

Economic Review
November 6, 2018



Washington State
Economic and Revenue Forecast Council

This page left intentionally blank.



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW MEETING

November 6, 2018
10:00 a.m.

- Administrative Items:
 - ✓ Approval of meeting minutes:
 - September 26, 2018
 - ✓ Executive Director contract language amendment
- Presentation of economic outlook and revenue collection experience
- Budget outlook

This page left intentionally blank.



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

Meeting Minutes

Revenue Review

September 26, 2018

John A Cherberg, Senate Hearing Room 3

Economic and Revenue Forecast Council

Members Present

Christine Rolfes, Senate, ERFC Chair

John Braun, Senate

Ed Orcutt, House of Representatives

Duane Davidson, Treasurer

David Schumacher, Office of Financial Management

Staff

Steve Lerch, Executive Director

Call to Order

Senator Rolfes called the meeting to order at 11:03 a.m.

Forecast Presentation

Dr. Lerch presented information on the economic and revenue forecast. Dr. Lerch summarized the forecast changes. Discussion ensued regarding property taxes from new construction, the retail trade sector, and household net worth data.

Motion

Representative Orcutt moved, seconded by Treasurer Davidson, to adopt the baseline revenue forecast. Council approved the motion at 11:27 a.m.

Motion

Representative Orcutt moved, seconded by Director Schumacher, to adopt the September 6, 2018 meeting minutes. Motion passed at 11:27 a.m.

Motion

Director Schumacher made a motion to extend the employment contract for the executive director. The revised contract goes into effect on October 1, 2018 and includes language permitting enacted general wage increases for state employees and annual review. Motion seconded by Treasurer Davidson. Council approved the motion at 11:29 a.m.

Adjournment

With no further business, the meeting adjourned at 11:30 a.m.

This page left intentionally blank.

**Economic & Revenue Forecast Council
State of Washington**



Economic Review: November 6, 2018

Executive Summary

United States

- This forecast is based on a modified version of IHS Markit's October 2018 Control forecast for the U.S. economy. As usual, we have adjusted real gross domestic product (GDP) to match the Blue Chip "Consensus" GDP forecast. As in September, the October Blue Chip forecast for real GDP growth in 2018 and 2019 was 2.9% and 2.6%. The Blue Chip long-range forecast was also updated in October. The new forecast is slightly lower at 1.8%, 1.8%, 1.9%, and 2.1% in 2020 through 2023 compared to the previous forecast of 1.9%, 1.9%, 2.1% and 2.1%.
- Our oil price forecast reflects the futures markets, primarily the Brent (North Sea) oil price but also the West Texas Intermediate (WTI) benchmark. This forecast was based on the Friday, October 26, 2018 closing prices for Brent and WTI futures. The latest futures prices are slightly higher than the prices used in the September forecast but the maximum difference is only \$2 per barrel.
- The U.S. economy added 250,000 net new jobs in October. Sectors with notable employment gains in October included health care (+36,000), accommodation and food services (+33,000), manufacturing (+32,000), construction (+30,000), transportation and warehousing (+25,000), and professional and technical services (+20,000). Industries with net employment declines in October included sporting goods, hobby, book, and music stores (-6,000), educational services (-2,000) and finance and insurance (-2,000).
- The initial estimate of real U.S. GDP growth for the third quarter of 2018 was 3.5% (SAAR). In the second quarter, real GDP grew by 4.2%.
- Two key measures of consumer confidence moved in opposite directions this month but remain at high levels. Consumers responding to the University of Michigan consumer sentiment survey reported slightly less favorable perceptions of both current and expected future economic conditions, resulting in a 1.5 point decline to 98.6 in the sentiment index in October. The Conference Board index of consumer confidence increased by 2.6 points in October to 137.9, its highest level in 18 years. In contrast to the University of Michigan findings, consumers responding to the Conference Board survey were more confident about both current condition and future economic conditions compared to September.
- Initial claims for unemployment insurance decreased by 2,000 to 214,000 (SA) in the week ending October 27th. The four-week moving average of initial claims increased by 1,750 to 213,750.
- Industrial production increased by 0.3% (SA) in September following a revised 0.4% increase in August. New orders for core capital goods (i.e.,

durables excluding aircraft and military), which is a proxy for business investment, decreased by 0.1% (SA) in September according to U.S. Census Bureau advance data.

- U.S. residential construction activity and sales slowed this month. Housing units authorized by building permits in September were 0.6% (SA) below their August level and 1.0% below their year-ago level. September housing starts decreased by 5.3% (SA) compared to August but were 3.7% above their September 2017 level. Existing home sales decreased in September, falling by 3.4% (SA) compared to August. Existing home sales in September were at their slowest pace since November 2015 and are 4.1% below their year-ago level. New single-family home sales in September decreased by 5.5% (SA) compared to August and were 13.2% below their September 2017 level. The seasonally adjusted Case-Shiller national home price index for August was 0.6% above its July level and 5.8% above its year-ago level.
- Major threats to the U.S. and Washington economies remain, including concerns about international trade and fiscal policy as well as geopolitical risks.

Washington

- We have just one month of new Washington employment data since the September forecast was released. Total nonfarm payroll employment rose 3,800 (seasonally adjusted) in September, which was 3,700 less than the 7,500 expected in the September forecast. The variance in employment growth was due to the private services-providing sectors, which added only 1,500 jobs compared to 6,100 in the forecast. Manufacturing employment increased 2,000 in September, boosted by an increase of 1,500 aerospace employees but construction employment was down 100. Government payrolls expanded by 3,000 jobs in September.
- We have also incorporated another quarter of benchmark employment data from the Quarterly Census of Employment and Wages (QCEW). The new QCEW data and other revisions lowered the estimated level of total employment in August 2018 by 10,500 jobs (0.3%). As a result of the downward revision to history and weaker-than-expected growth, the combined effect is 14,200 (0.4%) fewer jobs in September 2018 than expected in the September forecast.
- Washington's unemployment rate declined to 4.4% in September from 4.5% in August. September's 4.4% rate was the lowest in the series that extends back to 1976. A year ago, in September 2017, the Washington unemployment rate stood at 4.7%.
- In September, after the forecast was released, the Bureau of Economic Analysis released estimates for state personal income through the second quarter of 2018. We have incorporated the new BEA estimates as well as additional Washington Quarterly Census of Employment and Wages (QCEW) data. Our current estimate of Washington personal income in the second quarter of 2018 is \$10.4 billion (2.4%) higher than assumed in the September forecast. The wage forecast was very close but nonwage income was \$10.5 billion (5.0%) above the forecast.

- The main reason nonwage income was revised higher was the comprehensive revision of state personal income. The revised Washington personal income estimate for 2017 was \$8.8 billion (2.1%) higher than assumed in September. The revision was more than accounted for by proprietors' income which increased \$5.1 billion, and property income (dividends, interest, and rent), which increased \$4.2 billion.
- Washington housing construction declined in the third quarter of 2018 but was close to the September forecast. The number of housing units authorized by building permits decreased to 39,700 units (SAAR) in the third quarter of 2018 from 43,200 units in the second quarter. The September forecast expected 40,100 units in the third quarter.
- In a sign that the housing market may be turning, seasonally adjusted Seattle area home prices fell 1.0% in August following a 0.1% decline in July and a scant 0.2% increase in June according to the S&P/Case-Shiller Home Price Indices. During the previous year, increases averaged 1.1% per month. In August, the over-the-year growth was 9.6% in Seattle, compared to the 5.5% increase in the Composite-20 index. Seattle home prices are still up 89% since the December 2011 trough and exceed the May 2007 peak by 32%.
- Seattle area consumer price inflation remains well above the national average. Over the last year, from August 2017 to August 2018, consumer prices in the Seattle area rose 3.2% (seasonally adjusted) compared to 2.7% for the U.S. city average. Core prices, which exclude food and energy, were up 3.0% in Seattle compared to 2.2% for the nation. The higher Seattle inflation was due to more rapid growth in shelter costs. During the year, shelter costs in Seattle rose 6.0% compared to 3.4% for the nation. Excluding shelter costs, Seattle inflation was below the national average at 1.5% compared to 2.3%.
- Despite a decline in transportation equipment, Washington exports increased over the year for a fourth consecutive quarter. Exports increased 2.6% in the third quarter of 2018 compared to the third quarter of 2017. Transportation equipment exports (mostly Boeing planes) declined 3.3% over the year but exports of agricultural products rose 29.6% and exports of all other commodities (mostly manufacturing) increased 5.0%.
- The Institute of Supply Management - Western Washington Index (ISM-WW) increased in September and remained solidly in positive territory. The index, which measures conditions in the manufacturing sector, increased from 61.1 in August to 62.7 in September (index values above 50 indicate growth while values below 50 indicate contraction). The index has exceeded 50 in each of the last 14 months. All five components, production, orders, employment, inventories, and deliveries, indicated expansion in September.
- Car and truck sales rose in September after three consecutive declines. Seasonally adjusted new vehicle registrations rose 2.8% in September following declines of 2.0% in August, 1.4% in July, and 1.0% in June. Sales are still down 6.7% over the year and 12.5% since the November 2017 post-recession peak.
- We expect 2.6% Washington employment growth this year compared to 2.9% in the September forecast. As in September, we expect growth to decelerate gradually as the recovery matures. We expect employment growth to average 1.2% per year in 2019 through 2023, which is the same rate as in the

September forecast. Our forecast for nominal personal income growth this year is 6.9%, up from 6.6% in the September forecast. Our new forecast for nominal personal income growth in 2019 through 2023 averages 4.8% per year compared to 4.9% per year in the September forecast.

Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Executive Director

November 6, 2018
Olympia, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**

This page left intentionally blank.



