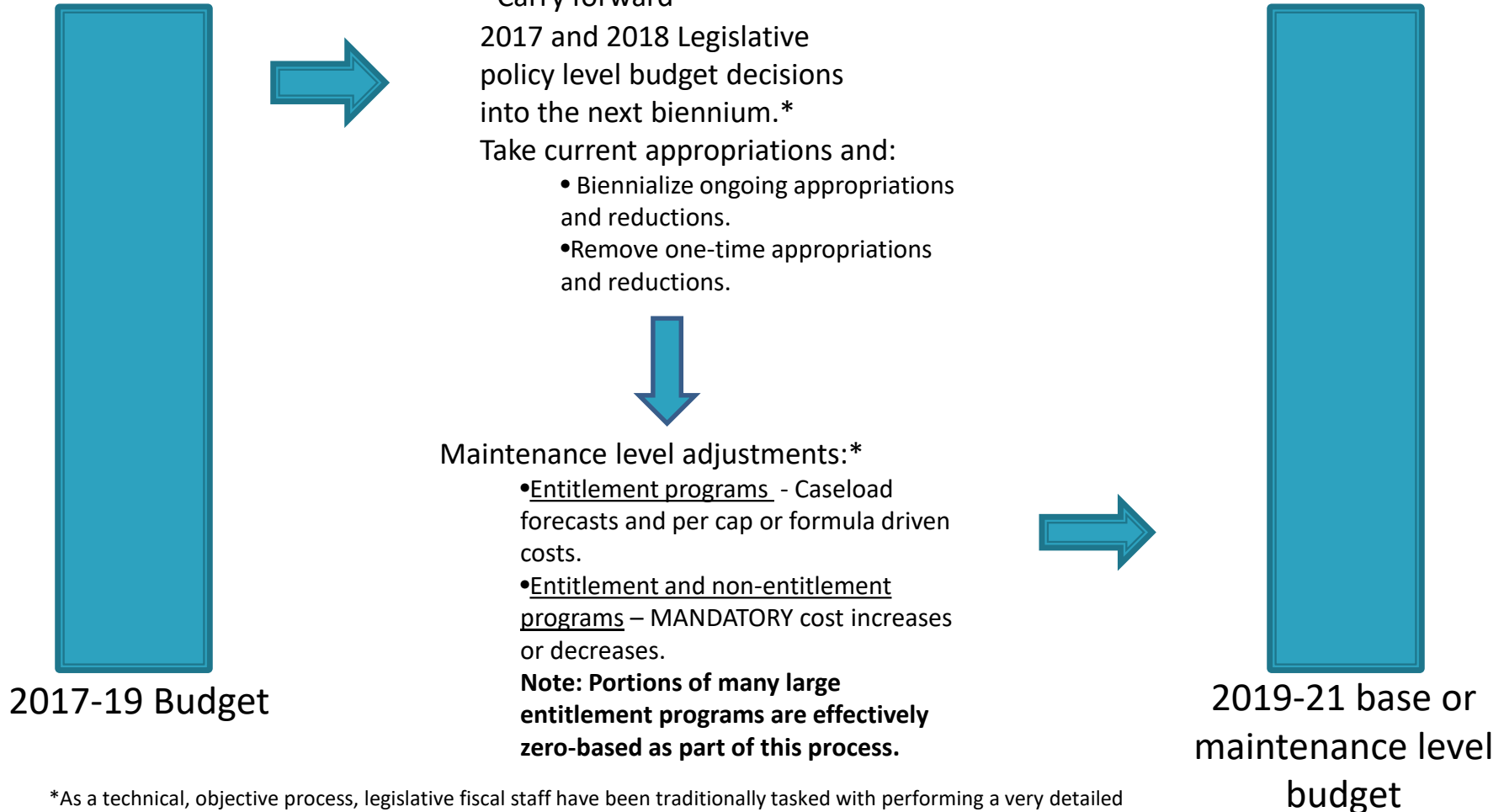
- ▶ For Any Purpose:
  - If estimated employment growth in any fiscal year is less than 1%, moneys may be appropriated in that year with a constitutional majority vote.
  - Otherwise, with at least a three-fifths vote.
- ▶ For Declared Disasters:
  - With a constitutional majority vote and limited to that purpose.
- ▶ Solely For Deposit to the Education Construction Fund:
  - With a constitutional majority vote if the balance in the BSA equals more than ten percent of the estimated GSR in that fiscal year (and then limited to the amount by which the balance exceeds ten percent).



