



OFFICE *of*
PROGRAM RESEARCH

WASHINGTON STATE
HOUSE OF REPRESENTATIVES

2025 Session Budget Preview

House Appropriations Committee

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Office of Program Research

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This presentation will cover:

- Operating budget overview/refresher
- Operating budget calendar
- Developing the 2025-27 Operating budget
- Revenue update
- Preliminary Budget Outlook



2023-25 Operating Budget

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

Legislative	286,000
Judicial	605,000
Debt Service	2,876,000
Public Schools	31,202,000
Higher Education	6,039,000
Department of Corrections	2,817,000
Health Care Authority	8,123,000
Dept. of Children, Youth & Families	3,820,000
DSHS: ALTA, DDA, & State Hospitals	8,801,000
DSHS: Other	1,932,000
Natural Resources	1,078,000
Dept. of Commerce	1,141,000
All Other*	3,225,000
	71,945,000

*All figures are rounded. After the 2024 Supplemental and includes appropriations in other legislation.



Operating Budget Drivers (Covers 88% of NGF-O for the 2023-25 Biennium)

Public Schools (43%)

- ▮ Enrollment
- ▮ Inflation

Low-Income Health (11%)

- ▮ Caseloads
- ▮ Utilization & Inflation

Debt Service (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

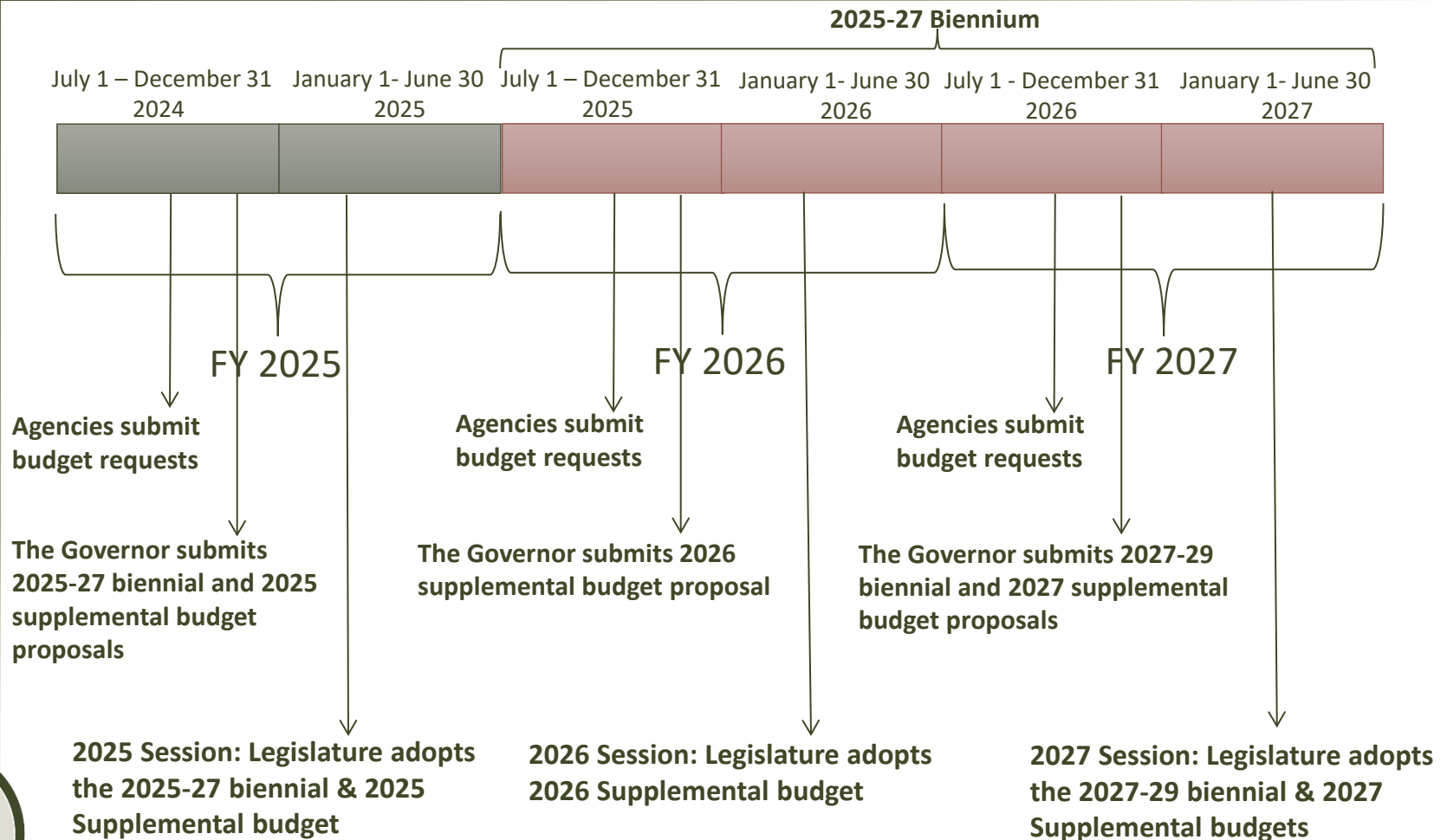
Green rectangles are illustrative only and not to scale.