Summary

- The preliminary economic forecast for the U.S. is very similar to the September forecast
- The preliminary economic forecast for WA has higher personal income but slightly lower employment than the September forecast
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, geopolitical concerns, and higher interest rates
- Revenue collections since the September forecast are \$3 million (0.2%) above expectations

Economic Review
November 6, 2018

Slide 1

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Forecast risks similar to September

Upside

- Elevated consumer, business confidence could translate into stronger growth
- Strong U.S., WA labor markets

Downside

- International trade and fiscal policy uncertainty
- Geopolitical risks: North Korea, China, Russia, Iran, Venezuela
- Impact of rising interest rates
- Maturing economic expansion

Economic Review
November 6, 2018

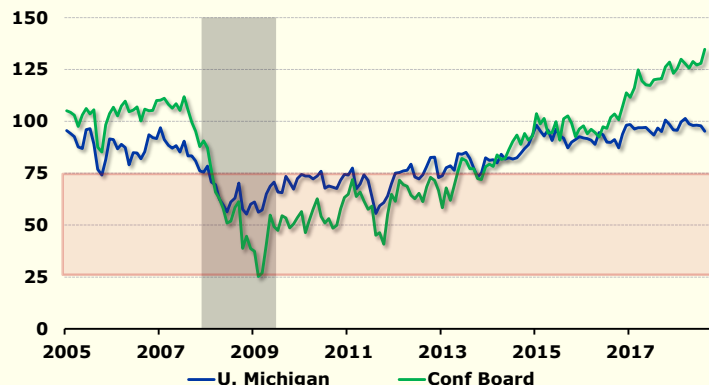
Slide 2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



The Conference Board index of consumer confidence at an 18 year high

Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



Economic Review
November 6, 2018

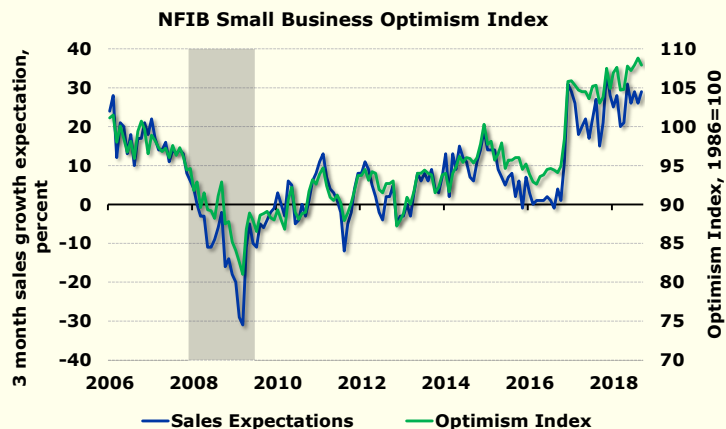
Slide 3

Sources: University of Michigan, Conference Board; data through October 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Small business optimism and sales expectations remain very strong



Economic Review
November 6, 2018

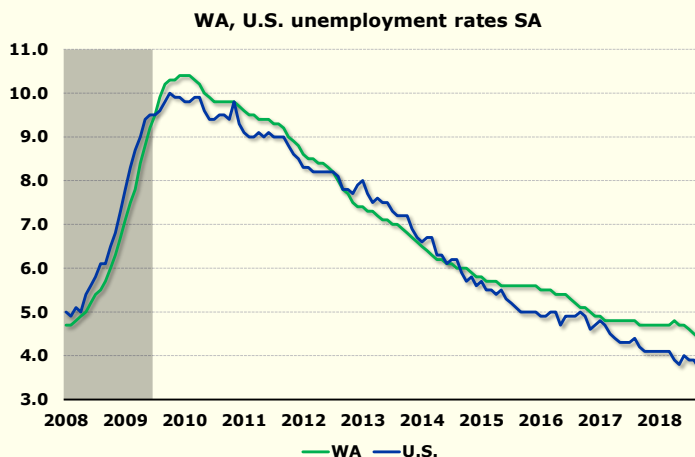
Slide 4

Source: National Federation of Independent Business; data through Sept. 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA, U.S. unemployment rates are below pre-recession levels



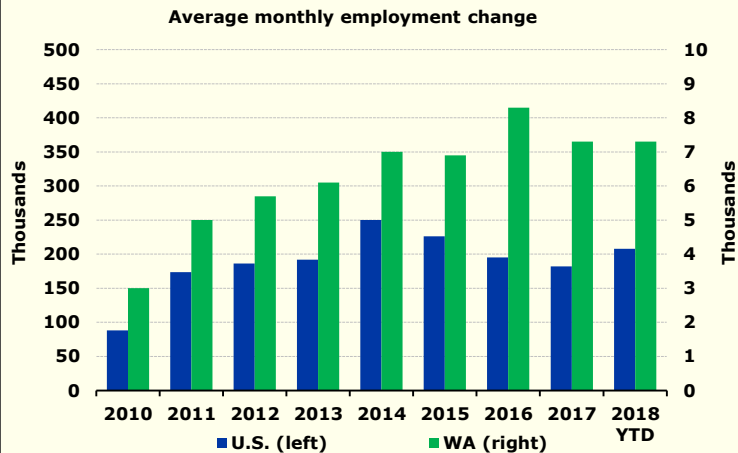
Economic Review
November 6, 2018
Slide 5

Source: U.S. Bureau of Labor Statistics, data through Sept. 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA, U.S. job growth remain strong



Economic Review
November 6, 2018
Slide 6

Source: Bureau of Labor Statistics, ERFC; data through Sept. 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Nominal wage growth has plateaued regardless of occupational skill level

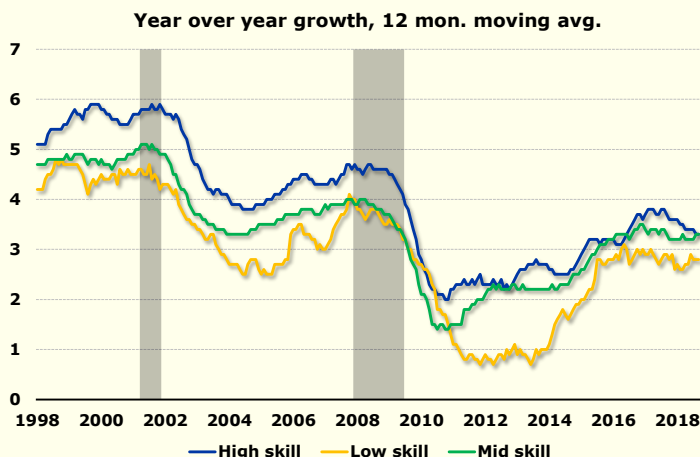
High:
managers,
professionals,
technicians

Mid:
office/admin,
production,
sales

Low: food prep
& serving,
cleaning,
personal care,
protective
services

Economic Review
November 6, 2018

Slide 7



Source: Federal Reserve Bank of Atlanta, data through Aug. 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA exposure to retaliatory tariffs

Based on 2017 export values:

- \$3.7 billion of exports subject to retaliatory tariffs (6.1% of total exports)
- 8,300 direct export-supported jobs subject to retaliation
- 20,600 total export-related jobs subject to retaliation

Economic Review
November 6, 2018

Slide 8

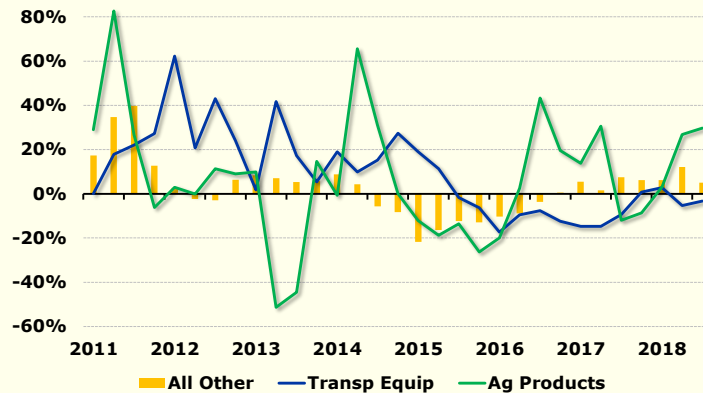
Source: J. Parilla and M. Bouchet, "Which US communities are most affected by Chinese, EU and NAFTA retaliatory tariffs?", Brookings Institution, Oct. 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



After 10 quarters of decline, exports have grown in the last four quarters

Year over year growth, quarterly WA exports



Economic Review
November 6, 2018

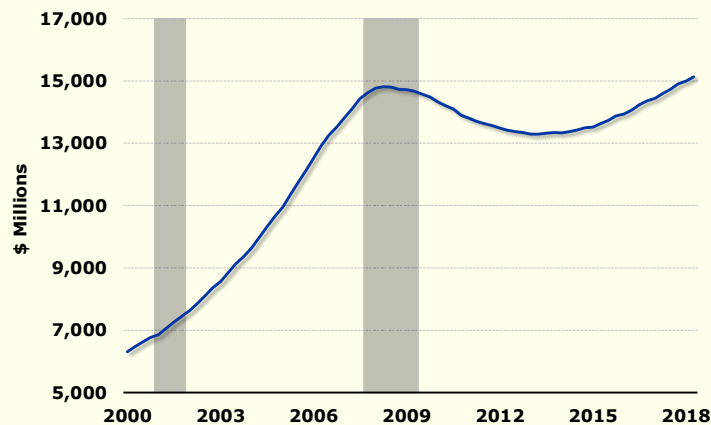
Slide 9

Source: WISERTrade, data through 2018 Q3

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Mortgage debt has increased 14% in last five years