# **Developing the 2019-21 Operating Budget**

# Getting to the 2019-21 Budget Starting Point

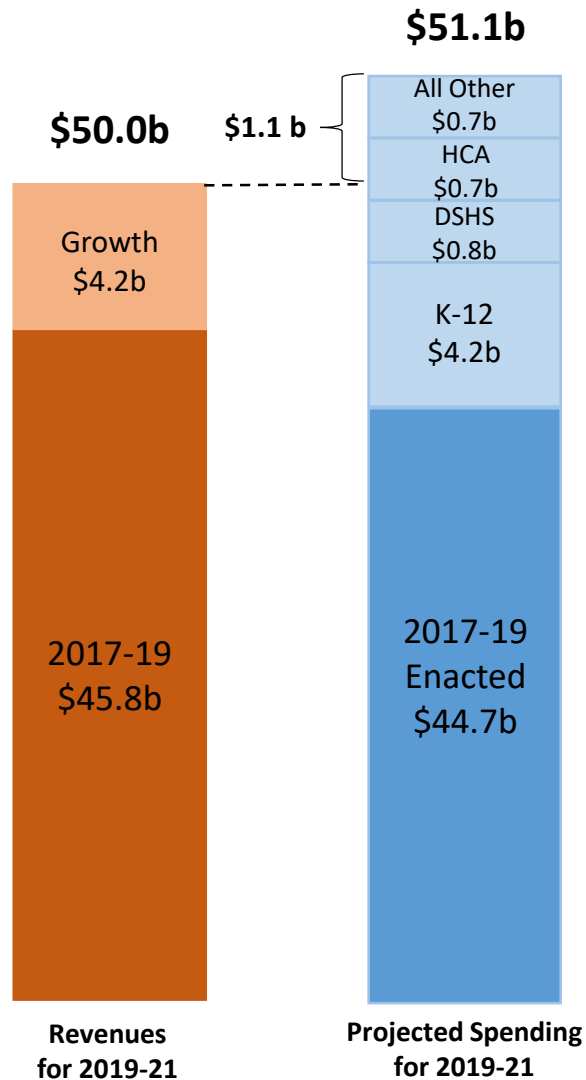
\$44.7 billion NGF-O



\*As a technical, objective process, legislative fiscal staff have been traditionally tasked with performing a very detailed analysis and review of these items.

\*\*Caseload forecasts are prepared and adopted by the Caseload Forecast Council (typically using a collaborative process).

**While revenues are projected to grow by 9% a biennium, the costs of continuing current programs are estimated to grow by 14%.**



DSHS: CFL Summary (Thousands)	
LTC & DD	222,071
Mental Health	(80,073)
All Other DSHS	<u>39,262</u>
	181,260

DSHS: ML Summary (Thousands)	
LTC & DD	299,842
MH - Decert & DSH	130,105
MH - Trueblood Fines	96,000
MH - All Other	19,016
All Other DSHS	<u>59,307</u>
	604,270

K-12: CFL Summary (Thousands)	
Salary Allocations	2,180,433
Prior School Yr	675,348
Special Ed Multiplier	61,608
LEA	(118,230)
All Other K-12	<u>149,522</u>
	2,948,681

K-12: ML Summary (Thousands)	
Salary Inflation	506,969
Health Benefit	97,035
Enrollment & Inflation	342,329
Pupil Transpo	182,546
Professional Days	165,377
Apportionment Schedule	(324,385)
All Other K-12	<u>52,181</u>
	1,222,052

HCA: CFL Summary (Thousands)	
HCA	131,805

HCA: ML Summary (Thousands)	
Utilization	223,913
Managed Care Rates 2019	137,543
Managed Care Rates 20 & 21	49,352
All Other HCA	<u>188,542</u>
	599,350

All Other CFL Summary (Thousands)	
Compensation	170,883
DCYF	31,717
DOC	26,697
Higher Ed	9,624
Natural Resources	(7,537)
All Other	<u>(133,055)</u>
	98,329

All Other ML Summary (Thousands)	
DOC	104,829
DCYF	83,341
Higher Ed	64,305
PEBB/Use of Reserves	62,199
Local Public Safety Account	50,000
Self-Insurance Liability Premium	40,197
Natural Resources	19,651
All Other	<u>73,791</u>
	498,313

Debt Service (CFL&ML)	131,240
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Maintenance level items are as estimated in Governor's budget. Revenues are as projected by the November 2018 ERFC Forecast. Growth rates are biennial, not annual.

