



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

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April 6, 2017

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

Dear Representatives Ormsby and Chandler:

I commend you for your efforts in passing a 2017-19 operating budget. I am writing to share our concerns with the House budget.

As the Governor has stated, our core duty this year is to pass a budget that meets our constitutional obligation to fully fund basic education while making meaningful investments to ensure students and educators have the supports they need to succeed in the classroom. At the same time, we must protect, and in some cases, enhance services to vulnerable Washingtonians.

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

Overall funding level

Governor Inslee proposed \$4.3 billion in increased funding next biennium for competitive wages and benefits in schools, additional staffing to serve students and reduce class sizes, and better student support services. The House budget proposes \$2.7 billion in additional state funds — nearly 40 percent below the level proposed by the Governor. The House budget mirrors the Governor's proposal in many areas. Most notably, it continues the prototypical school funding model that is the basis of the state's commitment to achieving full funding of basic education as required by the state Constitution.

Timing

The House budget investments in basic education are spread over a three- or four-year timeline. The desire to phase in investments of this magnitude is understandable, and has been a major component of education funding historically. The Governor has consistently pushed for the full funding of the state's commitment to our schools and students in the next biennium, consistent with our educational needs and the McCleary decision.

Mentoring

The House budget allows investments in the beginning teacher mentoring program to lapse. Last year, the Legislature increased the BEST (Beginning Educator Support Team) program funding to \$9 million per year. The investment was one-time and the program would move forward at \$5.5 million per year



under both the House and Senate budgets. The Governor proposed \$50 million to expand mentoring to new teachers, make mentoring a full-time career option, and expand the program to new principals.

Health and Human Services

Department of Corrections

Community supervision proviso – The House budget directs the department to implement a residential reentry pilot program at two Seattle facilities. However, the budget provisos funds for community supervision without additional appropriation authority. Without that authority, the department would have to reduce funding for current work release capacity by more than 25 percent to pay for the residential reentry pilot. While we are not opposed to the pilot, it should be funded with additional appropriations.

Enterprise records staffing – The Governor’s budget includes funding for 25 additional staff necessary for the Department of Corrections to ensure that offenders are confined and released as ordered by the court, to screen offenders for supervision, to ensure that offenders are supervised for the correct period of time, and to train staff on offender and agency records management. The House budget provides funding for only 18 positions.

Mental health

Community long-term inpatient beds – The House budget reflects a strong commitment to make systemic improvements throughout the mental health system. While the budget funds 48 long-term commitment beds in a private setting beginning in January 2019, a successful transition of the mental health system will require a public-private partnership. State-owned and -operated community mental health hospitals are essential to maintain the safety net necessary to provide community-based treatment for individuals most in need of mental health services. Sixteen-bed community mental health facilities that are state-operated should be included in the final budget.

State hospital compliance and transitional funding – Important progress has been made to address the crisis at Western State Hospital. The Department of Social and Health Services is on target to comply with Conditions of Participation requirements necessary to maintain federal funding through implementation of the Systems Improvement Agreement and hospital transitional funding. The Governor proposed funding these efforts not only to improve the quality of care and safety of patients and staff, but to avoid revocation of the hospital’s CMS certification should Conditions of Participation not be met. Revocation would result in substantial loss of federal funds.

In the biennial budget, the House partially funds state hospital compliance funding at 80 percent of the need. Further, the House budget provides approximately 40 percent of the funding provided in the Governor’s biennial budget for ongoing hospital transitional funding. Without additional funding, DSHS will have to implement reductions to the very improvements the hospital has recently made. (Please also see the concern below regarding hospital compliance funding in the House supplemental budget.)

Health Care Authority

Healthier Washington savings restoration – Thank you for recognizing the need to restore assumed savings for the Healthier Washington initiative for state fiscal years 2018 and 2019. However, the House budget provides no funding to buy back assumed savings for the Healthier Washington initiative in the 2019-21 biennium. Because local participation in the behavioral and physical health integration is voluntary until 2020, the assumed savings will not be achieved over the next four years.

Prescription drug savings – The House and Senate budgets both assume more than \$32 million GF-State savings in 2017-19 as a result of HCA creating a single preferred drug list and operating as a single pharmacy benefit manager for all Medicaid managed care plans. While this is an important policy that will likely result in savings, it is unlikely to achieve savings of the magnitude assumed. Savings assumptions that cannot be achieved will require future budget appropriations to fund the difference between assumed and actual savings.

General Government

Human resources support for small agencies

The House budget does not provide expenditure authority for small agencies to purchase basic human resources support from the Department of Enterprise Services (DES). These 29 small agencies have no other funding source for the human resources support they need.

Secretary of State's Office – Elections modernization IT project

The House budget does not provide \$5.9 million GF-S for the Secretary of State's elections system modernization project. The statewide voter registration database is used to manage voter registration and ensure the accuracy of the voter rolls. The elections information system provides valuable online services, including electronic voter registration, voters' guides, candidate filing and election results reporting. These systems are outdated and cannot efficiently support significant changes to election and voter registration laws. County auditors have agreed to support a more centralized voter registration system if the project moves forward now. It is important for the state to successfully complete this project during the 2017-19 biennium ahead of the 2020 presidential election cycle.

House 2017 Supplemental Budget Concerns

Mental health

State hospital compliance – Important progress has been made to address the crisis at Western State Hospital. The Department of Social and Health Services is on target to comply with Conditions of Participation requirements necessary to maintain federal funding through implementation of the Systems Improvement Agreement to avoid revocation of the hospital's CMS certification should Conditions of Participation not be met.

The House supplemental budget partially funds state hospital compliance funding at 80 percent of the need this year. DSHS is actively managing to reduce agency expenditures in other areas to fund current compliance costs while also relying on full funding of this supplemental budget item to close fiscal year 2017 within current appropriation levels.

Thank you for your consideration.

Sincerely,



David Schumacher
Director

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