* Includes prisons, DCYF-JR facilities, state hospitals, DDA facilities, foster care, SCC, etc.

** Subject to agreement by all parties, contracts may be renegotiated. Also, some contracts have termination – and/or fiscal shortfall clauses that may be invoked, while others may include “tail” periods.

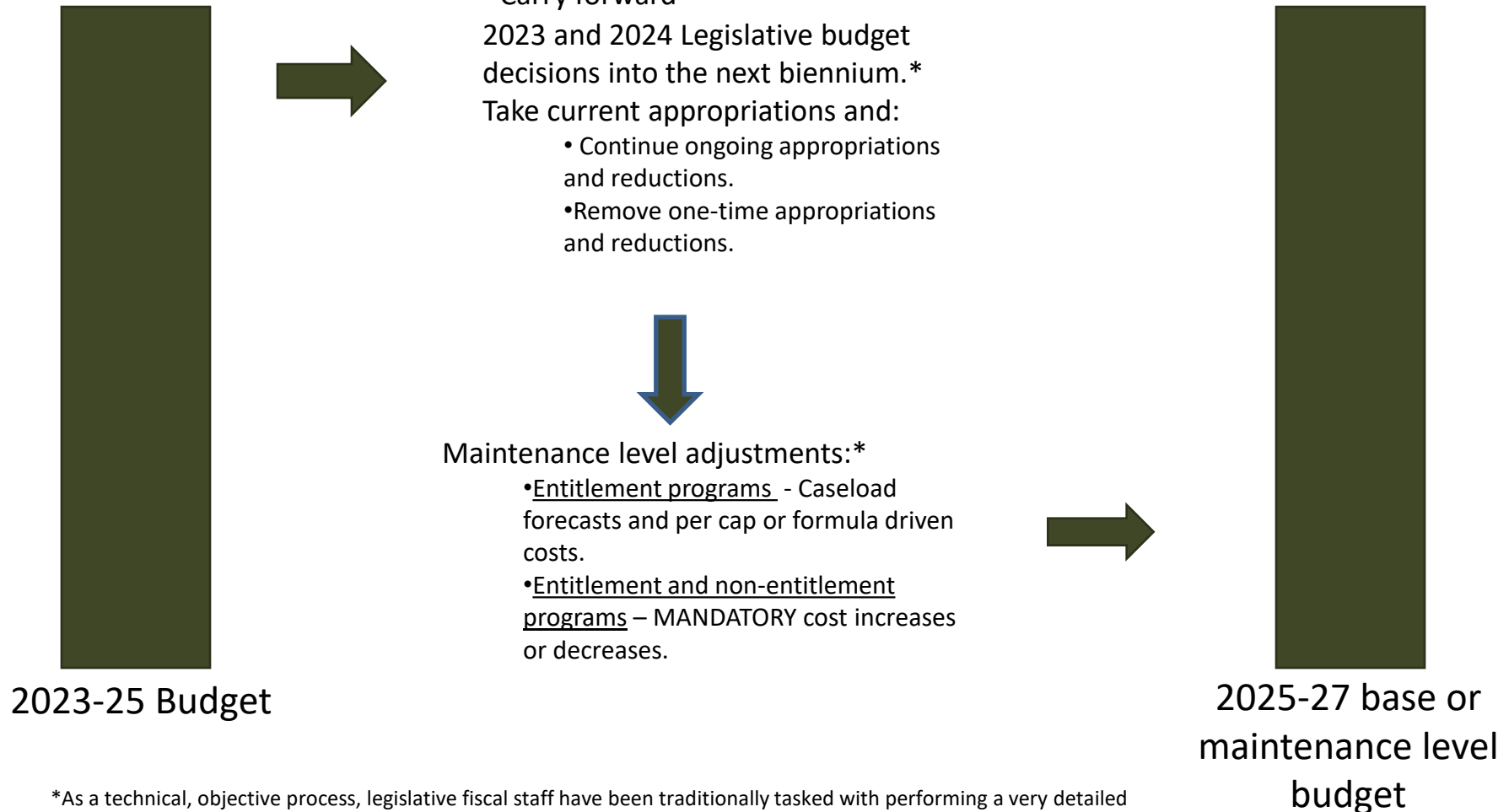
*** Can be changed by legislation.

