

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Introduction

The purpose of this document is to provide an overview of the methodology used to develop the four-year budget projections for the 2025-27 biennial operating budget pursuant to Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636). This document summarizes the major components of the projection, the overall approach, as well as the assumptions used in the State Budget Outlook (Outlook) document.

The amounts reflected in the Outlook are the sum of the state General Fund (GF-S), the Education Legacy Trust Account (ELTA), the Opportunity Pathways Account (OPA), and the Workforce Education Investment Account (WEIA). These funds are collectively referred to as the Near General Fund Outlook (NGF-O) funds.

During the 2021 legislative session, the Fair Start for Kids Account (FSKA) was added to the NGF-O definition in Chapter 199, Laws of 2021 (E2SSB 5237). The enacted budget contains no resources deposited into or expenditures from the Fair Start for Kids Account.

Resources

Pursuant to Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636), the amounts depicted include the actual/projected revenue and other resources. Some of the largest components include:

Beginning Fund Balance

The Outlook uses the certified fund balance in accordance with generally accepted accounting principles for the most recently closed biennium as the starting point. The beginning fund balance for subsequent Fiscal Years (FY) is equal to the projected ending balance for the previous FY.

Revenue Forecast

Current revenues for the 2023-25, 2025-27, and 2027-29 biennia reflect the adopted March 2025 quarterly revenue forecast by the Economic and Revenue Forecast Council (ERFC). The provisions of Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636) call for the ensuing biennium revenue (in this instance, the 2027-29 biennium) to be based on the greater of:

- (1) the official revenue forecast for the ensuing biennium; or
- (2) an assumed revenue increase of 4.5 percent per year for that ensuing biennium.

The March 2025 forecast projected revenue growth of less than 4.5 percent per year in the 2027-29 biennium. At the June 10th, 2025 meeting of the Economic and Revenue Forecast Council, the Council moved that the final budget outlook for the 2025 session be prepared without the impact of the 4.5 percent revenue growth adjustment. This decreases estimated resources in the Outlook by \$995 million.

For more information, please see the memo to the Council available at:

https://erfc.wa.gov/sites/default/files/2025-05/20250529_Budget_Outlook_Methodology.pdf

Transfers to Budget Stabilization Account (BSA)

Pursuant to a constitutional amendment approved by the voters in 2007 (Article VII, section 12(1), of the Constitution), this reflects the transfer of one percent of general state revenues (GSR) for each FY to the BSA. The estimated transfer amounts are based on the calculation of estimated GSR as defined in Article VIII, section 1, of the Constitution. The calculation of estimated GSR is based on the March 2025 revenue forecast adjusted for the estimated revenue impacts of legislation enacted during the 2025 legislative session (see enacted revenue legislation). The Outlook assumes BSA 1 percent transfers each biennium

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

to include \$639 million in the 2023-25 biennium, \$709 million in the 2025-27 biennium, and \$765 million in the 2027-29 biennium.

Extraordinary Revenue Growth

Pursuant to a constitutional amendment approved by the voters in 2011 (Article VII, section 12 of the Constitution), this reflects the transfer of three-quarters of extraordinary revenue growth (ERG) into the BSA. ERG is defined in the state Constitution as growth in general state revenues for the fiscal biennium that exceeds the average biennial percentage growth of the prior five fiscal biennia by one-third. The state Constitution also provides that the transfer only occurs to the extent that it exceeds the normal transfer amount into the BSA and that no ERG transfer shall occur in a fiscal biennium following a fiscal biennium in which annual average state employment growth averaged less than one percent per fiscal year. The adopted March 2025 revenue forecast does not project ERG for the 2025-27 or 2027-29 biennia so no additional BSA transfer is assumed in this Outlook.

Prior Period Adjustments and ACFR Adjustments

The Outlook assumes NGF-O prior period adjustments of \$350 million in the 2023-25 biennium, \$79 million in the 2025-27 biennium and \$41 million in the 2027-29 biennium. The larger amount for the 2023-25 biennium reflects an adjustment for FY 2025, as directed at the May 29, 2025 ERFC meeting, to account for estimates of the state share of excess reserves paid back to the state by Behavioral Health Administrative Services Organizations and remittances paid back to the state by Medicaid Managed Care Organizations pursuant to gain share and risk corridor provisions of contracts with the Health Care Authority.

