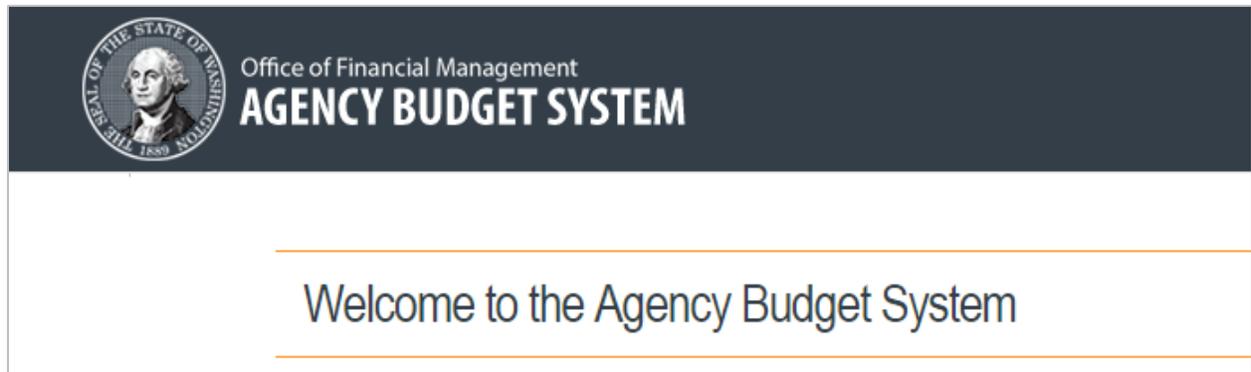


## CHAPTER 1

# BUDGET REQUEST BASICS

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The Office of Financial Management (OFM) rolls out the new Agency Budget System (ABS) for the 2019 supplemental and 2019-21 biennial budget requests



To learn about the Agency Budget System, system help and tutorials are found [here](#).

### Other components of the 2019-21 budget Instructions

- 2019–29 Capital Plan [Instructions](#)
- Higher Education Capital Project Evaluation [System](#)
- 2019–21 Higher Education Operating Budget Instructions [Addendum](#)
- 2019–21 Transportation Operating Budget Instructions [Addendum](#)
- Strategic Plan [Guidelines](#)
- Activity Inventory [Guidelines](#)
- Performance Measure [Guidelines](#)
- [Glossary](#) of Terms
- [Forms](#)

### Context for state agency budget requests

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 under the *McCleary v. State of*

Washington decision. Despite the strong economy, agencies are reminded that the 2017–19 biennial budget required both major tax increases and use of one-time reserves to balance.

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.

Over the past six years, as the state phased in McCleary funding, 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 state 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 be working with state agencies to understand their budget needs and priorities throughout the summer and fall. Many state 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; we will be working on these priorities with state agencies and others this summer and fall. The Governor knows 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, fiscal policy uncertainty 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. This winter, members of the Governor’s Council of Economic Advisers 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 prioritizations. 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](#) and agency-specific strategic plans.

**Results Washington.** DPs *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 DPs should align closely with agency strategic plans, goals and performance measures.

OFM will use 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 – dos and don’ts**

The budget instructions that follow contain changes from prior biennia. Generally, OFM found that the DP template was too mechanical, which often resulted in agency budget requests that were repetitive or lacked compelling narrative. Changes are intended to generate more comprehensive and detailed DP 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 is deploying 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 DPs, and to facilitate more tables, charts, graphs, maps and other graphics that help agencies justify budget requests and expected outcomes. **Again, agencies are encouraged to limit 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 DP 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 (PL) requests in maintenance level (ML); when in doubt, ask.

## The budget in two views

### **DPs are the budget building blocks**

Agencies must describe and support each requested incremental change to the current budget with a DP. DPs are the place for agencies to make a persuasive case for their requests. Agency DPs are summarized in the recommendation summary (RecSum) report.

