



STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

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April 8, 2015

Honorable Andy Hill, Chair  
Honorable Jim Hargrove, Ranking Member  
Senate Ways & Means Committee  
P.O. Box 40482  
Olympia, WA 98504-0482

Honorable Ross Hunter, Chair  
Honorable Bruce Chandler, Ranking Member  
House Appropriations Committee  
P.O. Box 40600  
Olympia, WA 98504-0600

Dear Senators Hill and Hargrove and Representatives Hunter and Chandler:

I commend you for your efforts in passing 2015-17 operating budgets from each chamber. As negotiations begin in earnest toward a final budget, I want to share the Governor's concerns with each budget. OFM continues to work with legislative fiscal staff on technical and other budget issues identified by state agencies, our staff, and others. The Governor and I look forward to continuing discussions with you on these issues as you work to complete a final biennial budget for the citizens of Washington.

**K-12 education** – Both budgets make significant improvements in state funding for K-12 education. The Governor proposed full funding of all components of House Bill 2776 in the 2015-17 biennium. He continues to believe that we should step up this year to fully fund the Legislature's commitments on full-day kindergarten, K-3 class size reduction, and the materials, supplies and operating costs (MSOC) in the 2015-17 budget. While the House budget does not fully fund these commitments in the next biennium, it nevertheless provides almost \$500 million more in K-12 funding than the Senate budget, particularly in the areas of K-3 class size reduction and teacher compensation.

This is the session to make dramatic improvements in education funding, including investments that go beyond the HB 2776 commitments already made. Specifically, the Governor remains committed to making substantial progress on the following four funding needs in K-12:

- *Teacher salaries.* Beyond the I-732 cost-of-living adjustments (COLAs), the Governor and the House budget include an additional 1.3 percent salary increase. As you know, teacher COLAs were not funded during the recession; we need to begin making up for lost ground. This increase should be included in the final legislative budget.
- *Student and graduation support.* The Governor proposed, and continues to encourage, enhanced funding targeted through the Learning Assistance Program to increase student support and improve unacceptably low graduation rates. The House budget provides a different mix of enhancements to support students and families, but the Senate budget is not adequate in targeting support to low-performing and at-risk students (instead favoring a doubling of state funds for the Highly Capable



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program, for example). There is ample room for improvement and compromise in all of these important programs.

- *Special education outreach and capacity.* The Governor requested \$800,000 for the Office of the Superintendent of Public Instruction to establish a best practices clearinghouse for special education instruction and to train an additional 20 leaders in special education administration at the University of Washington-Bothell. Neither legislative budget makes this commitment.
- *New teacher mentoring.* As the state provides funding to hire more teachers to reduce class sizes, it is critical that the state fund induction and mentoring for these new teachers. The Governor places a high priority on providing \$17 million in new funding for the state's Beginning Educator Support Team (BEST), an enhancement not included in either legislative budget.

**Early learning** – While both budgets strengthen state funding for access to high quality early learning, the Governor prefers the House approach. The House funds \$100 million more in early learning, about double the increase of the Senate.

- *Preschool access.* Whereas the Governor and the House increase Early Childhood Education and Assistance Program preschool enrollment by more than 6,300 slots, the Senate adds only 4,000. The Senate budget would leave more low-income children unserved next biennium. Under the Senate budget, an additional 9,000 slots would need to be added by 2018 to comply with the current law requirement to provide full access. The Governor supports a faster phase-in of preschool access.
- *Early Achievers.* Both the House and Senate versions of the Early Start Act require mandatory participation in the Early Achievers program for all Working Connections Child Care providers, but neither budget funds Early Achievers at 100 percent of provider participation. Participation rate assumptions not only impact funding for Early Achievers services, such as child care provider ratings and professional development, but also impact funding levels for quality payments and tiered reimbursement incentives for providers. We are concerned that a mandatory participation requirement, without full funding, may reduce provider participation and family access to the Working Connections Child Care program.

**Early childhood intervention for kids with disabilities** – The Senate budget does not fund early intervention assessments and services for 1,500 children with disabilities and delays. The Governor and House both provide \$4 million for these services through the Early Support for Infants and Toddlers (ESIT) program. We know early intervention can make a tremendous difference in the lives of these children and their families.