For more information, please see the memo to the Council available at:

https://erfc.wa.gov/sites/default/files/2025-05/20250529_Budget_Outlook_Methodology.pdf

The Outlook also assumes NGF-O Annual Comprehensive Financial Report (ACFR) adjustments totaling savings of \$51 million in the 2023-25 biennium.

Prior Enacted Fund Transfers

This category reflects all enacted NGF-O fund transfers made through the 2023 and 2024 legislative session after accounting for vetoes. For more information, see the 2023 and 2024 session Legislative Budget Notes at:

<https://fiscal.wa.gov/statebudgets/LBNs>

Enacted Fund Transfers in the 2025 Legislative Session

The Outlook assumes transfers to and from NGF-O accounts that were enacted in the 2025 second supplemental operating budget and the 2025-27 biennial operating budget as follows:

Fund Transfers in the Operating Budget (\$ in 1,000s)	2023-25	2025-27	2027-29	6 Yr
Administrative Hearings Revolving Account (GF-S)	0	6,000	0	6,000
Apple Health and Homes (GF-S)	0	15,000	0	15,000
Business & Professions Account (GF-S)	0	5,000	0	5,000
Business License Account (GF-S)	200	0	0	200
Certified Public Accountants' Account (GF-S)	0	1,060	0	1,060
Construction Registration Inspection Account (GF-S)	0	2,000	0	2,000

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Fund Transfers in the Operating Budget (\$ in 1,000s)	2023-25	2025-27	2027-29	6 Yr
Death Investigations Account (GF-S)	-55	-4,100	0	-4,155
Dept of Retirement Systems Expense Account (GF-S)	0	6,052	0	6,052
Disaster Response Account (GF-S)	-47,000	-30,000	0	-77,000
Economic Development Strategic Reserve Account (GF-S)	0	17,142	0	17,142
Education Legacy Trust Account (Sh Game-S)	0	8,000	0	8,000
Electric Vehicle Incentive Account (GF-S)	67,697	0	0	67,697
Electrical License Account (GF-S)	0	6,000	0	6,000
Emergency Drought Response Account (GF-S)	-206	0	0	-206
Enterprise Services Account (GF-S)	0	35,000	0	35,000
Fair Account (GF-S)	0	3,500	0	3,500
Financial Services Regulation Account (GF-S)	0	10,380	7,000	17,380
Flood Control Assistance Account (GF-S)	0	300	300	600
Gambling Revolving Account (GF-S)	0	2,200	0	2,200
Higher Education Personnel Services Account (GF-S)	0	98	0	98
Home Security Fund Account (GF-S)	0	-70,095	0	-70,095
Industrial Insurance Premium Refund Account (GF-S)	4,121	0	0	4,121
Medical Student Loan Account (GF-S)	0	1,751	0	1,751
Military Department Active State Service Account (GF-S)	149	0	0	149
Military Department Capital Account (GF-S)	350	0	0	350
Military Department Rent and Lease Account (GF-S)	1,000	0	0	1,000
Model Toxics Control Capital Account (GF-S)	0	60,000	0	60,000
Model Toxics Control Operating Account (GF-S)	0	10,000	0	10,000
Municipal Revolving Account (GF-S)	0	5,000	0	5,000
OFM Central Services (GF-S)	0	2,000	0	2,000
Performance Audits of Government Account (GF-S)	0	2,536	0	2,536
Personnel Service Account (GF-S)	0	3,827	0	3,827
Pipeline Safety Account (GF-S)	0	1,000	0	1,000
Port District Equity Fund (GF-S)	1,000	0	0	1,000
Pressure Systems Safety Account (GF-S)	0	260	0	260
Professional Engineers' Account (GF-S)	0	440	0	440
Public Employees' and Retirees' Insurance Account (GF-S)	0	18,187	0	18,187
Public Service Revolving Account (GF-S)	250	9,334	0	9,584
Public Works Administration Account (GF-S)	0	1,800	0	1,800
Public Works Assistance Account (GF-S)	0	288,000	0	288,000
Real Estate Commission Account (GF-S)	0	3,500	0	3,500
School Employees' Insurance Account (GF-S)	0	2,551	0	2,551
Secretary of State's Revolving Acct (GF-S)	15,000	0	0	15,000
State Drought Preparedness Account (GF-S)	0	4,000	0	4,000
State Financial Aid Account (GF-S)	0	945	0	945
State Seizure Account (GF-S)	0	500	0	500
State Treasurer's Service Account (GF-S)	0	110,000	0	110,000