Economic Review
November 6, 2018

Slide 10

Source: Federal Reserve Bank of St. Louis, data through 2018 Q2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



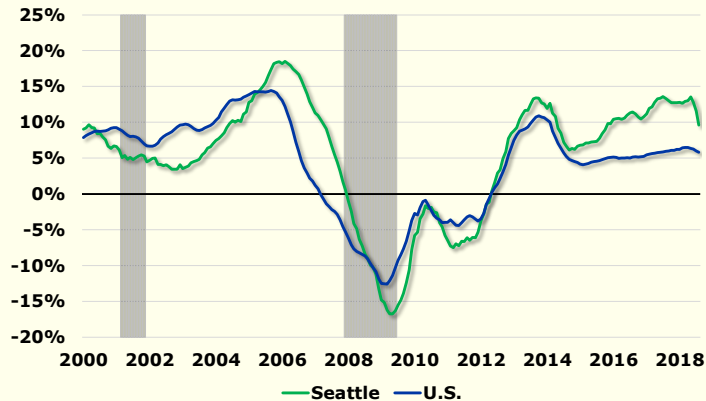
Home price growth appears to be slowing

The Case-Shiller index for Seattle decreased in August for the first time since Nov. 2007

Economic Review
November 6, 2018

Slide 11

Case-Shiller home price index, year over year % change, SA



Source: Case-Shiller, data through August 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

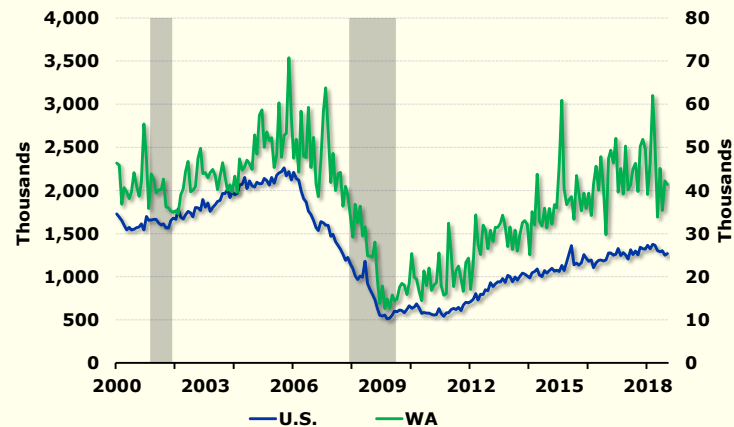


U.S. residential construction remains below historic levels

Economic Review
November 6, 2018

Slide 12

U.S., WA residential building permits (SAAR)

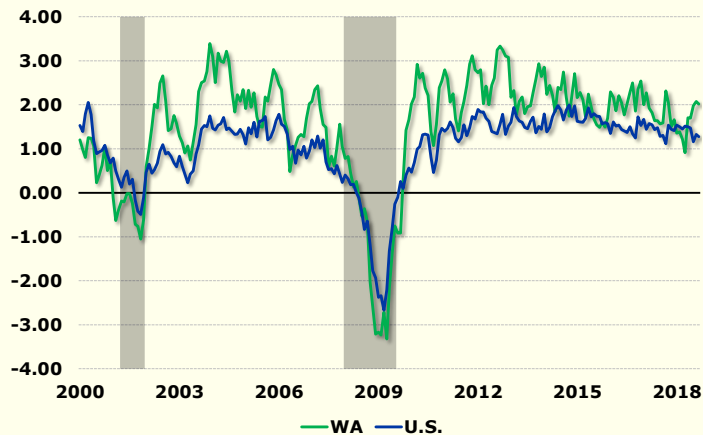


Source: U.S. Census Bureau, ERFC; data through Sept. 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Leading economic indexes for WA, U.S. do not suggest a recession in near term



Economic Review
November 6, 2018

Slide 13

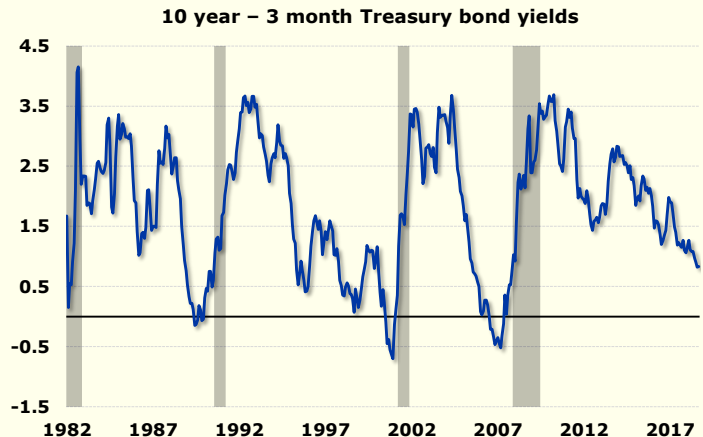
Source: Federal Reserve Bank of Philadelphia, data through Sept. 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



An inverted yield curve (short-term interest rates > long-term rates) is a consistent recession predictor

As of Sept.
2018, 10 year
Treasury bond
yields were
0.8% above
three month
Treasury bill
yields



Economic Review
November 6, 2018

Slide 14

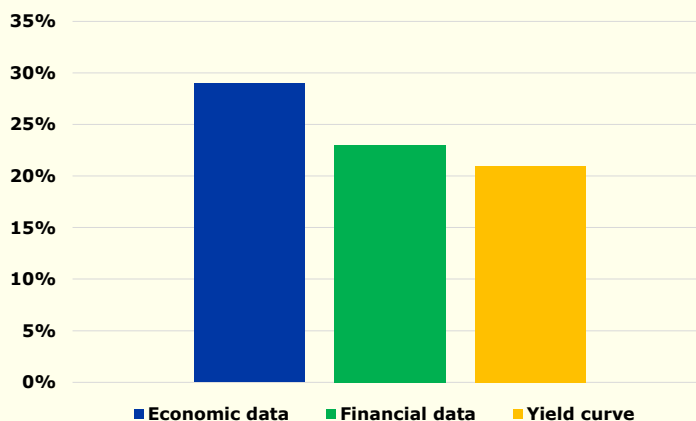
Source: Federal Reserve Bank of St. Louis, data through Sept. 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Recession probabilities in next 12 months based on economic, financial and yield curve data

The probabilities are derived from three different models developed by Moody's Analytics



Economic Review
November 6, 2018

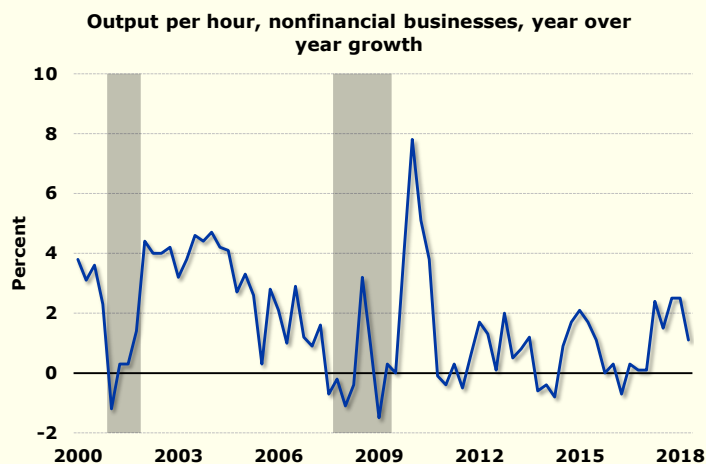
Slide 15

Source: Moody's Analytics, October 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Labor productivity growth has averaged only 1.1% over last four years



Economic Review
November 6, 2018

Slide 16

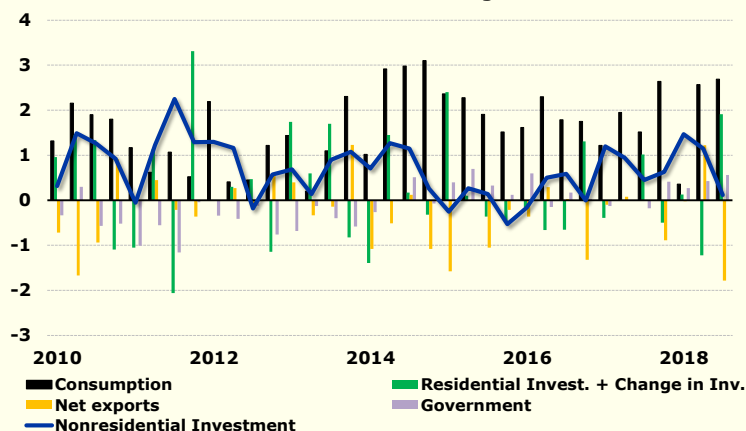
Source: U.S. Bureau of Labor Statistics, data through 2018 Q2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Business investment in buildings, equipment and intellectual property weakened in 2018 Q2

Contributions to U.S. GDP growth



Economic Review
November 6, 2018

Slide 17

Source: U.S. Bureau of Economic Analysis, data through 2018Q2

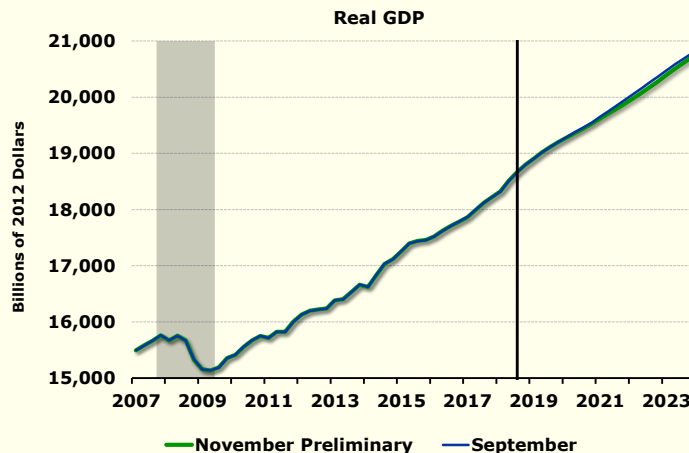
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



The real GDP forecast is very similar to the September forecast

GDP growth is slightly lower in 2020 - 2022.

