



OFFICE *of*
PROGRAM RESEARCH

WASHINGTON STATE
HOUSE OF REPRESENTATIVES

2024 Session Budget Preview

House Appropriations Committee

December 4, 2023

Office of Program Research

Mary Munroe, Budget Coordinator

This presentation will cover:

- Operating budget overview/refresher
- Operating budget calendar
- Context for Developing the 2024 Supplemental
 - Revenue update
 - Reversions update
 - NGF-O ending fund balance update
 - Outlook update with preliminary maintenance level
- Appendix of operating budget information



2023-25 Operating Budget

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

Legislative	284,000
Judicial	588,000
Debt Service	2,972,000
Public Schools	30,676,000
Higher Education	5,825,000
Department of Corrections	2,969,000
Health Care Authority	7,507,000
Dept. of Children, Youth & Families	3,575,000
DSHS: AL TSA, DDA, & State Hospitals	8,479,000
DSHS: Other	1,654,000
Natural Resources	988,000
Dept. of Commerce	1,202,000
All Other*	3,085,000
	69,804,000

*All figures are rounded. Includes appropriations in other legislation.



Operating Budget Drivers (Covers 89% of NGF-O for the 2023-25 Biennium)

Public Schools (44%)

- ▮ Enrollment
- ▮ Inflation

Low-Income Health (11%)

- ▮ Caseloads
- ▮ Utilization & Inflation

Debt Services (4%)

- ▮ Capital Budget (size)
- ▮ Interest Rates

Children, Youth and Families (5%)

- ▮ Caseloads
- ▮ Utilization & Inflation

Higher Education (8%)

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

Corrections (4%)

- ▮ Population of incarcerated individuals
- ▮ Mix of incarcerated individuals
- ▮ Community Supervision

DSHS AL TSA, DDA, and WSH/ESH (12%)

- ▮ 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

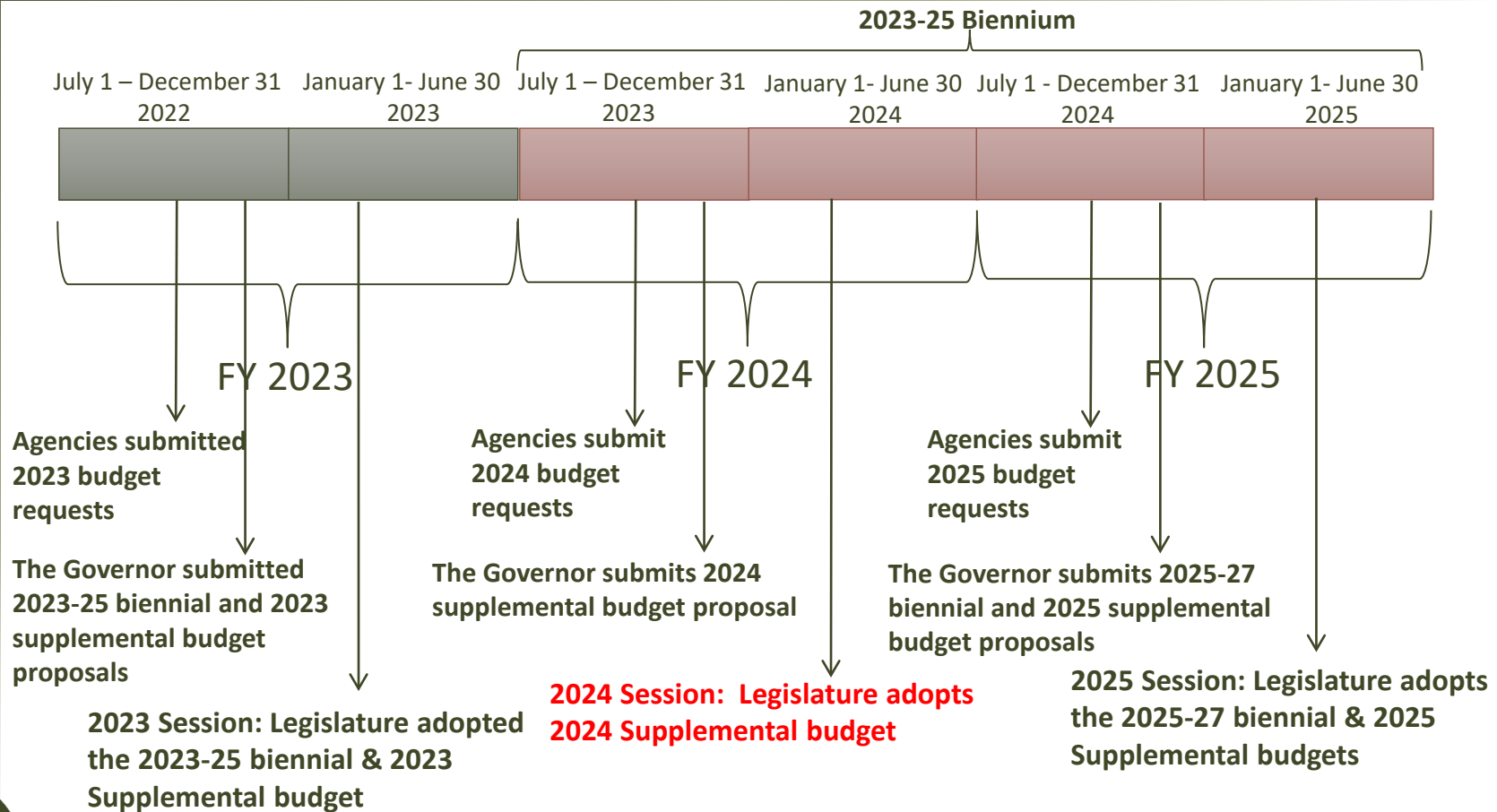
Green rectangles are illustrative only and not to scale.