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Fund Transfers in the Operating Budget (\$ in 1,000s)	2023-25	2025-27	2027-29	6 Yr
Traumatic Brain Injury Account (GF-S)	0	1,111	0	1,111
WA St Library-Archives Bldg Account (GF-S)	0	18,000	0	18,000
Washington Auto Theft Prevention Authority (GF-S)	800	1,800	0	2,600
Washington Student Loan Account (GF-S)	0	88,967	0	88,967
Wildfire Resp, Forest Restoratn, & Comm Resilience (GF-S)	0	-20,000	0	-20,000
Total NGF-O Fund Transfers in the Operating Budget	43,306	629,046	7,300	679,652

Notes

1. The impact of transfers included in separate legislation is reflected in the Revenue Legislation table below.
2. Positive numbers reflect a transfer from a non-NGF-O account to a NGF-O account.
3. Negative numbers reflect a transfer from a NGF-O account to a non-NGF-O account

Enacted Revenue Legislation in the 2025 Legislative Session

The Outlook assumes NGF-O revenue changes from the following bills that were newly enacted in the 2025 legislative session:

Revenue Package Legislation Enacted in the 2025 Session (\$ in 1,000s)

	2023-25	2025-27	2027-29	6 Yr
Chapter 420, Laws of 2025 (ESHB 2081) - Business and Occupation Tax	0	2,066,200	3,556,800	5,623,000
Chapter 420, Laws of 2025 (ESHB 2081) - Business and Occupation Tax Adjustment	0	-34,970	-47,200	-82,170
Chapter 423, Laws of 2025 (ESSB 5794) - Tax Preferences	0	148,450	236,720	385,170
Chapter 418, Laws of 2025 (2SSB 5802) - Accelerated Sales Tax Deferral Repayments	0	155,200	0	155,200
Chapter 418, Laws of 2025 (2SSB 5802) - Sales Tax to Multimodal Acct	0	0	-581,100	-581,100
Chapter 418, Laws of 2025 (2SSB 5802) - Sales Tax to Multimodal Acct Adjustment	0	0	-26,664	-26,664
Chapter 418, Laws of 2025 (2SSB 5802) - Transfers From GF-S to Transportation Accounts	0	0	-609,382	-609,382
Chapter 418, Laws of 2025 (2SSB 5802) - Transfers from Transportation Accounts to GF-S	0	453,896	0	453,896
Chapter 421, Laws of 2025 (ESSB 5813) - Tax Rates/Cap. Gains, Estate	0	321,600	313,900	635,500
Chapter 422, Laws of 2025 (ESSB 5814) - Excise Taxes	0	1,146,755	1,533,745	2,680,500
Total Revenue Package Legislation Enacted in the 2025 Session	0	4,257,131	4,376,819	8,633,950

Other Revenue Legislation Enacted in the 2025 Session (\$ in 1,000s)

	2023-25	2025-27	2027-29	6 Yr
Chapter 370, Laws of 2025 (E2SHB 1163) - Firearm Purchase	0	0	8,728	8,728
Chapter 136, Laws of 2025 (HB 1355) - Tax Compacts/Capital Invest.	0	0	-37,000	-37,000
Chapter 399, Laws of 2025 (ESHB 1468) - Accounts	0	10,360	0	10,360
Chapter 361, Laws of 2025 (2SHB 1515) - Alcohol Service In Public	0	1,490	289	1,779
Chapter 159, Laws of 2025 (SHB 1791) - Local Real Estate Excise Tax	0	-28	-29	-57
Chapter 350, Laws of 2025 (ESHB 2015) - Public Safety Funding	0	1,500	6,000	7,500