GDP is 0.3% lower by the end of 2023 compared to September.



Economic Review
November 6, 2018

Slide 18

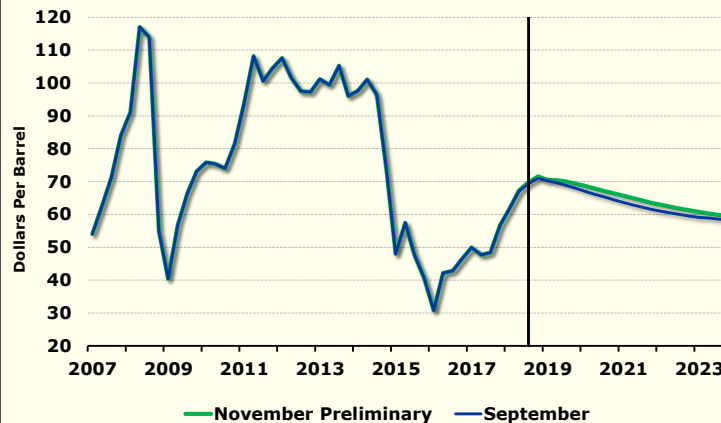
Source: IHS Markit, ERFC; data through Q3 2018

Note: Vertical black line indicates last actual

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Oil prices are slightly higher than in the September forecast



Economic Review
November 6, 2018
Slide 19

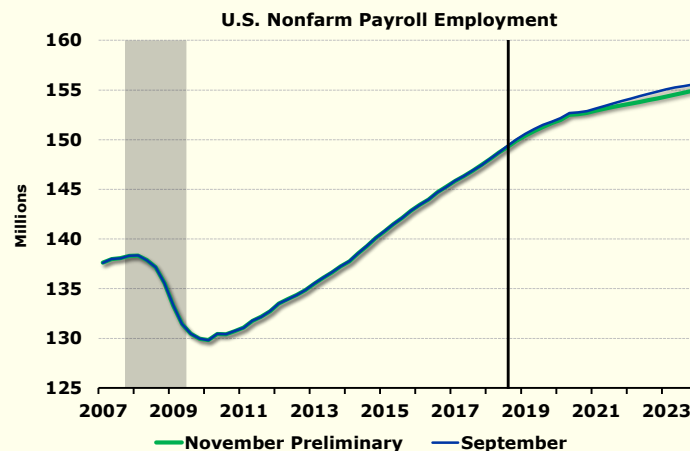
Source: Energy Information Administration, IHS Markit, ERFC; data through Q3 2018
Note: Vertical black line indicates last actual

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



U.S. nonfarm payroll employment growth is slightly lower than in September

By the end of 2023, employment is 0.4% lower than in the September forecast.



Economic Review
November 6, 2018
Slide 20

Source: IHS Markit, ERFC; data through Q3 2018

Note: Vertical black line indicates last actual

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

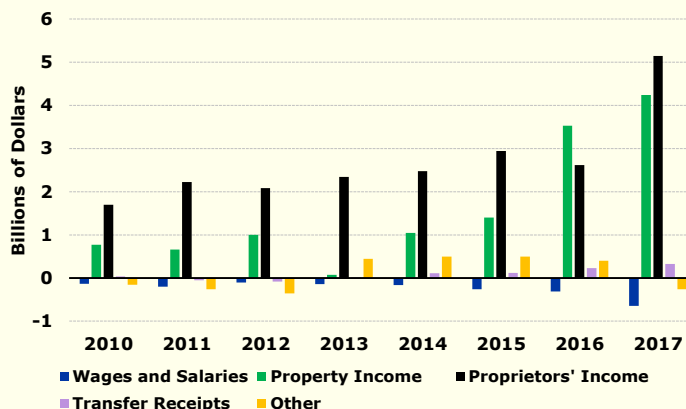


State income data revisions since the Sept. forecast raised Washington personal income

Personal income in 2017 was \$8.8 billion (2.1%) higher than assumed in the September forecast.

Economic Review
November 6, 2018
Slide 21

Sources of WA Personal Income Revision



Source: U.S. Bureau of Economic Analysis; data through 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

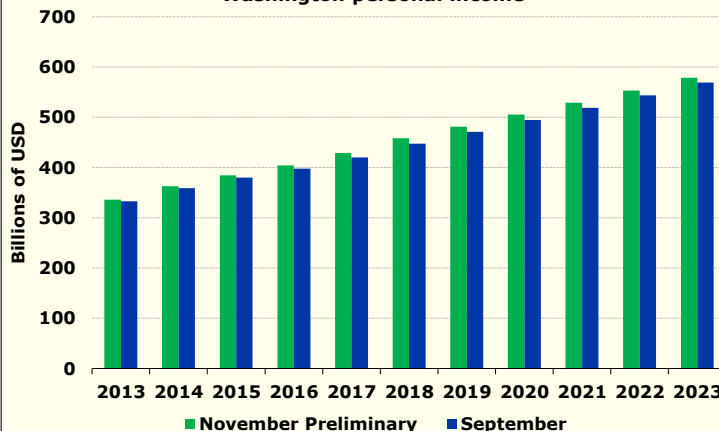


The WA personal income forecast reflects the data revisions since the Sept. forecast

Second quarter 2018 personal income data were revised up by \$10.5 billion (2.4%) since the Sept. forecast

Economic Review
November 6, 2018
Slide 22

Washington personal income



Source: ERFC November 2018 Preliminary forecast; historical data through 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington employment forecast is slightly lower than in September

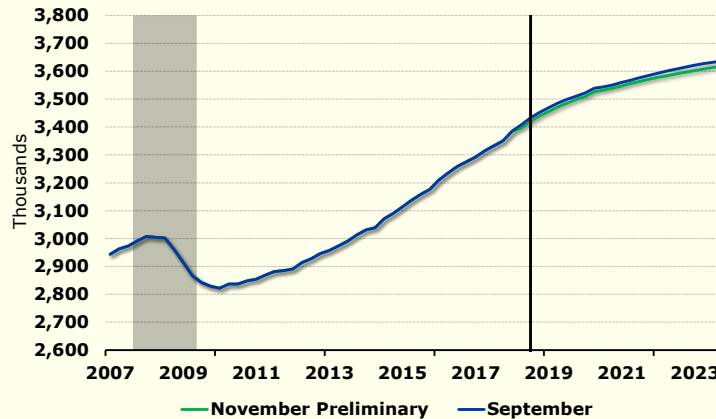
August employment data were revised down and September employment data were slightly lower than expected in our September forecast.

September employment is 0.4% lower than forecasted.

Economic Review
November 6, 2018

Slide 23

Washington Nonfarm Payroll Employment



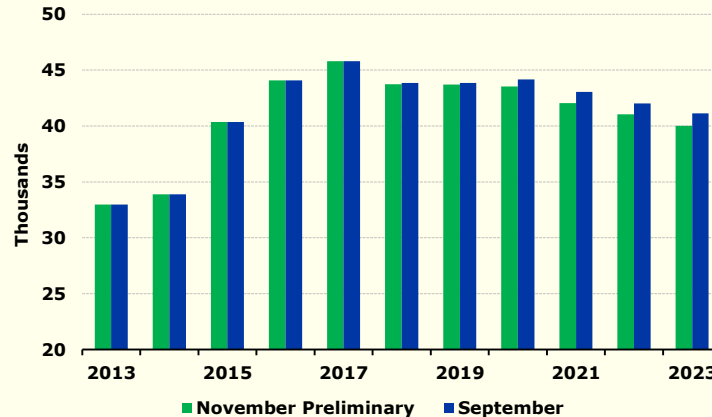
Source: ERFC November 2018 Preliminary forecast; historical data through Q3 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington housing permits forecast is slightly lower than in September

Washington Housing Permits



Source: ERFC November 2018 Preliminary forecast; historical data through 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Economic Review
November 6, 2018

Slide 24



Rev Act growth relative to personal income has rebounded since 2017Q4

Adjusted Rev Act growth YOY:

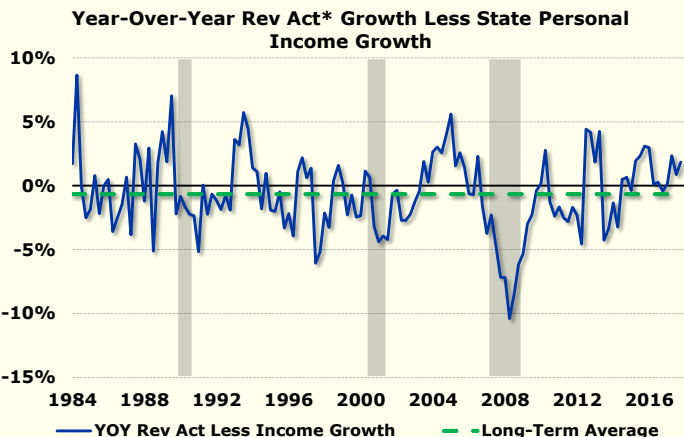
17Q4: 8.3%
18Q1: 8.2%
18Q2: 8.8%

November preliminary personal income YOY growth estimates:

17Q4: 5.9%
18Q1: 7.3%
18Q2: 7.0%

Economic Review
November 6, 2018

Slide 25



*Adjusted for large one-time payments and refunds and payments under the amnesty program
Source: ERFC; Quarterly revenue data through Q2 2018, November 2018 preliminary income estimates