**Mental health services** – Good work has been done in both chambers this year to help address the clear need to improve mental health services. I draw your attention to two concerns with the Senate budget:

- *Worker safety.* The House budget includes \$4.3 million to hire additional staff to provide safe and appropriate staff coverage in the wards of our state mental health hospitals. This funding helps implement a settlement reached between DSHS and the Department of Labor and Industries (L&I), which was based on recommendations of the Ad Hoc Safety Commission reviewing L&I safety citations. This funding is not included in the Senate budget.
- *Psychiatrist assignment pay.* The Governor approved assignment pay for psychiatrists working at Western State and Eastern State hospitals to improve retention and recruitment of psychiatrists who are crucial to reducing wait times for clients. To ensure the state is able to effectively serve clients and meet court orders, \$3.6 million is needed. It is not included in the Senate proposal.

**Child Protective Services staffing and Braam compliance** – The Senate budget does not provide \$8 million requested by the Governor to increase the number of Child Protective Services workers to provide earlier response to cases of child abuse and neglect, faster completion of investigations, and follow-through services. In addition, the Senate budget provides 27 staff positions less than are needed to meet the staffing standards in the revised settlement agreement in the Braam case. Together, these items represent \$12.2 million in needed funding for these critical services.

**Health Benefit Exchange** – The Senate budget diverts the current 2 percent tax on health insurers from the operations of the Health Benefit Exchange (Exchange) to the state General Fund. As a result, the Exchange will have to increase monthly assessments to Washingtonians accessing health care through the state HealthPlanFinder. As we continue to implement the Affordable Care Act, we need a sustainable funding mechanism to allow Washingtonians to access affordable health coverage through the Exchange.

**Prison capacity** – The Senate budget does not include \$7 million included in the Governor's and House budgets for additional prison capacity for medium-security offenders. Prison overcrowding diminishes the Department of Corrections' ability to house offenders appropriately, based on factors such as security threat group membership and offender special needs, and puts the safety of corrections staff at risk.

**Justice Reinvestment Act** – The House does not include funding for the Justice Reinvestment Act. The act uses an evidence-based approach to reduce criminal recidivism and help reduce the need for more expensive prison capacity by shifting some offenders from incarceration into less costly intensive community supervision, including programming for chemical dependency and cognitive behavioral treatment. The Senate budget provides a net increase of \$2.5 million for the act, which the Governor strongly supports. In addition, the Governor places a high priority on \$4 million in local government criminal justice grant funding to ensure the success of this initiative.

**Hazardous chemical incident prevention** – The Senate does not fund an expansion of inspections of facilities containing highly hazardous chemicals. This was recommended by the U.S. Chemical Safety Board in response to investigations into the 2010 Tesoro refinery explosion. The Governor and the House both propose \$2 million in funding for L&I to conduct enhanced inspections.

**Toxics reduction initiative** – The Governor's budget request included \$12.1 million for House Bill 1472, the Safer Chemical Act. The act would provide a comprehensive toxics reduction initiative to ensure that toxic threats to water quality are reduced at the source of potential contamination, rather than relying on more expensive and less effective end-of-pipe mitigations. The lower funding levels in the House and Senate budgets are insufficient to effectively reduce introduction of toxic substances into state waters.

**Oil by rail** – The Senate budget assumes passage of E2SSB 5057 (hazardous materials transport) whereas the House budget assumes passage of Governor-requested ESHB 1449 (oil transportation safety). The House proposal provides \$13.8 million to fund oil transportation safety items, including hazardous material response caches, local emergency planning assistance, preparation of geographic response plans, advanced notification of oil transfers from rail cars, increased regulation of rail crossings, and stronger safety measures for marine transport of oil. The Senate proposal provides \$6.6 million primarily for hazardous material response cache grants, advanced notification of oil transfers from rail cars, and increased regulation of rail crossings. The level of funding in the Senate budget is insufficient to protect public health and safety from the risk of oil by rail.

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**Emergency drought relief** – The House budget does not include \$6 million in emergency drought relief; it also does not include additional supplemental and capital funding of \$3 million (for a total of \$9 million). The Governor’s drought emergency declaration requested funding to support irrigation for growers, ensure safe and adequate municipal water supplies, supply stream flows for fish, and actions at state hatcheries.