* 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.

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.



The NGF-O revenue forecast has increased since the March 2023 forecast on which the enacted budget is based.

\$ in Millions

NGF-O Revenue Forecast Economic Changes	FY 2023	2023-25	2025-27 (incl. 4.5% growth)	5-Year Period
June 2023	335	287	110	731
Sept. 2023	265	663	521	1,449
Nov. 2023	(18)	191	533	706
Total Change	582	1,142	1,164	2,887

Notes: Numbers are rounded. Reflects economic changes only and excludes the impact of legislation enacted between the March 2023 and November 2023 revenue forecasts. Does not include impacts from reversions, prior period adjustments, and ACFR adjustments. 2025-27 numbers reflect application of the 4.5% revenue growth assumption to the FY 2025 revenue forecast consistent with the Outlook statutory methodology.



NGF-O reversions for FY 2023 are higher than assumed in the enacted budget.

	NGF-O Reversions (\$ in Millions)
Enacted Budget Reversion Assumption	253
Actual Reversions	760
Change in Reversions (Actual – Assumed)	507

Drivers for the increased reversions include underexpenditures related to:

- K-12
- Working Families Tax Credit (Department of Revenue)
- Department of Commerce
- Labor shortages

Notes: Numbers are rounded. Does not include the impact of ACFR or prior period adjustments. Includes the impact of unanticipated adjustments between fiscal years.



Due to increases in the NGF-O revenue forecast and reversions, the projected ending fund balance has increased...

\$ in Millions

	2023-25	2025-27
Enacted Budget	1,362	23
June Outlook Update	1,982	752
September Outlook Update	2,900	2,187
November Outlook Update	3,613	3,428

...but it's important to note that these projected ending balances do not reflect updated maintenance level or policy level expenditures.

Notes: Numbers are rounded. Includes the impact of the 1% NGF-O transfer to the Budget Stabilization Account in 2025-27, other transfers assumed in the enacted budget and ERFC-approved Budget Outlook, and the impacts of ACFR and prior period adjustments. Excludes ending fund balances in the Budget Stabilization Account (BSA) and the WA Rescue Plan Transition Account (WRPTA).



Balancing The Budget During The 2024 Session

- ☰ The Legislature will almost certainly adopt a 2024 Supplemental Budget.
- ☰ By statute, the 2023-25 biennial budget must be balanced after 2024 Supplemental adjustments.
- ☰ By statute, the 2023-25 budget, with 2024 Supplemental adjustments, is projected into 2025-27 (Outlook biennium) and 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 appendix slide 19.

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 the 1% constitutionally-required transfer to the BSA and other transfers as reflected in the enacted budget and ERFC-approved budget Outlook.
- ▮ This Outlook projects the impact of the 2023-25 biennial budget with 2024 Supplemental adjustments 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 2024 session.



Preliminary maintenance level (ML) estimates net to \$2.2 billion NGF-O in increased expenditures over the four-year period.

- As a reminder, ML captures funding adjustments for entitlement programs and other mandatory items.
- While estimates will change in session with updated forecasts and information, the major spending drivers are likely to remain the same.
- Major drivers of estimated ML expenditure drivers include:
 - Health Care Authority Medical Assistance and Community Behavioral Health (~27 percent)
 - K-12 Schools (~32 percent)
 - Department of Social & Health Services (~21 percent)



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

(\$ in Millions)

	2023-25	2025-27
NGF-O Beginning Balance	5,287	2,717
Total Revenues and Resources (Including Beginning Balance)	72,924	74,837
Projected Spending Through Maintenance Level	70,207	73,627
Projected NGF-O Projected Ending Balance	2,717	1,210
Projected Budget Stabilization Account Ending Balance	1,350	2,132
Projected Washington Rescue Plan Transition Account Ending Balance	798	798
Projected Total Reserves (ERFC Adopted Forecast)	4,866	4,139
Projected Total Reserves (Pessimistic Forecast)	1,221	-6,443

Note: Projected Spending is net of assumed reversions and is a staff estimate of maintenance level based on very preliminary information (including caseload changes). 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.



