



OFFICE *of*  
**PROGRAM RESEARCH**

WASHINGTON STATE  
HOUSE OF REPRESENTATIVES

# **2023 Session Budget Preview**

**House Appropriations Committee**

**December 1, 2022**

**Office of Program Research**

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# This presentation will cover:

- Operating budget overview/refresher
- Revenue update
- Operating budget calendar
- Developing the 2023-25 Operating budget
- Preliminary Budget Outlook



# 2021-23 Operating Budget

## Near General Fund-Outlook (NGF-O, \$ in thousands)

Legislative	230,715
Judicial	487,801
Debt Service	2,610,318
Public Schools	27,767,679
Higher Education	5,114,941
Department of Corrections	2,312,030
Health Care Authority	6,685,968
Dept. of Children, Youth & Families	2,332,793
DSHS: ALTA, DDA, & State Hospitals	6,347,640
DSHS: Other	1,297,674
Natural Resources	907,453
Dept. of Commerce	747,016
All Other*	7,282,605
	64,123,633

\*Includes Special Appropriations to the Transportation budget (\$2.0 billion) and Capital budget (\$650 million) made in the 2022 Supplemental budget, and appropriations in other legislation.



# Operating Budget Drivers (Covers 83% of NGF-O for the 2021-23 Biennium)

## Public Schools (43%)

- ▮ Enrollment
- ▮ Inflation

## Low-Income Health (10%)

- ▮ Caseloads
- ▮ Utilization & Inflation

## Debt Services (4%)

- ▮ Capital Budget (size)
- ▮ Interest Rates

## Children, Youth and Families (4%)

- ▮ Caseloads
- ▮ Utilization & Inflation

## Higher Education (8%)

- ▮ Partially Discretionary
- ▮ Enrollment, Tuition & Financial Aid

## Corrections (4%)

- ▮ Inmate Population
- ▮ Inmate Mix
- ▮ Community Supervision

## DSHS AL TSA, DDA, and WSH/ESH (10%)

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

Note: Low-Income Health reflects all Health Care Authority NGF-O, including Community Behavioral Health.



# 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, DCYF-JR facilities, state hospitals, DDA 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 by legislation.

# Budget Stabilization Account (BSA)

- ☰ Serves as a “rainy day” account.
- ☰ Constitutional creation (2007 and 2011; Art. VII, Sec. 12).
- ☰ Funds must be transferred into the BSA each year (one percent of General State Revenues (GSR). Under certain conditions , additional transfers are required.
- ☰ Funds may be appropriated...
  - ☰ with at least a three-fifths vote...
  - ☰ ...unless estimated employment growth in any fiscal year is forecasted as less than 1%, in which case moneys may be appropriated for that year with a constitutional majority vote; or
  - ☰ for declared disasters with a constitutional majority vote and limited to that purpose.



# Washington Rescue Plan Transition Account (WRPTA)

- ☰ Originally created in 2021 to serve as an additional “rainy day” account.
- ☰ Revenues consist of money directed by the Legislature to the Account.
  - ☰ \$1.0B GF-State transfer into WRPTA in the 2021-23 biennial budget
  - ☰ \$1.1B GF-State transfer into WRPTA in the 2022 Supplemental
  - ☰ Current WRPTA balance = \$2.1B
- ☰ Allowable uses include responding to the impacts of the COVID-19 pandemic, and to continue activities begun with or augmented by COVID-related federal funding.
- ☰ Requires a constitutional majority vote to appropriate.



# Forecast Revisions Since The Enacted Budget (Economic Changes & Board of Tax Appeals (BTA) Decision)

\$ in Millions

	FY 2022	FY 2023	FY 2024	FY 2025	4 Years
<b>June Forecast Change</b> (NGF-O Economic Changes)	814	738	623	489	2,664
<b>September Forecast Change</b> (NGF-O Economic Changes + BTA Decision)	-21	64	-307	-188	-452
<b>November Forecast Change</b> (NGF-O Economic Changes)	0	761	256	426	1,443
<b>Total (June + Sept + Nov) Forecast Change</b> (NGF-O Economic Changes + BTA Decision)	<b>793</b>	<b>1,564</b>	<b>571</b>	<b>726</b>	<b>3,654</b>

Notes: Reflects economic changes excludes the impact of legislation enacted between the February 2022 and November 2022 revenue forecasts. Includes impacts from a decision by the Washington State Board of Tax Appeals (BTA) which broadens eligibility for a machinery and equipment exemption. Does not include impacts from reversions, prior period and ACFR adjustments. Does not include the impact of using the actual forecast for FY 2024 and FY 2025 (rather than the 4.5% growth assumption used in the Outlook). This reduces resources by \$896M making the total change \$2.75B rather than \$3.65B.