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Other Revenue Legislation Enacted in the 2025 Session (\$ in 1,000s)	2023-25	2025-27	2027-29	6 Yr
Chapter 401, Laws of 2025 (SHB 2020) - Payment Card Processing/Tax	0	500	600	1,100
Chapter 366, Laws of 2025 (SHB 2047) - Employee Ownership Program	0	387	838	1,225
Chapter 406, Laws of 2025 (ESHB 2061) - Duty-Free Sales Enterprises	0	224	0	224
Chapter 419, Laws of 2025 (SHB 2077) - Zero-Emission Vehicle Prg.	0	54,500	0	54,500
Chapter 316, Laws of 2025 (E2SSB 5284) - Solid Waste Management	0	2,310	3,320	5,630
Chapter 29, Laws of 2025 (SSB 5316) - Unclaimed Property	0	4,558	6,166	10,724
Chapter 289, Laws of 2025 (SB 5682) - Employment Training Program	0	-66	-140	-206
Chapter 343, Laws of 2025 (2SSB 5786) - Liquor License Fees	0	17,726	17,726	35,452
Other Revenue Legislation Enacted in the 2025 Session Total	0	93,461	6,498	99,959

Revenue impacts for bills are generally estimated using the amounts from the final published fiscal notes on the underlying bills. The table above includes two adjustments to revenue estimates to account for the interaction of various revenue package bills as follows:

1. Revenues for Chapter 420, Laws of 2025 (ESHB 2081), related to the business and occupations (B&O) tax, are adjusted to account for:
 - a. Increased collections due to the repeal of certain B&O tax exemptions included in Chapter 423, Laws of 2025 (ESSB 5794), related to tax preferences, and;
 - b. Decreased collections due to the reclassification of various services to the retailing B&O classification included in Chapter 422, Laws of 2025 (ESSB 5814).
2. The 0.1 percent of the selling price or value of retail sales and use taxes diverted to the Multimodal Transportation Account under Chapter 418, Laws of 2025 (2SSB 5802) is increased to account for the reclassification of various services to the retailing B&O classification included in Chapter 422, Laws of 2025 (ESSB 5814).

In addition, the Governor vetoed subsections of Chapter 423, Laws of 2025 (ESSB 5794) that repealed the business and occupation tax deduction for interest that community banks receive on loans for residential property. The revenue impact of this veto is shown separately in the Outlook and is included below:

Governor Vetoes (\$ in 1,000s)	2023-25	2025-27	2027-29	6 Yr
Chapter 423, Laws of 2025 (ESSB 5794) - Tax Preferences Partial Veto	0	-98,640	-150,400	-249,040
Governor Vetoes Total	0	-98,640	-150,400	-249,040

Other Revenue Adjustments

An adjustment is made to FY 2025 to include a one-time amount of \$271 million that was previously disputed in settlements between the State and tobacco manufacturers. This amount is in excess of settlement revenues included in the March 2025 revenue forecast.

Budget Driven Revenue Adjustments

Adjustments are made to reflect the difference between assumed transfers of cannabis, liquor and lottery revenue to GFS in the March 2025 forecast and what is estimated to be available after adjusting for the 2025 legislative session spending levels. Adjustments are also made based on fee revenues received pursuant to an expansion of the Firearms Certificate Program at the Criminal Justice Training Commission and, upon the direction of the Council at the May 29, 2025 ERFC meeting, revenues from a

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Voluntary Disclosure Program established in the 2025-27 biennial budget at the Department of Revenue. For more information on the Voluntary Disclosure program, please see the memo to the Council available at: https://erfc.wa.gov/sites/default/files/2025-05/20250529_Budget_Outlook_Methodology.pdf

Budget Driven Revenue (\$ in 1000's)	2023-25	2025-27	2027-29	6 Yr
Firearms Certificate Program	0	340	340	680
Liquor Control Board (Liquor)	13,950	-13,513	-6,579	-6,142
Liquor Control Board (Marijuana)	1	-109	-272	-380
Lottery	122	1,278	1,201	2,601
Marijuana Distribution Changes	0	17	43	60
Voluntary Disclosure Program	0	50,000	0	50,000
Total Budget Driven Revenue Adjustments	14,073	38,013	-5,267	46,819

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget (the 2024 supplemental operating budget). Adjustments are then made for the FY 2025 second supplemental operating budget and the 2025-27 biennial operating budget Maintenance Level (ML) and Policy Level (PL) changes and adjustments for Governor's vetoes. For more information on the 2024 supplemental operating budget, please see:

<https://fiscal.wa.gov/statebudgets/LBNs>.