With the addition of estimated preliminary ML expenditures, the projected 4-year NGF-O ending fund balance is reduced from \$3.4 billion to \$1.2 billion.

\$ in Millions

	2023-25	2025-27
Enacted Budget	1,362	23
June Outlook Update	1,982	752
September Outlook Update	2,900	2,187
November Outlook Update <i>with preliminary ML</i>	2,717	1,210

...and it's important to note that these figures do not include any potential member policy-level decisions.

Notes: Numbers are rounded. Includes the impact of the 1% NGF-O transfer to the Budget Stabilization Account in 2025-27, other transfers assumed in the enacted budget and ERFC-approved Budget Outlook, and the impacts of ACFR and prior period adjustments. Excludes ending fund balances in the Budget Stabilization Account (BSA) and the WA Rescue Plan Transition Account (WRPTA).



2024 Supplemental: Policy Level Budget Decisions



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.

2023-25 Enacted Budget +
2024 Supplemental
Maintenance Level
Adjustments

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.).



Summary

- ☰ An increased revenue forecast and an increase in FY 2023 NGF-O reversions have increased the projected 4-year NGF-O ending fund balance from \$23 million to \$3.4 billion, but....
- ☰ When preliminary ML expenditures are incorporated, that projected 4-year NGF-O ending balance declines from \$3.4 billion to \$1.2 billion.
- ☰ Additionally, the Legislature may choose to make policy level changes in the 2024 Supplemental budget.
- ☰ By statute, the adopted 2023-25 biennial budget plus 2024 Supplemental 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 appendix slide 19.





Appendix

*Outlook/Balanced Budget Requirement Overview
November 2023 NGF-O Revenue Forecast Summary
Actual NGF-O Reversions by Fiscal Year*

*Coronavirus State & Fiscal Recovery Fund Budgeted Uses & Remaining Balance
Reserves Overview: Budget Stabilization Account & WA Rescue Plan Transition Account
Projected Biennial Reserve Levels (2012-2023)
Medical Assistance November 2023 Caseload Forecast
Glossary of Budget Terms*

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.



Projected NGF-O Revenue Collections as of November 2023

Fiscal Year	Dollars in Millions	% Change From Prior Year
FY 2020	24,915	4.1%
FY 2021	28,217	13.3%
FY 2022	31,478	11.6%
FY 2023	33,256	5.6%
FY 2024	32,852	-1.2%
FY 2025	34,031	3.6%
FY 2026	35,122	3.2%
FY 2027	36,383	3.6%

Source: Economic and Revenue Forecast Council, November 2023 forecast.



Actual NGF-O Reversions by Fiscal Year

<u>FY</u>	<u>Actual NGF-O Reversions (\$ in Millions, Rounded)</u>
2016	159
2017	161
2018	53
2019	114
2020	572
2021	394
2022	475
2023	760

*All figures represent final actual reversion amounts by FY close in the Budget Outlook system and include unanticipated adjustments between FYs.



Coronavirus State Fiscal Recovery Fund (CSFRF): 2023-25 Budgeted Uses and Remaining Balance

	<u>CSFRF</u> <u>(\$ in Millions, Rounded)</u>
Federal CSFRF Allocation	4,428
2019-21 Expenditures & 2021-23 Appropriations*	3,806
2023-25 Budgeted	
Transportation Budget	300
Capital Budget	9
Operating Budget	166
Housing, Utilities, Community Services (COM)	78
Food Assistance & Supply Chain	36
Business & Nonprofit Assistance	23
UW Medicine/Harborview	20
Public Health	7
All Other Operating	2
Amount Remaining	146

*2021-23 reflects appropriated amounts. The amount remaining is likely to increase due to some 2021-23 appropriations going unspent.



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.



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 averaged <1%, so no EGSR transfer was made in the 2021-23 biennium.



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
 - ☰ \$1.3B WRPTA transfer into GF-State in the 2023-25 biennial budget
 - ☰ Projected WRPTA balance at end of 2023-25 = \$798 million
- ☰ 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.