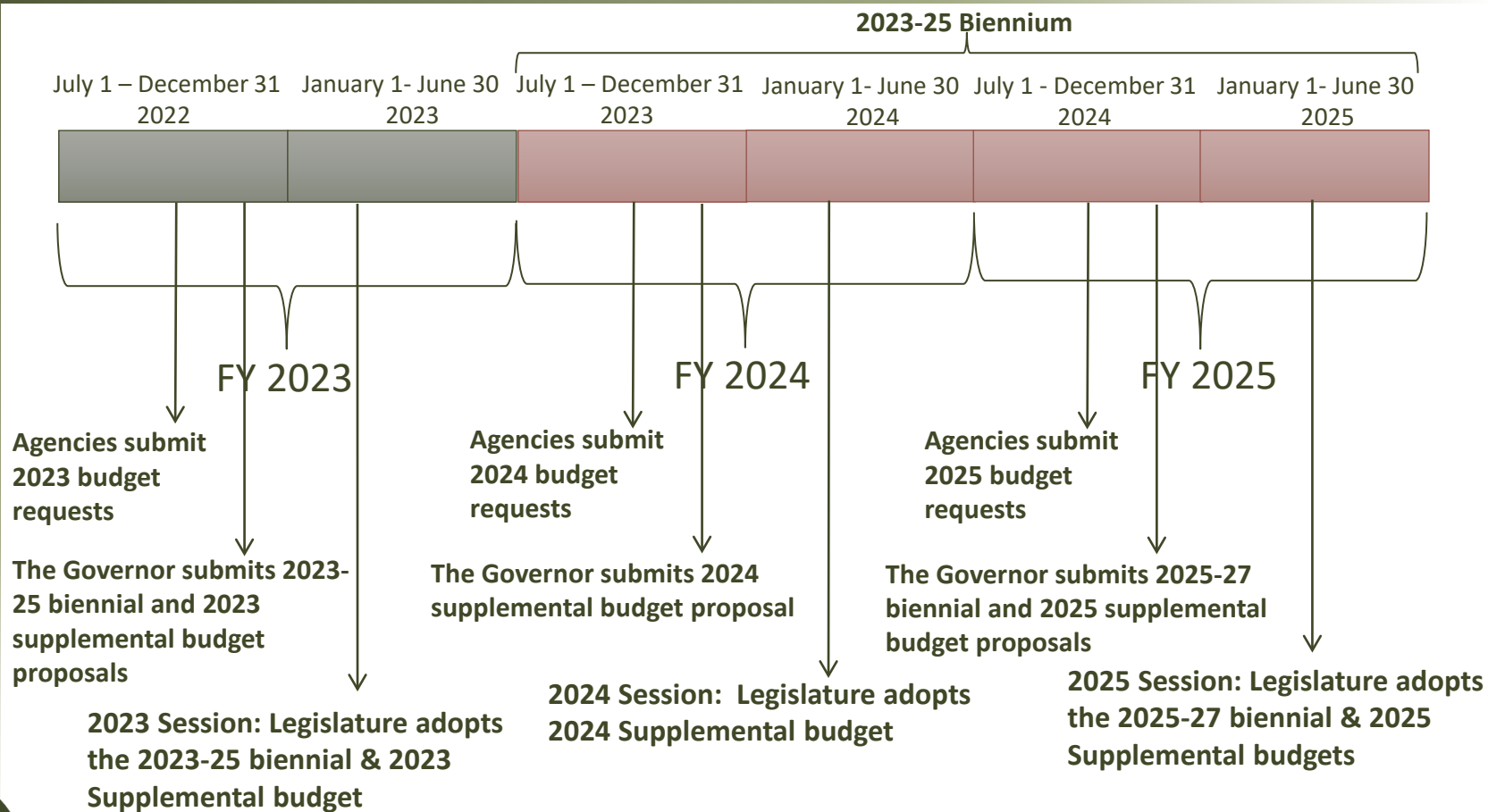
## Projected NGF-O Revenue Collections as of November 2022

Fiscal Year	Dollars in Millions	% Change From Prior Year
FY 2021	28,217	13.3%
FY 2022	31,478	11.6%
FY 2023	32,475	3.2%
FY 2024	32,421	-0.2%
FY 2025	33,764	4.1%
FY 2026	34,823	3.1%
FY 2027	36,059	3.5%

Source: Economic and Revenue Forecast Council, November 2022 forecast. Includes forecasted revenue from capital gains, which is currently being litigated. If capital gains revenue is removed, the projected collection for FY 2023 is reduced by \$234M and projected collections for 2023-25 are reduced by \$945M.