Estimating Costs for 2027-29 Fiscal Biennium

Estimated costs for the 2027-29 biennium are based on appropriations through the enacted 2025-27 biennial operating budget. Per statute, the estimated expenditures in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law in the subsequent fiscal biennium (i.e., the 2027-29 biennium). The general approach to estimating the cost to continue current programs and growth in entitlement programs is by applying a historical growth factor to the FY cost/savings associated with a budget item.

The historical growth factors used to estimate increased costs in the subsequent fiscal biennium are updated each biennium through a joint effort by legislative and executive branch staff and are ultimately adopted by the ERFC. The growth factors to be used for Outlooks prepared during the 2025-27 biennium were adopted by the ERFC on September 13th, 2024.

Additional information on the calculation of the historical growth factors adopted by the ERFC for the current Outlook can be found in the following document available on the ERFC website:

https://erfc.wa.gov/sites/default/files/2025-06/20240913_BO_Outlook_Growth_Factors_Update.pdf

The current adopted growth rates are shown below:

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

2024 Outlook Growth Rates Summary Table	
Default Growth Rate Category	Adopted 2024 Growth Factors
All Other	1.02%
Children, Youth, and Families ¹	1.02%
Corrections	1.49%
Debt Service	Use Bond Model
Department of Social and Health Services	3.09%
Higher Education	1.17%
K-12 Education	Use K-12 Model
Low Income Health Care & Community Behavioral Health	2.83%

There are some cases whereby simply applying the growth factor to the cost or savings of a budget item is not used to estimate costs in the subsequent fiscal biennium. These include the following situations:

- **K-12 Education.** K-12 Outlook calculations are derived from the K-12 model, which is updated quarterly based on the caseload forecast for growth and inflationary factors. The K-12 model is periodically updated for other factors such as levy equalization and student transportation.
- **Debt Service.** Debt service calculations are derived from the debt service model. The Outlook statute specifies that "estimates of ensuing biennium expenditures must exclude policy items including, but not limited to, legislation not yet enacted by the legislature." Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2027-29 biennium bond bill and capital budget.
- **Custom adjustments.** Custom adjustments are used when the estimated annual costs in the subsequent fiscal biennium are expected to be significantly different from the second FY of the current biennium. This occurs primarily when a policy is being phased in during the second FY of a biennium or may be delayed until the subsequent fiscal biennium. In most cases, the growth factor is applied after a custom adjustment is made to reflect the phase in for the policy item. In a small number of cases, the custom adjustment already accounts for the types of growth captured by the growth factor and so the growth factor is not applied.
- **One-Time costs.** Certain items in the budget are one-time for the current biennium and therefore the related costs or savings are not carried forward into the subsequent biennium.
- **Compensation items.** Because the Outlook statute specifically excludes any additional future costs related to collective bargaining agreements (CBAs) not approved by the Legislature, or salaries and benefits, no growth factor is applied to compensation related items. However, a custom adjustment is applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.

Carry Forward Level Revisions

The 2025-27 biennial budget adjusts the most recently enacted spending level (2023-25) including the FY 2024 supplemental budget to the Carry Forward Level (CFL). The CFL is a relatively mechanical calculation based on the removal of any one-time items and adjusting for the bow wave impact of items assumed in existing appropriations (costs or savings). In many instances, this means simply biennializing to the second year enacted funding levels. The CFL adjustments total \$479 million in costs in the 2025-27 biennium and \$2.216 billion in savings in the 2027-29 biennium. The 2027-29 adjustments include application of the growth factor methodology adopted by the ERFC on September 13, 2024.

¹ Children, Youth, and Families was not presented as a separate growth factor to the council but was calculated with the All Other category and subsequently displayed as a separate category in Outlooks published during the 2025 session.

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Maintenance Level Items

In this section, adjustments are made to reflect the NGF-O costs of continuing to comply with provisions of current law. These adjustments are referred to as maintenance level (ML). Pursuant to the provisions of Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636), this excludes the costs of policy enhancements, including new CBAs not approved by the Legislature, other proposed compensation increases, and costs of any adverse court rulings within 90 days of each respective legislative session.

The following are the total statewide ML impacts, by biennial period:

- ❖ 2023-25 biennium: \$855 million increased costs.
- ❖ 2025-27 biennium: \$4.409 billion increased costs.
- ❖ 2027-29 biennium estimate: \$6.306 billion increased costs.