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



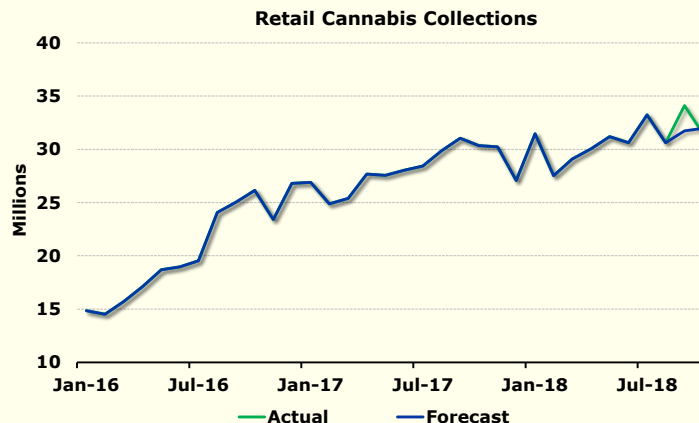
Cannabis revenue continues to be volatile

Collections were 1.6% below forecast in October

Collections are 2.9% above forecast since September

Economic Review
November 6, 2018

Slide 26



Source: LCB, ERFC; data through October 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



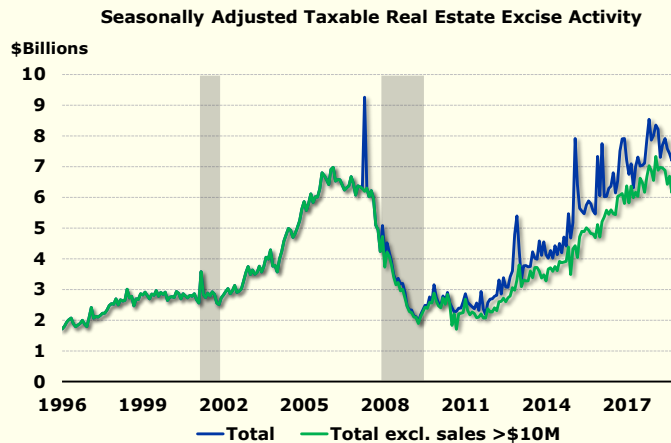
REET activity may have peaked; decline in residential activity steeper than commercial decline

Activity seems to have peaked in February 2018. Seasonally adjusted YOY growth is declining, reaching 1.6% in October (preliminary).

The total value of large commercial sales (>\$10 million) remained above \$1 billion in September and October.

Economic Review
November 6, 2018

Slide 27



Revenue collections to date

Collections Variance Since February Forecast (September 11, 2018 – October 10, 2018) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$1,566,754	\$1,568,422	\$1,669	0.1%
All other agencies	\$5,643	\$6,989	\$1,346	23.9%
Total GF-S	\$1,572,396	\$1,575,411	\$3,015	0.2%

Economic Review
November 6, 2018

Slide 28

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Conclusion

- Washington personal income is slightly stronger than in September; employment is slightly weaker
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- Threats to economic expansion include geopolitical risks, concerns about international trade, and fiscal policy
- The next monthly revenue collection report will be available on November 15th and the revenue forecast will be presented on November 20th

Economic Review
November 6, 2018

Slide 29

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Questions



Economic Review
November 6, 2018

Slide 30

Economic & Revenue Forecast Council
PO BOX 40912
Olympia WA 98504-0912

www.erc.wa.gov
360-534-1560

This page left intentionally blank.

U.S. Economic Forecast Comparison

October 2018

	2018Q3	2018Q4	2019Q1	2019Q2	2018	2019	2020	2021	2022	2023
Real GDP, Percent Change, Annual Rate										
ERFC (Preliminary November)	3.3	2.8	2.3	2.4	2.9	2.6	1.8	1.8	1.9	2.1
IHS	3.4	2.7	2.4	2.6	2.9	2.8	2.0	1.6	1.5	1.5
Economy.com	3.2	3.2	3.3	2.8	2.9	2.9	0.9			
Blue Chip Average*	3.3	2.8	2.3	2.5	2.9	2.6	1.8	1.8	1.9	2.1
Blue Chip Top 10*	3.8	3.3	2.9	3.1	3.0	3.0	2.4	2.3	2.4	2.5
Blue Chip Bottom 10*	2.9	2.3	1.7	1.8	2.8	2.1	1.3	1.2	1.5	1.8
Real Consumption, Percent Change, Annual Rate										
ERFC (Preliminary November)	3.0	2.7	2.4	2.3	2.6	2.5	1.9	2.0	2.1	2.2
IHS	3.6	2.4	2.5	2.8	2.6	2.8	2.5	2.1	1.9	1.8
Economy.com	3.5	2.7	2.4	2.2	2.6	2.5	0.9			
Blue Chip Average*	3.1	2.6	2.2	2.3	2.6	2.5	1.9	2.0	2.1	2.2
Blue Chip Top 10*	3.6	3.1	2.7	2.9	2.7	2.9	2.4	2.4	2.5	2.5
Blue Chip Bottom 10*	2.5	2.1	1.6	1.9	2.4	2.1	1.4	1.4	1.7	1.8
Federal Funds Rate										
ERFC (Preliminary November)	1.9	2.2	2.4	2.7	1.8	2.8	3.4	3.4	3.4	3.3
IHS	1.9	2.2	2.4	2.7	1.8	2.8	3.4	3.4	3.4	3.3
Economy.com	1.9	2.2	2.5	2.7	1.8	2.9	3.4			
Three Month T-Bill Rate										
ERFC (Preliminary November)	2.1	2.4	2.5	2.7	2.0	2.8	3.1	3.2	3.1	3.0
IHS	2.1	2.4	2.5	2.7	2.0	2.8	3.2	3.2	3.2	3.0
Blue Chip Average*	2.1	2.3	2.5	2.7	2.0	2.7	3.0	2.9	2.8	2.9
Blue Chip Top 10*	2.1	2.4	2.6	2.9	2.1	2.9	3.5	3.4	3.3	3.4
Blue Chip Bottom 10*	2.1	2.2	2.3	2.4	1.9	2.4	2.4	2.2	2.1	2.4
10-Yr. T-Note Yield										
ERFC (Preliminary November)	2.9	3.2	3.3	3.4	2.9	3.4	3.5	3.5	3.5	3.4
IHS	2.9	3.2	3.3	3.4	2.9	3.4	3.6	3.6	3.5	3.5
Economy.com	2.9	3.2	3.3	3.4	3.0	3.5	3.5			
Blue Chip Average*	2.9	3.1	3.2	3.3	2.9	3.3	3.6	3.5	3.6	3.7
Blue Chip Top 10*	2.9	3.3	3.5	3.7	3.0	3.7	4.1	4.1	4.1	4.1
Blue Chip Bottom 10*	2.9	2.9	2.9	2.8	2.8	2.9	3.0	3.0	3.0	3.1
Consumer Price Index, Percent Change, Annual Rate										
ERFC (Preliminary November)	2.4	3.1	2.2	1.9	2.6	2.3	2.2	2.0	2.0	1.9
IHS	2.1	3.6	2.7	1.8	2.6	2.4	2.5	2.3	2.3	2.2
Economy.com	2.1	2.4	2.5	2.5	2.5	2.3	2.0			
Blue Chip Average*	2.2	2.6	2.5	2.2	2.5	2.3	2.3	2.2	2.2	2.3
Blue Chip Top 10*	2.7	3.3	3.1	2.8	2.6	2.6	2.7	2.6	2.6	2.5
Blue Chip Bottom 10*	1.9	1.9	1.9	1.5	2.4	2.0	1.9	1.8	1.9	2.0
Payroll Employment, Millions										
ERFC (Preliminary November)	149.3	149.9	150.4	150.9	149.0	151.1	152.4	153.2	153.9	154.6
Percent Change, Annual Rate	1.6	1.6	1.3	1.3	1.6	1.4	0.9	0.5	0.4	0.5
IHS	149.3	149.9	150.4	150.9	149.0	151.1	152.7	153.5	153.8	154.0
Percent Change, Annual Rate	1.6	1.6	1.4	1.3	1.6	1.4	1.1	0.5	0.2	0.1
Economy.com	149.3	149.9	150.4	151.0	149.0	151.1	151.7			
Percent Change, Annual Rate	1.7	1.5	1.4	1.4	1.6	1.4	0.4			
Unemployment Rate, Percent										
ERFC (Preliminary November)	3.9	3.7	3.6	3.6	3.9	3.6	3.7	3.9	4.1	4.2
IHS	3.8	3.7	3.6	3.5	3.9	3.5	3.6	3.8	4.1	4.5
Economy.com	3.8	3.6	3.6	3.4	3.9	3.4	3.8			
Blue Chip Average*	3.8	3.7	3.6	3.6	3.9	3.6	3.8	4.1	4.2	4.3
Blue Chip Top 10*	3.8	3.9	3.8	3.8	3.9	3.9	4.5	4.8	4.9	5.0
Blue Chip Bottom 10*	3.8	3.6	3.4	3.3	3.8	3.3	3.3	3.4	3.6	3.7
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC (Preliminary November)	2.2	1.2	3.1	2.8	2.8	2.5	2.5	2.2	2.1	2.3
IHS	2.4	0.9	2.8	3.0	2.8	2.4	2.5	2.1	1.9	2.0
Blue Chip Average*	2.6	2.2	2.5	2.3	2.9	2.4	2.1	1.9	2.0	2.1
Blue Chip Top 10*	3.7	3.0	3.4	2.8	3.1	2.9	2.5	2.4	2.4	2.5
Blue Chip Bottom 10*	1.7	1.2	1.7	1.7	2.6	1.8	1.5	1.4	1.6	1.8
West Texas Intermediate										
ERFC (Preliminary November)	69.8	68.7	67.8	68.0	67.4	67.8	65.6	62.8	60.2	58.2
IHS	69.7	73.8	71.8	70.3	68.6	70.8	76.6	77.4	78.6	78.3
Economy.com	69.5	70.1	71.5	72.1	67.6	71.5	61.4			