# Operating Budget Calendar: Current Fiscal Year through the 2023-25 Biennium



\*Agencies develop budget proposals over the summer and submit them in September. The Governor's office develops budget proposals in fall and The Governor makes proposals public in December. The Legislature develops budgets during session(s) and sends to the Governor.



# Getting to the 2023-25 Budget Starting Point

\$64.1 billion NGF-O



2021-23 Budget



“Carry forward”

2021 and 2022 Legislative budget decisions into the next biennium.\*

Take current appropriations and:

- Biennialize ongoing appropriations and reductions.
- Remove one-time appropriations and reductions.



Maintenance level adjustments:\*

- Entitlement programs - Caseload forecasts and per cap or formula driven costs.
- Entitlement and non-entitlement programs – MANDATORY cost increases or decreases.

**Note: Portions of many large entitlement programs are effectively zero-based as part of this process.**



2023-25 base or maintenance level budget

\*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).

# Policy Level Budget Decisions



2023-25 base or  
maintenance level  
budget



Any changes to the existing base budget (which is the cost of continuing ongoing services) are policy level decisions.

- Creation of new programs
- Enhancement of existing programs
- Elimination of existing programs
- Reduction of existing programs
- Other non-technical funding decisions

Note: Vendor rate increases (other than managed care programs), employee health benefits, employee COLAs, collective bargaining agreements, and continuation of multi-biennium information technology projects are always policy level items.

# Potential Policy Items

- Collective bargaining agreements if submitted to the Legislature and other compensation related proposals.
- Vendor rate changes.
- Other policy choices (K-12 education, behavioral health, natural resources, higher education, health care, 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.).



# The Four-Year Balanced Budget Requirement (Budget Outlook)

- ☰ The Outlook is prepared to facilitate compliance with the four-year balanced budget requirement for NGF-O accounts.
- ☰ The Outlook projects the impact of the current biennial budget into the ensuing biennium.
- ☰ Generally speaking, the Legislature is required to adopt a budget that balances for the current fiscal biennium and balances the projection for the ensuing fiscal biennium (Outlook biennium) for NGF-O accounts.
- ☰ In the Outlook biennium, the projected maintenance level cannot exceed the available fiscal resources based on statutory methodology.
- ☰ When employment growth of <1% is forecasted and the Legislature appropriates from the BSA, the Outlook requirement is suspended for the ensuing fiscal biennium.



# Balancing The Budget During The 2023 Session

- ☰ The Legislature will almost certainly adopt both a 2023 Supplemental Budget and a 2023-25 Biennial Budget.
- ☰ By statute, both the 2021-23 budget and 2023-25 biennial budget must be balanced.
- ☰ By statute, the 2023-25 budget is projected into 2025-27 (Outlook biennium) and that must also be balanced for NGF-O accounts.\*
- ☰ 2025-27 is a projection -- the Legislature will not be enacting an actual budget for 2025-27 until the 2025 session.



\*Note the exception described on slide 14.

# Key Assumptions for the Preliminary Outlook shared today include:

- ☰ Assumes the November revenue forecast. Per statute, 4.5% annual revenue growth is assumed in the 2025-27 biennium (Outlook biennium). The actual forecast is assumed in the 2023-25 biennium.
- ☰ Assumes no fund transfers in/out of NGF-O except for the 1% transfer to the BSA in future biennia. Assumes enacted fund transfers for the current biennium.
- ☰ This Outlook projects the impact of the forthcoming 2023-25 biennial budget into the ensuing 2025-27 biennium, but:
  - ☰ Maintenance level costs reflect very preliminary staff estimates based on currently available information.
  - ☰ Expenditures do not include any policy items. Perspectives may differ on “must-do” policy items.
- ☰ This is an unofficial Outlook prepared to help inform members in advance of the 2023 session.