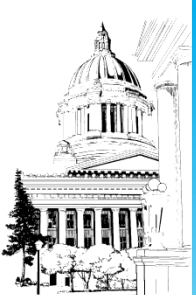


# November ERFC Outlook Updated To Reflect the Governor's Maintenance Level Budget

## Governor's Maintenance Level Budget Outlook Funds Subject to the Outlook *Dollars in Millions*

	<b>2017-19</b>	<b>2019-21</b>	<b>2021-23</b>
Beginning Balance	1,149	1,586	564
Total Revenues and Resources	46,260	51,394	54,698
Appropriations Less Reversions	44,674	50,830	54,456
Projected Ending Balance	1,586	564	242
Budget Stabilization Account Ending Balance	1,648	2,247	2,937
Total Reserves	3,235	2,811	3,179

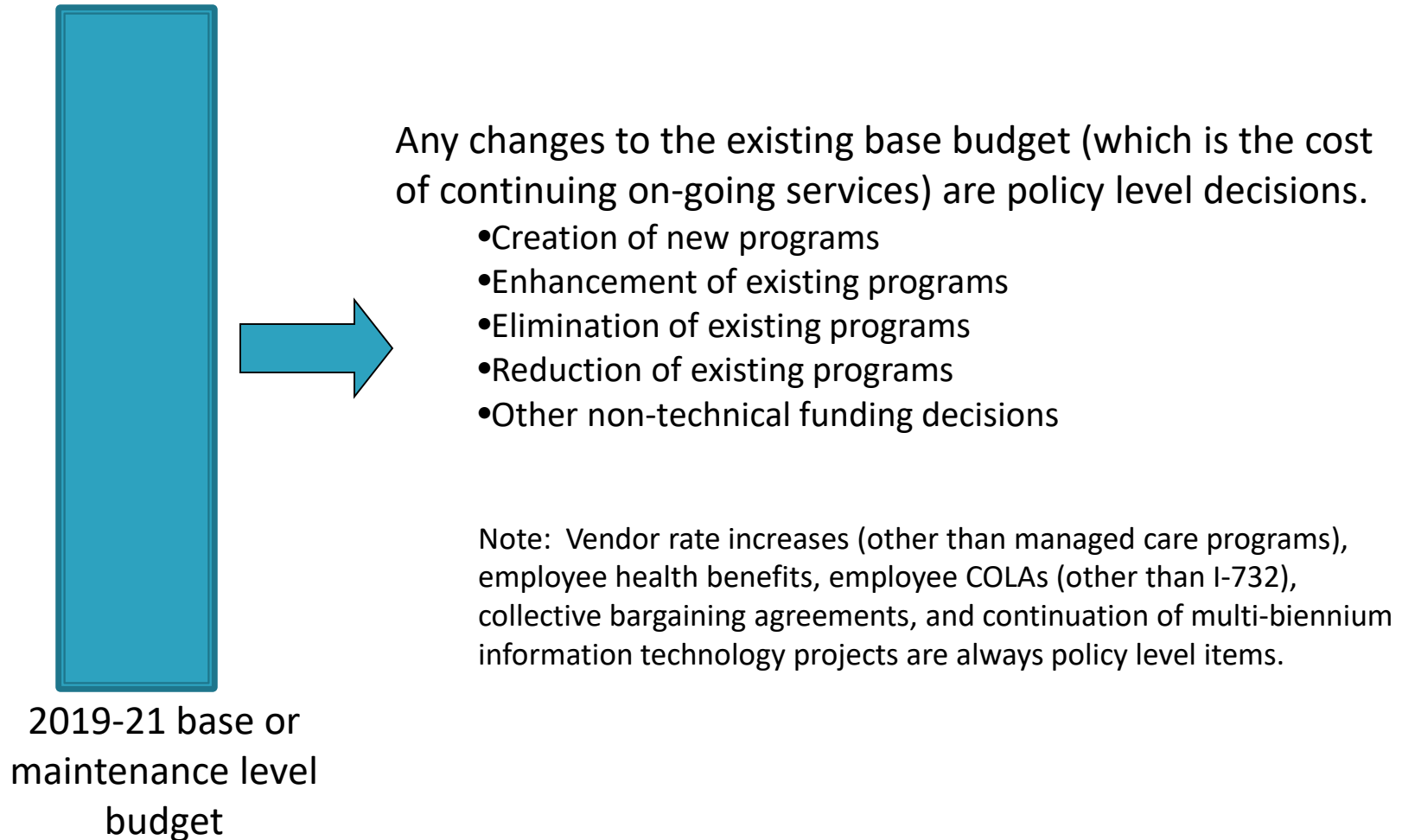
Note: Resources are the same as those used by the ERFC in November except that BSA transfer and related items have been updated. Unlike the November ERFC Outlook, no policy items are assumed above. Finally, spending figures are net of reversions while figures on the previous slide are before reversions.