* Forecasts beyond 2018 are from the October 2018 Blue Chip Economic Indicators

U.S. Forecast Comparison

	2018Q3	2018Q4	2019Q1	2019Q2
Real GDP (Billions of 2012 Dollars)				
November Forecast, Preliminary	18,664	18,795	18,903	19,018
Percent Change	3.3%	2.8%	2.3%	2.4%
September Forecast	18,665	18,796	18,905	19,017
Percent Change	3.3%	2.9%	2.3%	2.4%
Real Consumption (Billions of 2012 Dollars)				
November Forecast, Preliminary	12,937	13,022	13,101	13,177
Percent Change	3.0%	2.7%	2.4%	2.3%
September Forecast	12,931	13,016	13,093	13,169
Percent Change	2.8%	2.7%	2.4%	2.3%
PCE Price Index (2012=100)				
November Forecast, Preliminary	108.5	109.2	109.8	110.3
Percent Change	1.7%	2.4%	2.3%	1.9%
September Forecast	108.6	109.2	109.7	110.2
Percent Change	2.1%	2.2%	2.0%	2.0%
Real Personal Income (Billions of 2012 Dollars)				
November Forecast, Preliminary	16,285	16,336	16,457	16,572
Percent Change	2.2%	1.3%	3.0%	2.8%
September Forecast	16,281	16,358	16,501	16,609
Percent Change	2.1%	1.9%	3.5%	2.7%
Nonfarm Payroll Employment (Millions)				
November Forecast, Preliminary	149.3	149.9	150.4	150.9
Percent Change	1.6%	1.6%	1.3%	1.3%
September Forecast	149.4	150.0	150.6	151.1
Percent Change	1.9%	1.7%	1.4%	1.3%
Unemployment Rate (Percent of Labor Force)				
November Forecast, Preliminary	3.9	3.7	3.6	3.6
September Forecast	3.8	3.6	3.5	3.4
Oil Price, Refiner's Acquisition				
November Forecast, Preliminary	69.9	71.6	70.5	70.4
September Forecast	69.4	71.0	70.3	69.6
30 Year Fixed Mortgage Rate (Percent, average)				
November Forecast, Preliminary	4.6	4.8	4.9	5.0
September Forecast	4.6	4.7	4.8	4.9
3 Month T-Bill Rate (Percent, average)				
November Forecast, Preliminary	2.1	2.4	2.5	2.7
September Forecast	2.1	2.4	2.5	2.7

	2017	2018	2019	2020	2021	2022	2023
18,051	18,574	19,059	19,402	19,752	20,127	20,549	
2.2%	2.9%	2.6%	1.8%	1.8%	1.9%	2.1%	
18,051	18,575	19,060	19,421	19,799	20,208	20,623	
2.2%	2.9%	2.6%	1.9%	1.9%	2.1%	2.1%	
12,559	12,881	13,205	13,456	13,726	14,014	14,322	
2.5%	2.6%	2.5%	1.9%	2.0%	2.1%	2.2%	
12,559	12,878	13,199	13,457	13,732	14,025	14,329	
2.5%	2.5%	2.5%	2.0%	2.0%	2.1%	2.2%	
106.1	108.3	110.6	112.8	115.0	117.2	119.3	
1.8%	2.1%	2.1%	2.0%	2.0%	1.9%	1.8%	
106.1	108.3	110.5	112.8	114.9	117.1	119.3	
1.8%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%	
15,867	16,231	16,625	17,029	17,403	17,794	18,230	
2.6%	2.3%	2.4%	2.4%	2.2%	2.2%	2.4%	
15,867	16,236	16,662	17,075	17,483	17,913	18,342	
2.6%	2.3%	2.6%	2.5%	2.4%	2.5%	2.4%	
146.6	149.0	151.1	152.4	153.2	153.9	154.6	
1.6%	1.6%	1.4%	0.9%	0.5%	0.4%	0.5%	
146.6	149.1	151.2	152.6	153.5	154.5	155.3	
1.6%	1.7%	1.5%	0.9%	0.6%	0.6%	0.5%	
4.4	3.9	3.6	3.7	3.9	4.1	4.2	
4.4	3.8	3.5	3.6	3.7	3.8	3.9	
50.7	67.6	70.1	67.5	64.6	62.0	60.1	
50.7	67.3	69.2	65.7	62.6	60.2	58.8	
4.0	4.6	5.0	5.2	5.2	5.1	5.1	
4.0	4.5	4.9	5.1	5.2	5.1	5.1	
0.9	2.0	2.8	3.1	3.2	3.1	3.0	
0.9	2.0	2.7	3.1	3.2	3.1	3.0	

Washington Forecast Comparison

	2018Q3	2018Q4	2019Q1	2019Q2
Real Personal Income (Billions of 2012 Dollars)				
November Forecast, Preliminary	424.8	426.8	430.2	433.6
Percent Change	3.8%	1.9%	3.2%	3.2%
September Forecast	414.4	416.9	421.1	424.5
Percent Change	3.2%	2.4%	4.0%	3.3%
Personal Income (Billions of Dollars)				
November Forecast, Preliminary	461.0	465.9	472.3	478.3
Percent Change	5.7%	4.4%	5.5%	5.2%
September Forecast	450.0	455.2	462.0	468.0
Percent Change	5.3%	4.6%	6.1%	5.4%
Disposable Personal Income (Billions of Dollars)				
November Forecast, Preliminary	410.6	414.9	420.8	426.2
Percent Change	5.5%	4.3%	5.7%	5.3%
September Forecast	402.8	407.4	413.6	419.1
Percent Change	5.3%	4.6%	6.3%	5.4%
Nonfarm Payroll Employment (Thousands)				
November Forecast, Preliminary	3420	3440	3456	3472
Percent Change	2.9%	2.3%	1.9%	1.9%
September Forecast	3433	3452	3469	3485
Percent Change	3.0%	2.2%	2.0%	1.9%
Unemployment Rate (Percent of Labor Force)				
November Forecast, Preliminary	4.5	4.3	4.2	4.2
September Forecast	4.6	4.4	4.2	4.2
Manufacturing Employment (Thousands)				
November Forecast, Preliminary	287.3	289.2	290.3	290.7
Percent Change	3.1%	2.7%	1.5%	0.5%
September Forecast	287.4	289.3	290.3	290.5
Percent Change	2.7%	2.7%	1.4%	0.4%
Construction Employment (Thousands)				
November Forecast, Preliminary	213.1	214.1	214.1	214.3
Percent Change	2.9%	1.8%	0.1%	0.4%
September Forecast	212.4	212.8	213.0	213.3
Percent Change	1.5%	0.7%	0.5%	0.4%
Housing Permits (Thousands)				
November Forecast, Preliminary	39.7	42.8	43.5	43.8
Percent Change	-29.1%	35.9%	6.3%	2.6%
September Forecast	40.1	42.8	43.3	43.8
Percent Change	-25.8%	29.9%	4.4%	4.2%

	2017	2018	2019	2020	2021	2022	2023
	404.2	423.1	435.3	447.9	459.6	471.8	485.0
	4.2%	4.7%	2.9%	2.9%	2.6%	2.7%	2.8%
	395.9	413.4	426.1	438.8	451.3	464.3	477.2
	3.7%	4.4%	3.1%	3.0%	2.8%	2.9%	2.8%
	428.8	458.3	481.3	505.4	528.7	552.9	578.7
	6.1%	6.9%	5.0%	5.0%	4.6%	4.6%	4.7%
	420.0	447.8	471.0	494.9	518.7	543.8	569.5
	5.6%	6.6%	5.2%	5.1%	4.8%	4.8%	4.7%
	380.3	408.1	428.9	451.0	472.0	493.2	515.5
	6.0%	7.3%	5.1%	5.1%	4.6%	4.5%	4.5%
	374.2	400.8	421.7	443.4	464.6	486.4	508.5
	5.6%	7.1%	5.2%	5.1%	4.8%	4.7%	4.6%
	3322	3410	3478	3527	3560	3587	3611
	2.4%	2.6%	2.0%	1.4%	0.9%	0.8%	0.7%
	3322	3419	3491	3539	3572	3605	3630
	2.4%	2.9%	2.1%	1.4%	0.9%	0.9%	0.7%
	4.8	4.6	4.2	4.4	4.6	4.8	5.0
	4.8	4.6	4.2	4.2	4.3	4.3	4.4
	283.8	286.4	290.7	290.9	290.4	292.0	294.9
	-2.1%	0.9%	1.5%	0.1%	-0.2%	0.6%	1.0%
	283.8	286.6	290.5	290.7	290.5	292.3	295.1
	-2.1%	1.0%	1.4%	0.0%	-0.1%	0.6%	0.9%
	199.7	212.0	214.3	214.4	213.4	211.8	209.8
	7.0%	6.2%	1.1%	0.1%	-0.5%	-0.8%	-0.9%
	199.7	211.4	213.1	213.1	212.1	211.4	210.0
	7.0%	5.9%	0.8%	0.0%	-0.5%	-0.3%	-0.7%
	45.8	43.7	43.7	43.5	42.0	41.0	40.0
	3.9%	-4.5%	0.0%	-0.4%	-3.5%	-2.4%	-2.5%
	45.8	43.8	43.8	44.2	43.0	42.0	41.1
	3.9%	-4.2%	0.0%	0.8%	-2.6%	-2.4%	-2.1%