**State parks** – The Governor and the House budget provide an increase of \$27 million for essential parks services such as operations, grounds and facility maintenance, security at campsites, and safety maintenance of hiking trails in the state parks system. The Senate budget funds only \$5 million of this need. In the past four years, the parks system has relied on one-time stop-gap funding and expenditure of available fund balances to create a patchwork of staffing to maintain state parks. The maintenance, operation and improvement of our state parks is a high priority for the Governor.

**Enterprise services** – In addition to the Governor’s proposal to realign the state’s information technology (IT) services into a single coordinated agency, the Senate budget would transfer state risk management and personnel services from the Department of Enterprise Services (DES) to OFM. The IT realignment presents great opportunity for necessary improvement. We are concerned about disrupting the ongoing work of the IT realignment and want to minimize the impacts on remaining services provided by DES.

**Information technology pool** – The Senate budget includes \$25 million GF-S (\$89 million total funds) to create an IT pool in OFM for a specific list of projects. Agencies may apply to OFM for funds and are subject to rigorous review and oversight by the OCIO. A total of 21 projects are eligible for the pool. Additional funding is necessary to successfully implement this proposal because the total General Fund cost of these projects is about \$40 million. In addition, it may be necessary to directly appropriate funding to the Department of Revenue for its TLSR system to ensure that the project qualifies for COP financing.

**Unallocated budget reductions** – The Senate budget includes an unallocated \$48.6 million reduction for Lean management strategies and efficiency savings (Section 725). As we have previously stressed, the Legislature has the authority and obligation to make specific appropriations to agencies and programs – such that the consequences of proposed funding levels are transparent.

**Collective bargaining agreements** – Under state law, the Legislature may only approve or reject the request for funds for collective bargaining agreements as a whole. If the Legislature rejects the funding requests — as the Senate does — the governor and higher education institutions must negotiate new agreements with state employee unions. By statute, new agreements would have to be submitted to the Office of Financial Management by October 1 and found financially feasible before going back to the Legislature for funding consideration.

The statute does not provide a framework for the Legislature to preapprove or set the fiscal parameters for negotiations. In addition, other provisions of labor law do not permit the state to limit the subjects of bargaining once the parties are back in negotiations. Based on the state collective bargaining framework and other provisions of labor law, it is uncertain whether the employee compensation provisions in the Senate budget could be implemented.

Notwithstanding these concerns, the Governor fundamentally believes it is important to honor the bargained agreements and fund the modest salary increases.

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**Local government infrastructure** – While both the House and Senate budgets recognize the need for local water and sewer systems, roads and other amenities, the funding approaches between the two chambers differ in both the short and long-term. We look forward to working with the Legislature to reconcile the different approaches and to maintaining long-term state support of these critical local government infrastructure projects.

**Revenues** – There is an obvious difference between the Governor, House and Senate budgets with regard to revenue policy. I have written to you previously that despite modest increases in state revenue forecasts, the Governor continues to believe that significant new revenue is needed to keep pace with the state's obligations and growing demands for education and other vital services. As budget negotiations ramp up this month, we would again point out that the important revenue debates are not solely about whether or how much revenue is needed, but how such revenue is generated.

- *Carbon pollution.* The Governor has proposed a charge on major carbon polluters under a market-based pollution reduction program that would improve the health of Washingtonians and generate significant and sustainable revenues for education, transportation and other vital services.
- *Capital gains tax.* The Governor, and now the House, have proposed a new capital gains tax on the sale of stocks, bonds and other assets to increase the share of state taxes paid by our state's wealthiest taxpayers.

There is clearly room for debate and negotiation on the structures and details of these and other revenue proposals. The Governor continues to believe that taxes on carbon pollution and capital gains, while also closing outdated tax loopholes, provide the best and fairest mechanisms to generate revenues for needed enhancements to state services.

Thank you for your consideration. We look forward to working with you through the remainder of the legislative session.

Sincerely,



David Schumacher  
Director

cc: Bryon Moore, Staff Coordinator, Senate Ways & Means Committee  
Charlie Gavigan, Staff Coordinator, House Appropriations Committee  
Jim Crawford, Assistant Director for Budget, OFM  
Joby Shimomura, Chief of Staff, Office of the Governor