Operating Budget Calendar: Current Fiscal Year through the 2025-27 Biennium



Getting to the 2025-27 Budget Starting Point

\$71.9 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).

Policy Level Budget Decisions



2025-27 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
- Increases or decreases to resources (taxes, fees)
- Other non-technical funding decisions

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

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.



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.



Preliminary information suggests 2025-27 will be challenging, for reasons that include:

▮ Slowing Revenue Growth

▮ FY 2016-FY 2023: Revenue growth averaged 8.3% per year.

▮ FY 2024-FY 2029: Revenue growth is projected to average 2.7% per year.

▮ The November revenue forecast is lower than what was used to write the budget.

▮ **Net caseload increases** in some program areas in the most recent forecasts.

▮ **Enacted policies phasing towards full implementation**

▮ **Inflation & labor market considerations** drive additional costs.

▮ **End to federal COVID-related funding** (and the state resources they offset).

▮ **...While revenue, economic, caseload, & per-capita cost forecasts will be updated in March 2025 for the legislative budget proposals, the underlying conditions of a challenging budget cycle are unlikely to change drastically in the next few months.**



Forecast Revisions Since The Enacted Budget

\$ in Millions

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	6 Years
June 2024 Forecast Change (NGF-O Economic Changes)	-158	-285	-119	-33	4	59	-533
September 2024 Forecast Change (NGF-O Economic Changes + Non-Economic Changes Noted Below)	-70	20	57	22	-14	-54	-39
November 2024 Forecast Change (NGF-O Economic Changes)	-17	-71	-108	-72	-57	-74	-400
Total (June + Sept + Nov Forecast Change (NGF-O Economic Changes + September Non-Economic Changes Noted Below)	-245	-336	-171	-83	-68	-69	-972

Notes: Reflects economic changes and excludes the impact of legislation enacted between the February 2024 and November 2024 revenue forecasts. Includes non-economic changes in the September forecast related to statutorily required transfers to the Clarke-McNary Account and updated estimates of Public Facilities District annual payments from the Washington State Convention Center. Does not include impacts from reversions, prior period and ACFR adjustments. FY 2028 and FY 2029 numbers reflect the actual forecast and do not include the 4.5% growth assumption used in the Outlook).



Preliminary Budget Outlook for the 2025 Session

- Based on the November 2024 revenue forecast as adopted by the Economic & Revenue Forecast Council.
 - Per statute, 4.5% annual revenue growth is assumed in the 2027-29 biennium (Outlook biennium). The 2023-25 and 2025-27 biennia assume the actual revenue forecast.
- Covers the costs of continuing current programs -- but excludes possible policy changes like employee compensation, vendor rates, policy enhancements or reductions, tax policy changes.
- Perspectives may differ on whether certain policy items are “must-do”.
- Figures are preliminary – much work needs to be done.
- Covers the five-year period legislators will consider in the 2025 session (FY 2025 through FY 2029).