Kindergarten – Grade 12 (K-12) Education

The amounts depicted reflect the February 2025 caseload forecast and K-12 entitlement changes. The K-12 funding is adjusted each year of the ensuing biennium using the K-12 model, which updates the growth and inflationary factors with each forecast. The K-12 model is also periodically updated for other factors such as levy equalization and student transportation.

ML adjustments total \$145 million increased costs in the 2023-25 biennium, \$1.052 billion increased costs in the 2025-27 biennium, and an estimated \$2.084 billion increased costs in the 2027-29 biennium.

The larger increases are related primarily to K-12 salary and other inflation adjustments. The largest savings in this category is related to pension rate changes and local effort assistance adjustments.

Low-Income Health Care and Community Behavioral Health

The amounts depicted reflect the February 2025 caseload forecast and per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include utilization, caseload, and medical inflation. The average growth factor for this grouping is 2.83 percent per FY from FY 2027 levels.

ML adjustments total \$301 million increased costs in the 2023-25 biennium, \$744 million increased costs in the 2025-27 biennium, and an estimated \$750 million increased costs in the 2027-29 biennium.

The larger increases are related primarily to utilization changes, Medicaid managed care rate adjustments, and mandatory caseload adjustments. The largest savings in this category is related to aligning previously budgeted funding for behavioral health programs to actual Medicaid rates.

Social and Health Services

The amounts depicted reflect the February 2025 caseload forecast and updated per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include caseload, utilization, and severity of client needs. The average growth factor for this grouping is 3.09 percent per FY from FY 2027 levels.

ML adjustments total \$530 million increased costs in the 2023-25 biennium, \$929 million increased costs in the 2025-27 biennium, and an estimated \$1.265 billion increased costs in the 2027-29 biennium.

The larger increases are related to mandatory caseload adjustments in Long-Term Care programs. The larger savings are due to pension rate changes and technical corrections.

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Higher Education

Higher Education adjustments are generally related to the Initiative 732 cost of living adjustments, the Washington College Grant program, the College Bound Scholarship program, and maintenance, operations, and lease adjustments. The amounts depicted reflect the February 2025 caseload forecast. The average growth factor for this grouping is 1.17 percent per FY from FY 2027 levels.

ML adjustments total \$37 million increased costs in the 2023-25 biennium, \$199 million increased costs in the 2025-27 biennium, and an estimated \$303 million increased costs in the 2027-29 biennium.

The larger increases are related to an increase in the forecasted Washington College Grant program caseload and the College Bound Scholarship program. The largest savings in this category is related to correcting CFL errors for Initiative 732 cost of living adjustments.

Corrections

The amounts depicted reflect the February 2025 caseload forecast, as well as other mandatory maintenance level changes. The average growth factor for this grouping is 1.49 percent per FY from FY 2027 levels.

ML adjustments total \$308 million decreased costs in the 2023-25 biennium, \$41 million increased costs in the 2025-27 biennium, and an estimated \$20 million increased costs in the 2027-29 biennium.

The larger increases are related to food service provider costs and forecasted increases in male prison caseloads and community supervision and violator caseloads. The larger savings are due to a fund swap utilizing Coronavirus State Fiscal Relief Funds and pension rate changes.

Children, Youth, and Families

The amounts depicted reflect the February 2025 caseload forecast for the Department of Children, Youth, and Families, as well as other mandatory maintenance level changes. The average growth factor for this group was calculated concurrently with the All Other category (as noted in the footnote on page 6) and is 1.02 percent from FY 2027 levels.

ML adjustments total \$131 million increased cost in the 2023-25 biennium, \$1.104 billion increased costs in the 2025-27 biennium, and an estimated \$1.316 billion increased costs in the 2027-29 biennium.

The larger increases are related to forecasted adjustments to the Working Connections Child Care program, child care subsidy rates, and a statutory expansion of the Working Connections Child Care program eligibility to 75 percent of the State's median income that, prior to legislative action in the 2025 session, was to be effective July 1, 2025. The largest savings in this category is from a forecast adjustment in the Tiered Reimbursement subsidized child care program.

All Other

This area includes all other agencies not reflected in the preceding Outlook groups, such as general government agencies, smaller human service agencies, natural resource agencies, legislative agencies, and judicial agencies. The average growth factor for this grouping is 1.02 percent per FY from FY 2027 levels.