# Staff Analysis For Planning Purposes: Budget Outlook Preliminary Maintenance Level Only

(Dollars in Millions)

	<b>2021-23</b>	<b>2023-25</b>	<b>2025-27</b>
<b>Beginning Balance</b>	4,161	2,435	2,935
<b>Total Revenues and Resources (Incl. Beginning Balance)</b>	66,378	68,027	74,452
<b>Projected Spending Through ML</b>	63,943	65,092	68,059
<b>Projected Ending NGF-O Balance</b>	2,435	2,935	6,393
<b>Projected BSA Ending Balance</b>	651	1,346	2,136
<b>Projected WRPTA Ending Balance</b>	2,100	2,100	2,100
<b>Total Reserves</b>	<b>5,186</b>	<b>6,380</b>	<b>10,630</b>
<b>Total Reserves Pessimistic</b>	<b>3,749</b>	<b>-640</b>	<b>-4,886</b>

Note: Projected Spending is net of assumed reversions and is a staff estimate of maintenance level based on very preliminary information (including caseload savings). Potential policy level budget items are not included in this analysis. These figures will change and come with a greater margin of error than is typical. This analysis was prepared by OPR staff for legislative deliberations of House members. It is not an official Outlook.

# Summary

- ☰ In addition to the BSA, the Legislature now has WRPTA, also a “rainy day” fund. WRPTA requires a constitutional majority to appropriate.
- ☰ State revenues have grown in recent years, but growth is projected to slow in the 2023-25 biennium.
- ☰ The Legislature will consider proposed policy changes in the 2023 session for both the 2023 Supplemental budget and 2023-25 Biennial budget.
- ☰ By statute, the 2023-25 budget being adopted must be balanced for all accounts over the two-year biennium, and the projected budget for the 2025-27 biennium must also be balanced for NGF-O accounts.\*

\*Note the exception described on slide 14.





# Appendix

# BSA:

## When are additional transfers required?

- ▮ In cases of Extraordinary General State Revenue growth (EGSR)
  - ▮ 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.
  - ▮ This condition is met when growth in GSR 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 <1% per fiscal year).
  - ▮ EGSR transfers are made (at most) once a biennium.
- ▮ State employment growth in the 2019-21 biennium average <1%, so no EGSR transfer is being made in the 2021-23 biennium.



# Coronavirus State Fiscal Recovery Fund (CSFRF): Projected Uses and Balance (2019-21 through 2023-25)

	<u>CSFRF</u> <u>(\$ in millions)</u>
Transportation Budget	1,000
<b>Capital Budget</b>	<b>400</b>
<b>Operating Budget</b>	<b>2,878</b>
Housing, Homelessness, & Utilities	651
Immigrant Relief Fund	340
Food Assistance & Supply Chain	189
K-12 (Excl. ESSER)	383
Department of Health	144
Unemployment Ins. Trust Fund	500
Health Care Provider Supports	226
Business Assistance ('Other' incl. non-profits)	289
State Operations/Other	157
<b>All Budgets</b>	<b>4,278</b>
<b><u>Federal CSFRF Allocation</u></b>	<b><u>4,428</u></b>
<b>Remaining Balance</b>	<b>149</b>





# Glossary

**2023 Supplemental Budget:** A modification to the budget for the current biennium (2021-23). A 2022 Supplemental Budget was adopted in the first year of the biennium. A 2023 supplemental, sometimes called the second supplemental, will likely be adopted in the 2023 session.

**2023-25 Budget:** Legislation that will authorize spending for the biennium beginning July 1, 2023 and ending June 30, 2025.

**State General Fund:** The account that receives general revenues from sources including but not limited to the state sales tax, state business & occupation (B&O tax), and state property tax, and is spent for general state operations such as education, social services, and corrections.

**Funds Subject to the Outlook:** The State General Fund plus the Education Legacy Trust Account, Workforce Education Investment Account, and the Opportunity Pathways 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.

**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.



# Projected Biennial Reserve Levels (2012 - 2022)

(Dollars in millions)				
Session	NGF-O	BSA	WRPTA	Total Reserves
2012	46	265	-	311
2013	58	577	-	636
2014	296	583	-	879
2015	343	894	-	1,237
2016	508	701	-	1,208
2017	925	1,158	-	2,083
2018	1,228	1,139	-	2,367
2019	372	2,249	-	2,621
2020	1,292	1,979	-	3,271
2021	789	543	1,000	2,332
2022	222	609	2,100	2,931

Note: All figures above represent the “budget biennium” and not the “Outlook biennium.” The source of the data is the Legislative Budget Notes and reflects projected reserves at the time each budget was adopted.