# This Outlook Is Balanced – But There Are Some Caveats

- ▶ This assumes only Governor's maintenance level spending – and only those resources assumed in the November ERFC Outlook.
- ▶ This does not include any policy items (all legislative choices).
- ▶ Depending on legislative choices, impacts are in the billions (over four years).
- ▶ This Outlook is not official: The ERFC will be considering an Outlook for the Governor's budget (including policy items) later this month.

# Policy Level Budget Decisions







## Potential Policy Items

- ▶ Collective bargaining agreements (employee and non-employee) if submitted to the Legislature.
- ▶ School employee health benefit collective bargaining agreement if submitted to the legislature.
- ▶ Other compensation related proposals (employees not subject to bargaining and/or benefits not subject to bargaining).
- ▶ Vendor rate changes.
- ▶ Other legislative policy choices (K-12 education, behavioral health, natural resources, higher education, health care, public safety, other human services, early learning, etc.) – increases or decreases.
- ▶ Increasing or decreasing resources (redirecting existing revenue, modifying existing tax or fee rates/bases, creating or eliminating taxes or fees, etc.)



# Appendix



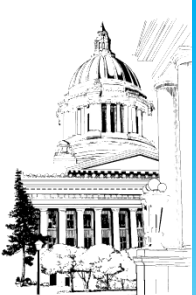
# 2017-19 Operating Budget

**NGF-O Plus Dedicated McCleary Penalty Account**  
**(Dollars in thousands)**

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Legislative	166,592
Judicial	290,589
Debt Service	2,293,796
Public Schools	22,808,551
Higher Education	3,713,656
Department of Corrections	2,005,579
Health Care Authority	5,146,730
Dept. of Children, Youth & Families	1,158,102
DSHS: DD, LTC & State Hosp	4,350,779
DSHS: Other	1,188,708
Natural Resources	341,509
All Other	1,301,834
	44,766,425

Note: Adjusted to assume Behavioral Health and DCYF transfers took place in FY 2018 rather than FY 2019.



# Glossary

**2019 Supplemental Budget:** A modification to the budget for the current biennium (2017-19). A 2018 Supplemental Budget was adopted in the first year of the biennium. A 2019 supplemental, sometimes called the second supplemental, will likely be adopted in the 2019 session.

**2019-21 Budget:** Legislation that will authorize spending for the biennium beginning July 1, 2019 and ending June 30, 2021.

**General Fund:** The account that receives general revenues and is spent for operations such as education, social services, and corrections.

**Funds Subject to the Outlook (NGF-O):** The State General Fund plus the Education Legacy Trust Account and Opportunity Pathways Account.

**Total Near General Fund (NGF-T):** Funds subject to the Outlook plus the Pension Funding Stabilization Account and the Dedicated McCleary Penalty Account.



# Glossary cont'd.

**Carry Forward Level:** A projected expenditure level for each biennial budget which is mechanically calculated by adjusting current appropriations by the bow wave impact of items assumed in existing appropriations (costs or savings). For example, accounting for the biennial cost of a new program that was funded beginning in the second year of the biennium is a common bow wave item.

**Maintenance Level:** A projected expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated by using the carry forward level and making adjustments for the forecasted changes in the entitlement caseload/enrollment and other mandatory expenses. This number establishes a base from which policy changes are made to create a new budget and, for the Outlook biennium, it is also used to determine compliance with the four-year balanced budget requirement.

**Policy Level:** The authorized spending level for the next biennium is calculated by taking the maintenance level and making a series of discrete decisions that increase or decrease the budget of an agency. Examples include: creating a new program; eliminating a current program; increasing or decreasing vendor or employee payment rates; expanding or contracting program eligibility; expanding or contracting the value of services provided by a program; and increasing or decreasing the administrative costs of a program. Appropriations are the sum of maintenance level and policy level.