U.S. Forecast Comparison	Fiscal Years					
	2018	2019	2020	2021	2022	2023
Real GDP						
Billions of 2012 dollars						
November Preliminary Forecast	18,295	18,845	19,240	19,572	19,933	20,336
Growth	2.6%	3.0%	2.1%	1.7%	1.8%	2.0%
September Forecast	18,296	18,846	19,247	19,602	20,001	20,419
Growth	2.6%	3.0%	2.1%	1.8%	2.0%	2.1%
Difference in level	-1	-1	-7	-30	-68	-83
Difference in growth forecast	0.0%	0.0%	0.0%	-0.1%	-0.2%	-0.1%
Real Consumption						
Billions of 2012 dollars						
November Preliminary Forecast	12,714	13,059	13,331	13,589	13,867	14,167
Growth	2.5%	2.7%	2.1%	1.9%	2.1%	2.2%
September Forecast	12,714	13,052	13,329	13,591	13,878	14,178
Growth	2.5%	2.7%	2.1%	2.0%	2.1%	2.2%
Difference in level	0	7	2	-3	-10	-11
Difference in growth forecast	0.0%	0.1%	0.0%	0.0%	-0.1%	0.0%
PCE Price Index						
2012 = 100						
November Preliminary Forecast	107.2	109.4	111.7	113.9	116.1	118.3
Growth	1.9%	2.1%	2.1%	2.0%	1.9%	1.8%
September Forecast	107.1	109.4	111.6	113.8	116.0	118.2
Growth	1.9%	2.1%	2.0%	2.0%	1.9%	1.9%
Difference in level	0.0	0.0	0.1	0.1	0.1	0.0
Difference in growth forecast	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%
Unemployment Rate						
Percent of Labor Force						
November Preliminary Forecast	4.1%	3.7%	3.6%	3.8%	4.0%	4.1%
September Forecast	4.1%	3.6%	3.5%	3.7%	3.8%	3.8%
Difference in forecast	0.0%	0.1%	0.1%	0.1%	0.2%	0.3%
30 Year Fixed Mortgage Rate						
Annual Average						
November Preliminary Forecast	4.2%	4.8%	5.2%	5.2%	5.2%	5.1%
September Forecast	4.2%	4.7%	5.1%	5.2%	5.1%	5.1%
Difference in forecast	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%
3 Month T-Bill Rate						
Annual Average						
November Preliminary Forecast	1.4%	2.4%	3.0%	3.2%	3.1%	3.1%
September Forecast	1.4%	2.4%	3.0%	3.2%	3.2%	3.1%
Difference in forecast	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Washington Forecast Comparison

Fiscal Years

	2018	2019	2020	2021	2022	2023
Real Personal Income						
Billions of 2012 dollars						
November Preliminary Forecast	414.2	428.9	441.9	453.7	465.6	478.3
Growth	4.7%	3.5%	3.0%	2.7%	2.6%	2.7%
September Forecast	405.0	419.3	432.7	444.9	457.8	470.8
Growth	4.2%	3.5%	3.2%	2.8%	2.9%	2.8%
Difference in level	9.3	9.6	9.2	8.8	7.8	7.5
<i>Difference in growth forecast</i>	<i>0.4%</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.1%</i>	<i>-0.3%</i>	<i>-0.1%</i>
Nominal Personal Income						
Billions of dollars						
November Preliminary Forecast	443.9	469.4	493.6	516.9	540.7	565.7
Growth	6.6%	5.7%	5.2%	4.7%	4.6%	4.6%
September Forecast	433.9	458.8	483.1	506.5	531.2	556.6
Growth	6.2%	5.7%	5.3%	4.8%	4.9%	4.8%
Difference in level	10.0	10.6	10.5	10.4	9.5	9.1
<i>Difference in growth forecast</i>	<i>0.4%</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.3%</i>	<i>-0.2%</i>
Nonfarm Payroll Employment						
Thousands						
November Preliminary Forecast	3,365.6	3,447.0	3,505.4	3,543.7	3,574.2	3,599.6
Growth	2.5%	2.4%	1.7%	1.1%	0.9%	0.7%
September Forecast	3,368.9	3,459.8	3,518.0	3,555.6	3,589.2	3,618.2
Growth	2.6%	2.7%	1.7%	1.1%	0.9%	0.8%
Difference in level	-3.3	-12.8	-12.6	-11.9	-15.1	-18.6
<i>Difference in growth forecast</i>	<i>-0.1%</i>	<i>-0.3%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>
Housing Permits						
Units Authorized, Thousands						
November Preliminary Forecast	47.1	42.5	43.8	42.8	41.5	40.5
Growth	5.9%	-9.9%	3.2%	-2.4%	-2.9%	-2.4%
September Forecast	47.1	42.5	44.3	43.7	42.5	41.6
Growth	5.9%	-9.8%	4.1%	-1.3%	-2.7%	-2.1%
Difference in level	0.0	-0.1	-0.4	-0.9	-1.0	-1.1
<i>Difference in growth forecast</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.9%</i>	<i>-1.1%</i>	<i>-0.2%</i>	<i>-0.3%</i>

Year-Over-Year Employment Growth by Industry (September 2017 to September 2018) Washington vs. U.S.

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	88.3	2.6%	1.7%
Information Excluding Software	4.2	6.5%	-1.5%
Construction	12.7	6.3%	4.5%
Software Publishers	3.7	6.0%	3.6%
Electronic Shopping and Mail-Order Houses	2.1	4.1%	5.3%
Mining and Logging	0.2	4.0%	8.8%
Professional and Business Services	15.1	3.6%	2.6%
Aerospace Product and Parts Manufacturing	2.8	3.4%	4.5%
Wholesale Trade	4.6	3.4%	1.6%
Leisure and Hospitality	11.1	3.4%	2.0%
Other Services	4.0	3.3%	1.5%
Financial Activities	4.4	2.9%	1.4%
Transportation, Warehousing and Utilities	2.7	2.5%	2.9%
Education and Health Services	11.9	2.5%	2.0%
Manufacturing Excluding Aerospace	4.3	2.2%	2.2%
State and Local Gov Education	2.4	0.9%	0.4%
State and Local Gov Non-Education	-0.5	-0.2%	0.3%
Information	8.0	6.2%	-0.8%
Retail Trade	4.2	1.1%	0.3%
Manufacturing	7.1	2.5%	2.3%

Source: WA State ERFC Kalman filtered data, U.S. Bureau of Labor Statistics

November 5, 2018

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the November 2018 Outlook

The State Budget Outlook Work Group (work group) provides the following updates and poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the November 2018 Outlook.

Methodology for November 2018

Resource Updates

- The November 2018 Outlook will be updated for the November 2018 revenue forecast. However, the budget stabilization account and extraordinary revenue growth (ERG) calculations based on the November 2018 forecast will not be available. The work group will use the ERG calculation from the September 2018 forecast.
- Reversions for fiscal year 2018 will reflect actuals. Future year reversion assumptions will not be changed from the enacted Outlook.

Maintenance Level Updates

- The November 2018 Outlook will begin with the enacted budget and include a preliminary estimate by the Office of Financial Management of projected maintenance level costs. These estimates are to reflect projected expenditures based on the estimated cost of providing services currently authorized in the enacted budget. The 2019-21 maintenance level projection will be the basis for the 2021-23 projection using the Outlook growth factors and adding any mandatory items that start in 2021-23. This estimate of the Governor's projected maintenance level is not final.
- Consistent with prior direction from the ERFC, the November 2018 Outlook will assume a FY 2019 supplemental maintenance level budget resulting in updated estimated expenditures for the FY 2017-19 budget. The FY 2019 supplemental will be based on a preliminary estimate by the Office of Financial Management of projected maintenance level costs and is not final.

Other Items

The work group requests further direction from the ERFC in preparing the November 2018 Outlook for the following items:

- **Transfers.** The 2018 enacted budget Outlook assumed \$255 million in transfers in the FY 2019-21 biennium that are not currently directed in statute. The enacted budget act includes legislative intent to do the transfers in FY 2019-21 consistent with criteria previously adopted by the ERFC.

- *Should the November 2018 Outlook reflect the FY 2019-21 transfers assumed in the enacted 2018 Outlook budget.*
- **FY 2019 Fire Costs.** Costs related to fire suppression/mobilization in 2018 will continue to be further refined but initial costs are estimated to be approximately \$53 million. While this amount will be a policy level item, the ERFC included the supplemental budget costs related to the fire season in the prior November 2017 Outlook with a footnote related to their inclusion.
 - *Does the ERFC want to include policy level fire suppression/mobilization costs in the November 2018 Outlook?*
 - *For all future November Outlooks, does the ERFC want to include an estimate for fire suppression/mobilization costs for the recently concluded fire season?*
- **Trueblood Litigation.** The Department of Social and Health Services continues to incur fines for the Trueblood case, which deals with delays in providing court-ordered forensic mental health services. The fines are based on the number of days a person waits for forensic mental health services in excess of court-mandated timelines. The fines are running in the range of \$3.5 to \$4.0 million per month. DSHS and the plaintiffs have filed a joint settlement agreement with the court which if implemented will result in significant costs and may result in a suspension of the fines. Funding of the proposed settlement agreement will be a policy level decision so the workgroup does not intend to include this in the November 2018 Outlook. For the 2017 November Outlook, the ERFC directed the workgroup to include the estimated costs of Trueblood fines for fiscal year 2018 only.
 - *Does the ERFC want to include any costs related to the Trueblood litigation in the November 2018 Outlook?*
- **Early Childhood Education and Assistance Program (ECEAP) entitlement and phase-in.** ECEAP costs are part of the November Outlook because it includes costs at the current funded level through FY 2023. There are currently 13,491 funded ECEAP slots. Under current law, ECEAP becomes an entitlement in FY 2023. Current caseload projections estimate the demand for ECEAP slots in FY 2023 to be 19,417 slots. RCW 43.216.556 requires a phase in of ECEAP funding but does not specify how to phase in the program. The estimated additional cost in FY 2023 is approximately \$48 million.
 - *Should the November 2018 Outlook reflect funding growth for the entitlement only in FY 2023, a linear phase-in, or assume some other phase-in for FY 2020, 2021, and 2022?*

NOTE: In November 2016, the ERFC decision was that the November 2016 outlook must assume the full cost of the entitlement in FY2021 but not to assume any phase in costs prior to FY2021.