Projected Biennial Reserve Levels (2012 - 2023)

(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
2023	1,362	1,345	798	3,505

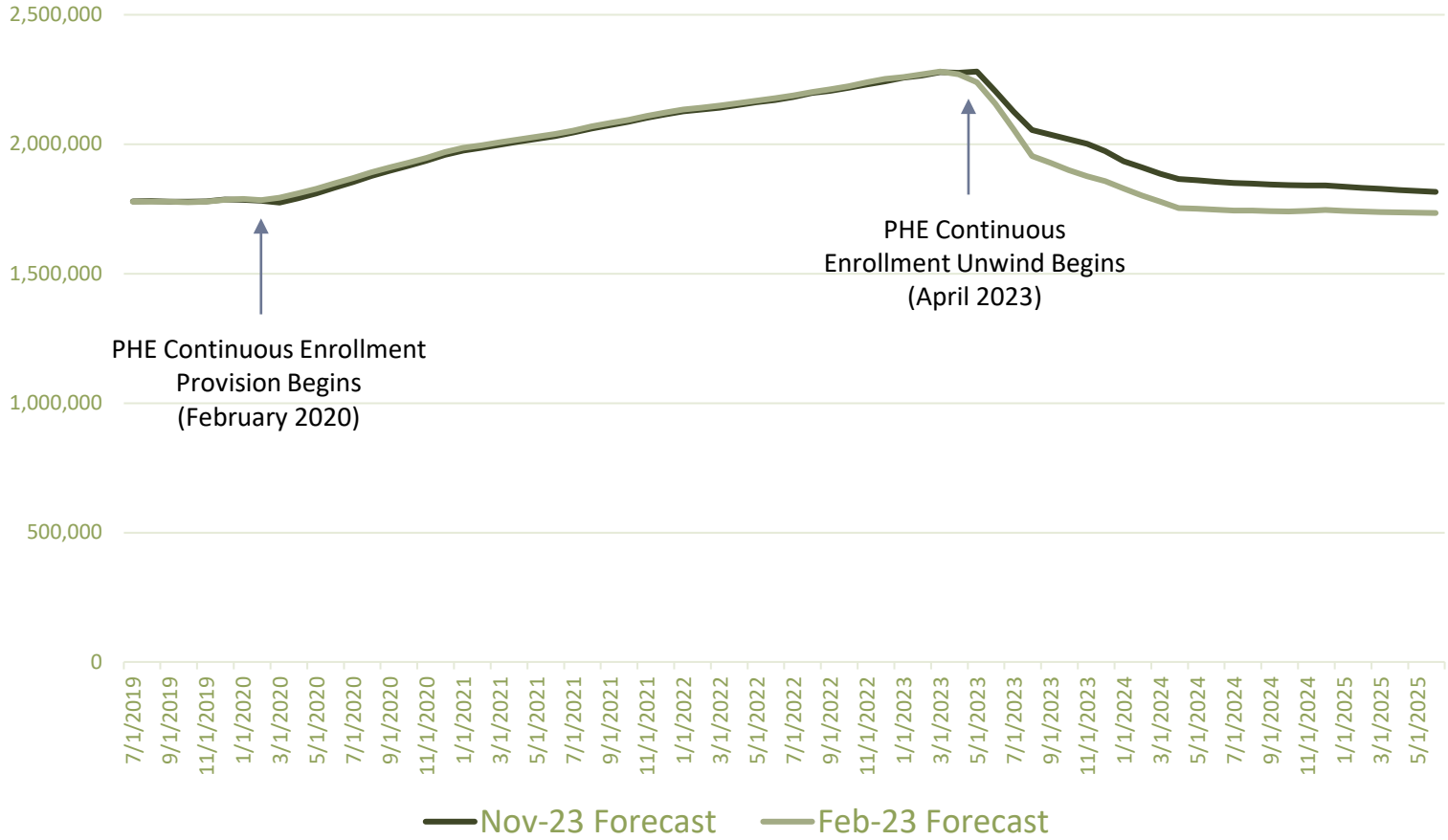
Note: All figures above represent the “budget biennium” and not the “Outlook biennium.” The source of the data is the Legislative Budget Notes and reflects projected reserves at the time each budget was adopted.



Total Medical Assistance Caseload:

The caseload temporarily increased from February 2020 through March 2023 with the federal requirement that states keep Medicaid clients continuously enrolled as a condition of receiving enhanced federal match during* the federal Public Health Emergency (PHE) declaration. WA is currently in the process of “unwinding” this requirement and removing clients from the caseload who do not meet Medicaid eligibility requirements.

Total Medical Assistance Caseload
(Source: Caseload Forecast Council)



*While the federal PHE declaration ended on 3/31/2023, the enhanced federal Medicaid matching rate steps down through December 2023.



Glossary

2024 Supplemental Budget: A modification to the budget for the current biennium (2023-25) anticipated to be updated in the 2024 session. A 2025 supplemental, sometimes called the second supplemental, will likely be adopted in the 2025 session.

2023-25 Budget: Enacted budget from the 2023 session that covers the period 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, the Opportunity Pathways Account, and the Fair Start for Kids 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.