ML adjustments total \$23 million increased costs in the 2023-25 biennium, \$129 million increased costs in the 2025-27 biennium, and an estimated \$135 million increased costs in the 2027-29 biennium.

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

The larger increases are related to increases in the February 2025 forecast for the Working Families Tax Credit program and fire suppression costs at the Department of Natural Resources. The larger savings are related to pension rate changes.

Debt Service

The amounts depicted reflect the cost of the debt on all capital budget bonds that were authorized through the 2025 session using the bond model to calculate estimated costs for the 2027-29 biennium. Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2027-29 biennium bond bill and capital budget.

ML adjustments total \$5 million in savings for the 2023-25 biennium, \$210 million increased costs for the 2025-27 biennium, and an estimated \$433 million increased costs for the 2027-29 biennium.

Policy Level Items

In this section, adjustments are made to reflect the policy level (PL) expenditures included in the enacted budget as well as appropriations made in other legislation. Growth in the ensuing biennium is calculated using the same growth factors and methodologies as outlined above.

The total statewide PL impacts, by biennial period:

- ❖ 2023-25 biennium: \$57 million in savings.
- ❖ 2025-27 biennium: \$1.024 billion increased costs.
- ❖ 2027-29 biennium estimate: \$464 million increased costs.

K-12 Education

PL adjustments total \$6 million increased costs in the 2023-25 biennium, \$682 million increased costs in the 2025-27 biennium, and an estimated \$770 million increased costs in the 2027-29 biennium.

The larger increases are related to increased health benefits rates, special education funding pursuant to Chapter 368, Laws of 2025 (E2SSB 5263), an increase for materials, supplies, and operating costs pursuant to Chapter 334, Laws of 2025 (ESSB 5192), and an increase in the local effort assistance threshold. The larger savings are due to grant program reductions and funding enrollment for the Transition to Kindergarten (TTK) program at the 2024-25 school year enrollment levels, pursuant to Chapter 342, Laws of 2025 (ESB 5769).

Low-Income Health Care and Community Behavioral Health

PL adjustments total \$31 million increased costs in the 2023-25 biennium, \$18 million in savings in the 2025-27 biennium, and an estimated \$142 million in savings in the 2027-29 biennium.

The larger increases are related to an increase in costs for the Community Behavioral Health Support services for individuals in long-term care settings and a GF-S backfill for reductions in Dedicated Cannabis Account funding. The larger savings are due to aligning funding for long-term civil commitment beds to actual experience and a reduction to physical health and behavioral health managed care rates.

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Social and Health Services

PL adjustments total \$121 in savings in the 2023-25 biennium, \$3 million increased costs in the 2025-27 biennium, and an estimated \$36 million in savings in the 2027-29 biennium.

The larger increases are related to an increased rate for consumer-directed employer contracted individual providers and funding for the Adult Family Home collective bargaining agreement. The larger savings are due to the removal of funding for a behavioral health residential treatment facility in Vancouver, delaying the Aged, Blind, and Disabled (ABD) recoveries elimination by three years to October 2028, and the assumption that the federal government will continue to delay reductions to Disproportionate Share Hospital grants.

Higher Education

There are no PL adjustments for Outlook funds in the 2023-25 biennium. PL adjustments total \$133 million in savings for the 2025-27 biennium and an estimated \$239 million in savings for the 2027-29 biennium.

The larger increases are related to adjustments based on income eligibility for the Washington College Grant program and support for the University of Washington Center for Behavioral Health and Learning. The larger savings are related to eliminating bridge grants for Washington College Grant recipients and reductions in state funding for higher education institutions.

Pursuant to direction provided by the Council at the May 29, 2025 ERFC meeting, phased-in policy level savings assumed in the conference budget for FY 2028 and FY 2029 at The Evergreen State College are removed. For more information, see the memo at:

https://erfc.wa.gov/sites/default/files/2025-05/20250529_Budget_Outlook_Methodology.pdf

Corrections

PL adjustments total \$5 million increased costs in the 2023-25 biennium, \$5 million in savings for the 2025-27 biennium, and an estimated \$23 million in savings for the 2027-29 biennium.

The larger increases are related to funding for body scanners at the Washington Corrections Center for Women and the Washington Corrections Center and additional funding for custody staff. The larger savings are related to the closure of the Mission Creek Corrections Center for Women and several reentry centers.