- **Managed Care Dental Rates:** The 2017-19 Operating Budget bill directed the Health Care Authority (HCA) to change purchasing of dental services from a fee for service to managed care basis. HCA has conducted a procurement and the estimated cost of implementing the requirement are significantly higher than what was estimated during the 2018 budget process, which assumed there would be savings from the change in purchasing method. HCA has delayed implementation of the change until further direction is provided by the 2019 Legislature. The preliminary estimate of the four-year NGF-P budget impact, if the change in purchasing method is implemented in the FY 2019-21 biennium, is over \$200 million.

- *Should the November 2018 Outlook reflect the preliminary estimated costs of implementing the change in purchasing method for dental services directed in the FY 2017-19 operating budget bill?*
- **K-12 Forest Revenue.** In May 2018, OSPI implemented a rule change that excludes state forest revenues from the list of local funds that must be deducted from payments to school districts. This rule change was not assumed in the 2018 enacted budget. The preliminary estimate of the NGF-P budget impact related to this rule change is \$71 million including estimates for the FY 2019 supplemental budget.
 - *Should the November 2018 Outlook reflect the preliminary estimated costs of implementing the rule change?*
- **Initiatives.** There are four initiatives on the statewide ballot. The fiscal impact statements for these initiatives indicate that three would have an indeterminate impact on NGF-P resources and/or expenditures. The election results will not be officially certified until after the November Outlook is presented to the ERFC on November 20th. The Work Group needs guidance from the ERFC on whether the November Outlook should reflect any costs related to the initiatives based on initial election results.

NOTE: In November 2016, the ERFC decision was that the Work Group should incorporate the quantifiable fiscal impact of initiatives on the November ballot that appear to be passing and requested these by identified as distinct items.

Here follows a listing of the three initiatives that potentially may have an impact on NGF-P resources and/or expenditures if they pass:

- Initiative 940- Concerns Law Enforcement: The fiscal impact statement identifies indeterminate costs for training required by the initiative, which are driven by uncertainty in the number of hours that will be required. The fiscal impact statement provides some estimated costs if certain assumptions are made. Staff are working to clarify the assumptions but it appears that costs will be in the \$1-2 million range per year. *Should the November 2018 Outlook reflect any costs associated with I-940 if the initiative appears to be passing based on initial election results?*
- Initiative 1631- Concerns Pollution: There are estimated revenues of \$2.3 billion between FY 2020 and FY 2023 but none of these revenues will go into NGF-P accounts under the initiative. There are estimated expenditures associated with administering the initiative of \$27 million between FY 2019 and FY 2023. The initiative allows for reasonable administrative expenses to be covered with revenues. *Should the November 2018 Outlook reflect the FY 2019 costs associated with administering I-1631 if the initiative appears to be passing based on initial election results?*
- Initiative 1639- Concerns Firearms: The fiscal impact statement identifies indeterminate costs for increasing the number of required mental health background checks and for the Department of Licensing to maintain certain records under the initiative. The fiscal impact statement provides some estimated costs if certain assumptions are made. Staff are working to clarify the assumptions but it appears that costs will include a one-time cost of \$1.1 million and ongoing annual costs of approximately \$600,000. *Should the November 2018 Outlook reflect any costs*

associated with I-1639 if the initiative appears to be passing based on initial election results?

November 5, 2018

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Growth factors for Outlooks prepared during the 2019-21 biennium

In accordance with prior practice, the Outlook Work Group (Workgroup) has updated growth factors for the Outlook functional areas. These revised growth factors are being presented to the council for their consideration. If adopted, these growth factors would be used for the Outlooks prepared during the 2019-21 biennium, which is from November 2018 through the outlook on the enacted FY 2020 supplemental budget in calendar year 2020. The growth factors would then be updated during the 2020 interim for the next biennium.

The data was updated and the approach mirrors what was done previously. Some agencies were moved to different growth factor areas to reflect reorganizations of major components of the Department of Social and Health Services (DSHS) and Early Learning.

Background

Per statute, the estimated expenditures in the Outlook are to reflect the cost to continue current programs, entitlement program growth, and actions required by law. The cost to continue current programs and growth in entitlement programs is estimated in the Outlook by using growth factors. Other changes that are required by law, including items with future implementation dates, are generally reflected separately in the Outlook (e.g. Opportunity Scholarship or I-732). The Outlook statute specifically excludes any future costs related to policy items to include, but not limited to, collective bargaining agreements not approved by the Legislature, or salaries and benefits, unless required by statute.

Methodology Overview

The growth factors were updated through a joint effort by legislative and executive branch staff. The analysis used budgeted appropriations for the three accounts covered by the Outlook from the 2009-11 biennium to the 2017-19 biennium. Generally, the approach compares the fiscal year change within each biennium through Maintenance Level of the budget.

The Low-income health care methodology is based on the average annual change in forecasted services between FY 2013 through FY 2019. The specific approach in these areas is described on page 2.

The analysis excluded items related to salaries and benefits, to ensure that growth associated with salary and benefit changes are not reflected in the growth factor. The items that are statutorily required (e.g. pensions and I-732) are calculated and displayed separately in the Outlook; therefore, the growth factors do not include these items.

K12

The growth for K12 will be based on the K12 model, as previously approved in September 2016.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
K12	Use K12 Model	Use K12 Model

Low Income Health Care

The growth for the Health Care Authority Medical Assistance program is based on actual and forecasted annual expenditures in core Medicaid programs from FY 2013 through FY 2019. Population services that have been subject to recent policy changes were excluded from the analysis. Some of the major cost components for this area include utilization and medical inflation. The average growth over this timeframe is 2.89 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
Low Income Health Care & Community Behavioral Health	3.04 % and 4.12%	2.89%

Impacts of the expiration of the Hospital Safety Net and changes in the Affordable Care Act (ACA) Federal match requirements are calculated separately in the Outlook and are not captured in the growth factor percentage.

The Department of Social and Health Services

The growth for DSHS is based on budget appropriations from the 2009-11 biennium to the 2017-19 biennium. Some of the ERFC major cost components include utilization and severity of client needs. The average growth over this timeframe is 3.27 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
DSHS	4.12% and 1.58% and 1.20% and 0.13%	3.27%

Higher Education

The growth for Higher Education is based on budget appropriations from the 2009-11 biennium to the 2017-19 biennium. The major cost components are changes in central service related charged and maintenance and operation costs for facilities. The average growth over this timeframe is 0.10 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
Higher Education	0.07%	0.10%

The cost of College Bound, Opportunity Scholarships, and I-732 are calculated separately in the Outlook and are not reflected in this growth rate.

Debt Service

For the FY 2018 Supplemental Operating Budget Outlook, the ERFC approved use of the debt model for calculation of debt service growth rather than the prior growth factor that was calculated in 2016. The workgroup proposes continuing to use the Debt Service model for the 2019-21 biennium through the 2021-23 biennium (4 fiscal years).

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
Debt Service	Use Bond Model	Use Bond Model

Department of Corrections

The growth for Corrections is based on expenditures from the 2009-11 biennium to the 2017-19 biennium. A major cost component is the proportion of community and institution population. The average growth is estimated at 1.33 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
Corrections	1.58%	1.33%

All Other

This Outlook area includes general government agencies, judicially agencies, legislative agencies, early learning and other human service agencies. The growth for Other Outlook area is based on expenditures from the 2009-11 biennium to the 2017-19 biennium. Major cost components in this area are related to childcare, early learning, juvenile rehabilitation, fire suppression costs, central service charges, lease rate adjustments, and equipment replacement costs. The average growth is estimated at 0.42 percent per fiscal year.

Default Growth Rate Category	Current Growth Rate	Proposed Growth Rate
All Other (Including DCYF)	0.12%	0.42%

The statutory transfer into the Public Safety Enhancement Account is identified separately in the Outlook and is not captured in the growth factor.

A summary table of the growth rate changes is shown on page 4 for reference.

Outlook Growth Rate Summary Table

Current Outlook Grouping	Current Growth Rate 04-2018		New Outlook Grouping	Proposed Growth Rate 11-2018
K12	K12 Model	➡	K12	K12 Model
Debt Service	Bond Model	➡	Debt Service	Bond Model
Low Income Health Care	3.04	➡	Low Income Health Care and Community Behavioral Health	2.89
Community Behavioral Health	4.12			
DSHS/MH Institutions	4.12	➡	DSHS (now also includes SCC)	3.27
DSHS/LTC				
DSHS/DD				
DSHS/ESA	1.20	➡	All Other	0.42
DSHS/CA	1.20			
Higher Education	0.07	➡	Higher Education	0.10
Corrections/DOC	1.58	➡	Corrections	1.33
Corrections/SCC		➡	DSHS	3.27
Corrections/JRA		➡	All Other	0.42
All Other	0.12	➡	All Other	0.42