

REVENUE AND CASELOAD FORECASTS SET THE STAGE FOR BUDGET WRITERS

BRIEFLY

The March revenue forecast lowered forecasted revenues for the combined 2011–13 and 2013–15 biennia by \$108.6 million. Legislators face a gap of \$1.2–\$1.3 billion between existing resources and the cost of continuing to provide the services currently provided. Beyond this, legislators would like to provide an additional \$0.8 billion to \$1.4 billion for public schools as down payment on the supreme court's McCleary decision.

On March 20th the Economic and Revenue Forecast Council approved revised forecasts for state government revenue. This followed the March 14th meeting at which the Caseload Forecast Council approved revised forecasts of caseloads for various state-funded human service and educational programs. With these final two pieces of the puzzle now on the table, legislators will turn to assembling a budget for the 2013–15 biennium. Yesterday Gov. Inslee released his priorities for the budget.

Revenue Forecasts

Fiscal analysts focus on three accounts from which general expenditures are made: the general fund–state, the education legacy trust account and the opportunity pathways account. The new revenue forecasts for these three accounts are summarized in the table below.

For the general fund state account, the new forecast added \$58.8 million for the 2011–13 biennium and subtracted \$19.3 million for the 2013–15 biennium. For the education legacy trust account (which receives proceeds from the estate tax and is dedicated to education) the

new forecasts added \$3.1 million for 2011–13 and subtracted \$160.3 million for 2013–15. For the opportunity pathways account (which receives proceeds from the lottery and funds financial aid for college and university students) the new forecast added \$8.6 million for 2011–13 and added \$0.5 million for 2013–15.

The reductions to the education legacy trust account in 2013–15 and 2015–17 are due to the “Bracken decision” in which the state supreme court ruled that property passing to heirs through a qualified terminable interest property trust (QTIP trust) is not subject to the state’s estate tax as it is currently codified. (For more on this decision, see the bill analysis by the house of representatives office of program research on HB 1920.) Legislation has been introduced at the request of the department of revenue (HB 1920) that would subject property in a QTIP trust to estate tax upon death of the trust’s beneficiary, as is the case under the federal estate tax.

Caseload Forecast

The news on caseloads forecasts was mixed-to-positive. Some examples: for K-12 basic education the forecast added 2,346 students in fiscal year (FY) 2014 and 1,352 in FY 2015; for the temporary assistance for needy families program, the forecast subtracted 1,759 individuals in FY 2014 and 2,116 in FY 2015; for categorically needy family medical assistance, the forecast subtracted 8,551 individuals in FY 2014 and 9,572 in FY

March Revenue Forecasts
Dollars in Millions

	2011-13	2013-15
General Fund–State	30,536.2	32,541.4
<i>Change from November</i>	58.8	(19.3)
Education Legacy Trust Account	236.5	100.5
<i>Change from November</i>	3.1	(160.3)
Opportunity Pathways Account	233.3	222.8
<i>Change from November</i>	8.6	0.5

Four-Year Outlook
Combined General Fund-State, Education Legacy Trust and Opportunity Pathways Accounts
 Dollars in Millions

	<u>2011-13</u>	<u>2013-15</u>
Beginning Balance	(60)	95
Revenues		
November 2012 Revenue Forecast	30,935	33,044
March 2013 Forecast Revision	71	(179)
Transfers to Budget Stabilization Account per January Outlook	(267)	(307)
Other Transfers and Adjustments per January Outlook	612	(6)
Total Revenue	31,351	32,552
Expenditures		
2011-13 Enacted Budget	31,249	31,249
Assumed Reversions (underspending of appropriations)	(166)	
Carry-Forward Adjustments per January Outlook		
K-12 Schools Biennialization		126
Restore K-12 Salary Reduction		166
Restore 3% Salary Reduction for State Employees		171
Other Carry-Forward Adjustments		242
2013-15 Carry-Forward Level		31,955
Adjustments to Reach Maintenance Level per January Outlook		
K-12 Education (Excluding pensions, I-732 and health benefits)		131
Initiative-732 COLAs--K-12 and Community Colleges		360
Health Care Caseload and Utilization		215
DSHS Mental Health, Long Term Care and Developmental Disabilities		131
DSHS Children's Services and Economic Services		(5)
Adult and Juvenile Corrections and Confinement		30
Expiration of Hospital Safety Net GF-S Offset		276
Involuntary Treatment Act		8
Special Appropriations		112
Debt Service for Currently Authorized Capital Projects		76
Pension Rate Changes		243
Collectively Bargained Additional Pay Step (Current Contract)		38
State Employee and K-12 Health Insurance		45
Federal Affordable Care Act		82
Wildland Fire Suppression		18
Paid Family Leave		14
Additional Changes to Reach Maintenance Level		46
March 2013 Caseload Cost Revision	113	188
Maintenance Level	31,196	33,961
Reserves		
Projected Ending Balance	95	(1,314)
Budget Stabilization Account	267	575
Total Reserves	362	(739)

2015. (More detail on the caseload forecasts is available in the meeting materials.) Overall, however, the bottom line effect was bad news: At the caseload forecast meeting, office of financial management director David Schumacher announced that failure to achieve expected per capita healthcare cost savings meant that maintenance-level spending tied to caseloads would be \$301 million more than had been expected. (We have heard that this number may be \$100 million too high, but for now \$301 million is the only number OFM has provided.)

Outlook

An approximate “outlook” showing the situation that budget writers face with the new information on revenue and caseload costs appears on the preceding page. We have based the carry-forward and maintenance expenditure adjustments in this outlook on those in the document prepared in January by the budget outlook work group for Gov. Gregoire’s current law budget. (For explanation of the carry-forward and maintenance adjustments, see the budget outlook work group’s November 1, 2012 methodology document.)

For the current biennium, budgeted expenditures from the general fund—state, education legacy trust and opportunity pathways accounts total \$31.25 billion. With assumed reversions and the additional caseload costs, the projected combined ending balance in these accounts is \$95 million. It is estimated that it would cost \$33.96 billion to continue to provide in 2013-15 the services that are provided in the current fiscal year. With available revenue of just \$32.55, the net result is a shortfall of \$1.3 billion.

This calculation does not include any funding to respond to the state supreme court’s McCleary decision, which requires state government to increase the funding provided to local school districts for basic education. Various legislators expressed desires to make a down payment on McCleary in the \$0.8 billion to \$1.4 billion range in the 2013–15 biennium.

Comment

On March 28th Gov. Inslee presented his budget priorities, which included \$1.2 billion in selective tax increases, of which about 65 percent would fall on business. The senate ways and means committee chair is expected to present his budget in the first week in April. The house ways and means committee chair’s budget will come shortly thereafter. Only 30 days remain until the session’s constitutionally mandated ending day of the regular session, April 28.

References

- Budget Outlook Workgroup. 2012. [Methodology](#). November 1.
- Budget Outlook Work Group. 2013. [Six-Year Outlook Based on Governor Gregoire’s 2013-15 Current Law \(Book 1\) Budget](#). January 31.
- Caseload Forecast Council. 2013. [Caseload Forecast Meeting Materials](#). March 14.
- Economic and Revenue Forecast Council. 2013. [Economic and Revenue March Revenue Review Meeting Materials](#). March 20.
- Office of Program Research. 2013. [Bill Analysis: HB 1920](#). March 29.