Children, Youth, and Families

PL adjustments total \$30 million in savings in the 2023-25 biennium, \$276 million in savings for the 2025-27 biennium, and an estimated \$455 million in savings for the 2027-29 biennium.

The largest increase is related to Working Connections Child Care (WCCC) program enhancements contained in the Service Employees International Union (SEIU) 925 2025-27 collective bargaining agreement. The larger savings are related to delaying the implementation of income eligibility expansion for the WCCC program to FY 2030 and delaying the implementation of the Early Childhood Education and Assistance program entitlement to the 2030-2031 school year.

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

All Other

PL adjustments total \$23 million in savings in the 2023-25 biennium, \$236 million increased costs in the 2025-27 biennium, and an estimated \$301 million in savings in the 2027-29 biennium.

The larger increases are related to one-time housing and homeless service funding, ongoing funding for the Community Reinvestment Account, and one-time funding into the Supplemental Criminal Justice Account created in Chapter 350, Laws of 2025 (ESHB 2015). The largest savings item is a reduction in funding for Foundational Public Health services.

Employee Compensation and Health Benefits:

The PL budget adjustment for employee compensation is \$29 million increased costs in the 2023-25 biennium, \$967 million increased costs in the 2025-27 biennium, and an estimated \$941 million increased costs in the 2027-29 biennium. There is no growth factor applied to these items although custom adjustments are applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.

Pensions

There are no PL adjustments in the 2023-25 biennium. PL adjustments total \$491 million in savings in the 2025-27 biennium and \$530 million in savings in the 2027-29 biennium. There is no growth factor applied to these items although custom adjustments are applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.

These savings are related to pension rate adjustments pursuant to Chapter 381, Laws of 2025 (ESSB 5357).

Governor Vetoes & Lapses

The Outlook separately reflects the NGF-O impacts of budget items vetoed by the Governor as well as funding lapses from legislation that were not enacted into law. The NGF-O impacts from the Governor's budget vetoes and funding lapses total \$47 million increased costs in the 2023-25 biennium, \$14 million in savings in the 2025-27 biennium, and an estimated \$8 million in savings in the 2027-29 biennium.

Pursuant to direction from the Council at the May 29, 2025 ERFC meeting, GF-S funding at the Employment Security Department that was directed to be placed in to unallotted status by the Governor's budget veto message is not assumed as an additional reversion. For more information, see the memo to the ERFC at:

https://erfc.wa.gov/sites/default/files/2025-05/20250529_Budget_Outlook_Methodology.pdf

Reversions

Reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation. Per direction by the ERFC at the May 29, 2025 meeting, reversion assumptions for the 2025-27 biennial operating budget are as follows:

- ❖ 1.0 percent of GF-S appropriations for FY 2025 and FY 2026, and;
- ❖ 0.75 percent of GF-S appropriations for FY 2027, FY 2028, and FY 2029.

Consistent with prior Outlooks and direction from the ERFC, additional reversions are assumed in relation to estimated adjustments in K-3 allocations as a result of actual and forecasted K-3 class sizes being less than what is funded.

Overview of the Methodology for the State Budget Outlook (June 10, 2025)

Reversion Assumptions (\$ in 1,000s)	2023-25	2025-27	2027-29	6 Yr
Actual Reversions (FY 2024) and Standard 0.5% Assumption	-582,002	-363,382	-376,034	-1,321,418
Additional Reversions Assumption	-179,857	-271,594	-188,017	-639,468
K-3 Reversion Assumption	0	-129,136	-131,867	63,646
Total Reversion Assumptions	-761,859	-764,112	-695,918	-2,221,889

Additional information regarding reversion assumptions is available in the May 29th memo to the ERFC which can be found at:

https://erfc.wa.gov/sites/default/files/2025-05/20250529_Budget_Outlook_Methodology.pdf

Total Reserves

Pursuant to the direction of the ERFC, the summary document for the Outlook shows reserves in the NGF-O Accounts, the Washington Rescue Plan Transition Account (WRPTA) created in Chapter 334, Laws of 2021 (ESSB 5092), and the Budget Stabilization Account. To calculate percentage of reserves to revenues and other resources, ending balances are divided by the sum of forecasted revenues and total resource changes. Beginning fund balances are not included in the percentage calculation.