



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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TO: Agency Directors
Presidents, Higher Education Institutions
Boards and Commissions

FROM: David Schumacher
Director

SUBJECT: 2019-21 OPERATING AND CAPITAL BUDGET INSTRUCTIONS

The state's economy continues to grow, and is forecasted to continue to outperform U.S. economic growth over the next two biennia. Strong employment and modest wage growth, continued expansion of housing markets, and manufacturing activity are indicators of the strength of Washington's economy.

State revenue collections rebounded from the Great Recession at a slow but steady pace over the past eight years. If the economy performs as forecasted, the recovery will be the longest period of sustained growth since at least the 1940s. This steady economic performance, combined with revenue increases, allowed the state to maintain important services to Washingtonians while also providing billions more dollars to state K-12 funding as required by the *McCleary v. State of Washington* decision. Despite the strong economy, agencies are reminded that balancing the 2017-19 biennial budget required both major tax increases and use of one-time reserves.

For the 2019-21 biennium, forecasted revenue growth is not likely to meet current demands on the state's resources, including mandatory caseload and cost growth, maintenance of the K-12 and health care systems, and spending increases for critical mental health programs, employee compensation and other services. Washington continues to face a structural budget gap because the state's tax and revenue system does not keep pace with the increasing demands for services of a growing population.

Resources will once again be limited and agencies should be prepared to manage with minimal or no funding increases

As has been the case for several budget cycles, our structural deficit has once again left the state with some holes to fill and problems to fix in the underlying budget. Those will have to be addressed before we can consider new spending.

As the state phased in *McCleary* funding over the past six years, demand grew for new and expanded programs in other areas. With so many pent-up needs, competition will be fierce for 2019-21 and 2021-23 resources in virtually every part of the budget. Meanwhile, with the next round of collective bargaining underway, the extent to which state employee compensation increases will compete for limited resources is unknown.

OFM will work with agencies during the summer and fall to understand their budget needs and priorities. Many agencies are articulating clear budget priorities and developing detailed options to meet them.

Governor Inslee has made it clear he wants to review budget options in a number of policy areas. He knows that he will face challenging fiscal choices among his own priority policy goals and that agencies will be putting forward additional proposals. All agencies should be aware that it will not be possible to fund many, or even most, of the budget requests.

Agencies should always strive to reduce costs and find ways to save resources. This will be especially important as pent-up demand for budget enhancements outpaces revenue collections. As always, there are many obstacles to raising new revenue. And there will likely be targeted tax exemption proposals for particular policy goals that will result in revenue reductions.

It is essential that agencies consider the state's long-term outlook in developing their 2019-21 budget requests. Washington's economy is cyclical, and the current growth cycle will eventually slow. Risks to state revenue growth include potential disruption of international trade, uncertain fiscal policy at the federal level, stock market volatility leading to slower household spending, and geopolitical risks including those associated with North Korea, Russia and the Middle East. Last winter, members of the Governor's Council of Economic Advisors were asked the probability of a recession by 2023. The average probability of those who responded was 88 percent.

Rigor and prioritization are key to successful budget proposals

Requests for new funding should be restrained and focused on the highest priority services that deliver significant performance improvements and outcomes for the citizens of Washington. As always, agencies are expected to understand and be able to articulate and justify their budget request priorities. Successful requests for the 2019-21 biennium will be more thoroughly explained than in the past, include detailed budget models and spending plans, and provide well-developed scalable options. Budget requests should be thoroughly vetted with other involved agencies.

Strategic framework: focus on results and strategic plans

Agency budget requests should reflect the Governor's statewide strategic goals articulated through Results Washington, the Governor's policy priorities, and agency-specific strategic plans.

Results Washington – Decision packages *must* identify the Results Washington statewide goals and outcome measures they address. Packages should clearly articulate how budget requests will achieve implementation of strategies and plans developed by the [Results Washington](#) goal councils.

Agency strategic plans – For 2019-21 biennial budget requests, OFM is again requiring agencies to submit strategic plans. Budget decision packages should align closely with agency strategic plans, goals and performance measures.

OFM will review Results Washington goals, outcome measures and action plans – along with agency strategic plans, strategies and performance measures – to prioritize spending requests as we work with the Governor to develop his 2019-21 budget recommendations. As always, the Governor expects all agencies to improve efficiency and streamline operations.

Compelling budget requests – do's and don'ts

We have made changes to the budget instructions. Generally, OFM found that the decision package template was too mechanical, which often resulted in agency budget requests that were repetitive or lacked compelling narrative. Changes are intended to help agencies generate more comprehensive and detailed decision package descriptions and to provide better information to OFM, the Governor and the

Legislature for decision making. OFM and the Legislature must prepare four-year budget outlooks, so agency budget requests must reflect details for the ensuing four fiscal years.

For the state's operating budget, OFM has deployed the new Agency Budget System (ABS). ABS will fully automate the budget submittal process – replacing the traditional “notebook” with an internet repository and enhanced transfer of agency data and information to internal OFM and legislative budgeting systems. This will enable agencies to easily supply detail and justifications for decision packages and expected outcomes, including more tables, charts, graphs, maps and other graphics. *Again, agencies are encouraged to limit their budget requests and ensure that those requests are comprehensive and can be justified.*

Please do:

- Look for ways to save resources.
- Develop scalable **options** to meet your highest priorities in the most cost-effective manner.
 - How else can we accomplish this?
 - What can we reprogram to meet our need?
 - How can we reduce the cost?
- Build and share detailed working fiscal and workload models and spending plans that drive and back up your proposed spending levels.
- Collaborate with other involved entities, including other state agencies.
- Focus intensely on performance and outcomes.
 - What will the decision package accomplish?
 - Who will be served? At what level?
 - How will we know?
 - What are our performance targets?
 - How likely are the targets to be met?
- Be prepared to operate effectively and efficiently if no new resources are provided. Agencies should have concrete, viable backup plans in the event budget requests are not funded.

Please don't:

- Request restoration of previous cuts; in most cases, agencies are not entitled to a prior level of funding.
- Request a prior “share” of the budget (there is no such thing).
- Request past unfunded inflationary or other cost increases. (These are not compelling arguments for limited resources. If resources are needed, make your strongest case based on articulated need, performance, outcomes and results.)
- Make budget requests the agency is not well prepared to implement effectively and transparently in the next biennium. “Placeholder” budget requests are usually insufficiently developed to be successful in the next fiscal period.
- Request a new program or initiative without a comprehensive and realistic plan to fund its full implementation in the future.
- Try to bury policy-level requests in maintenance level; when in doubt, ask.

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The 2019-21 budget instructions are available on OFM's website [here](#).

Agency operating and capital budget requests are due to OFM beginning **September 12**. For your specific agency due date, see [Appendix 1](#) of the budget instructions.

Thank you for your assistance. We look forward to working with you and your staff on this challenging budget.

cc: Agency Budget Officers