Preliminary Maintenance Level Outlook

Dollars in Millions

	2023-25	2025-27	2027-29
Beginning NGF-O Balance	5,287	1,279	-4,351
Total Revenues and Resources (Including Beginning Balance)	73,362	72,067	72,850
Appropriations			
Base: (Enacted + Carry Forward Adjustments)	71,945	72,424	73,561
Preliminary Maintenance Level Estimate	742	4,377	6,367
Reversion Assumptions	-604	-388	-379
Revised Appropriations	72,083	76,418	79,550
NGF-O Projected Ending Balance	1,279	-4,351	-6,700
Budget Stabilization Account Ending Balance	1,327	2,102	2,961
Total Reserves	2,606	-2,248	-3,739

Note: Revenues for 2023-25 and 2025-27 are based on the November 2024 forecast. Revenues for 2027-29 use the November forecast with the 4.5% revenue growth assumption adjustment. Maintenance level estimates are very preliminary and reflect November 2024 caseload & per-capita cost forecasts. No policy-level items are included. This analysis was prepared by OPR staff for legislative deliberations of House members. It is not an official Outlook.

Balancing the Budget During The 2025 Session

- ☰ The Legislature will consider proposed policy changes in the 2025 session for both the 2025 Supplemental budget and 2025-27 Biennial budget.
- ☰ By statute, the 2025-27 biennial budget being adopted must be balanced for all accounts over the two-year biennium, and the projected budget for the 2027-29 biennium must also be balanced for NGF-O accounts.*
- ☰ State NGF-O revenues are projected to grow from FY 2024 through FY 2029 under the November 2024 revenue forecast, but the average growth is forecasted to be much smaller than recent years and the revenue forecast has declined since the 2024 session adjourned.
- ☰ A combination of slowed revenue growth and net increases in projected maintenance level spending suggest a more challenging budget environment in the 2025 session compared to recent sessions.

*Note the exception described on slide 9.





Appendix

Projected NGF-O Revenues

Biennial Budget Reserves (2012 Session - 2024 Session)

BSA Additional Information

Glossary

Projected NGF-O Revenue Collections

Fiscal Year	Dollars in Millions	% Change From Prior Year
FY 2021	28,217	
FY 2022	31,478	11.6%
FY 2023	33,256	5.6%
FY 2024	32,672	-1.8%
FY 2025	33,719	3.2%
FY 2026	34,981	3.7%
FY 2027	36,450	4.2%

Source: Economic and Revenue Forecast Council, November 2024 forecast.



Biennial Budget Reserves: 2012 Session - 2024 Session

Session	Dollars in Millions			
	NGF-O	BSA	WRPTA	Total
2012	46	265	0	311
2013	58	577	0	636
2014	296	583	0	879
2015	343	894	0	1,237
2016	508	701	0	1,208
2017	925	1,158	0	2,083
2018	1,228	1,139	0	2,367
2019	372	2,249	0	2,621
2020	1,292	1,979	0	3,271
2021	789	543	1,000	2,332
2022	222	609	2,100	2,931
2023	1,362	1,345	798	3,505
2024	2,368	1,329	0	3,697

The 2012 session was the session in which the four-year balanced budget requirement was enacted.

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.



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.



Glossary

2025 Supplemental Budget: A modification to the budget for the current biennium (2023-25) anticipated to be updated in the 2025 session. Sometimes called the second supplemental budget.

2025-27 Budget: Enacted budget from the 2025 session that will covers the period beginning July 1, 2025 and ending June 30, 2027.

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*.

*The Fair Start for Kids Account has a \$0 balance and no appropriations have been made from it.



Glossary cont'd.

Carryforward Level: A projected expenditure level for each biennial budget which is mechanically calculated after each short session year by adjusting current appropriations to be ongoing or one-time into the next biennium, depending on the member decision (one-time vs. ongoing) for each 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 the 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.