### **Major budget categories help to organize the request**

The incremental steps in the RecSum are grouped to help OFM and legislative fiscal staff analyze categories of expenditure changes from the current biennium level. The categories are:

**CFL.** How much of the budget proposal is the biennialized cost to continue the workload or services already authorized through legislative budget decisions? OFM, in consultation with legislative and agency staff, determines the CFL and communicates these control amounts to agencies as soon as possible after these instructions are published. (See Chapter 5 for more detail.)

**ML.** How much of the budget proposal is for additional mandatory caseload, enrollment, inflation or other legally unavoidable costs not contemplated in the current budget? ML changes to budgeted, nonappropriated funds are also included in this category. (See Chapter 5 for more detail.)

**PL.** What other expenditure change proposals are contained in the agency request budget? These options represent changes in discretionary workload, the nature and scope of services, or alternative strategies and outcomes. (See Chapter 5 for more detail.)

## The activity inventory view of the budget provides another important set of budget building blocks

While the DPs show the incremental changes to the agency budget, the activity inventory describes what the agency does:

- What are the activities of the agency?
- What does it cost to perform them?
- What are the products and outcomes of each activity?
- How do activities connect to agency strategic plans and the statewide goals and performance targets of Results Washington?

Agencies must prepare and submit an activity view of the budget in addition to the traditional DP described in chapters 2 and 3.

An activity is something an organization does to accomplish its goals and objectives. An activity consumes resources and provides a product, service or outcome. One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state's citizens, we want to know "What do you do? For whom? Why is it valuable?"

Activity descriptions tend to be better than program descriptions at revealing the nature and purpose of the work performed by state government. The activity view of government plays an important role in budget analysis, prioritization and decision-making.

The activity inventory describes the major activities of each agency. Each activity description must include the following information:

- A title that describes the nature of the activity (rather than an organizational name).
- A brief description of the activity, its purpose and its intended recipient or beneficiary.
- The expected results of the activity (conveyed as a concise narrative description of outcomes and/or as one or more performance measures).
- Primary statewide goal area to which the activity contributes.
- Secondary statewide goal areas to which the activity contributes.

### Resources

OFM Activity [Guide](#)

OFM Performance Measure [Guide](#)

## What are the submittal requirements?

Submit your agency's **capital budget** request in a notebook. See the Capital Budget [Instructions](#) for more information.

All elements of the agency operating budget request are submitted through ABS. No paper or "notebooks" are required nor accepted in lieu of electronic submittal.

Additional requirements for **transportation agencies** are in the transportation budget instructions [addendum](#).

Additional requirements for **higher education institutions** are available in the higher education budget instructions [addendum](#).

### Some agencies provide budget data at the program or category level

OFM reviews most RecSums at the agency DP level. However, we ask for some program detail from agencies. For agencies listed below that are appropriated at program (or category) level, submittals must include program or category-level RecSums with your agency request:

- 010 Bond Retirement and Interest
- 107 Health Care Authority
- 300 Department of Social and Health Services – program level, except the following submitted at category level:
  - Mental Health
  - Developmental Disabilities
- 305 Department of Veterans Affairs
- 310 Department of Corrections
- 340 Student Achievement Council
- 350 Superintendent of Public Instruction
- 405 Washington State Department of Transportation
- 406 County Road Administration Board
- 407 Transportation Improvement Board
- 411 Freight Mobility Strategic Investment Board

### Required agency description and mission statement

Agency descriptions and missions will be published as part of the Governor’s budget recommendation. OFM will supply agencies with a template in August containing the most recent agency description and mission statements. Agencies needing to make changes, should return the updated template to [OFM](#) no later than their agency budget due date. (Appendix 1)

### How many copies must we submit and what is the required format?

For all **operating** budget submittals: none. All operating budget requests are developed and submitted through the new ABS. ABS eliminates the need for paper documents and notebook binders. All budget documentation is generated directly within the ABS system or attached. This data and information is deposited into an Internet repository and to OFM and legislative internal budgeting systems.

For all **capital** budget submittals:

- Submit five copies of your budget proposal.
- Number all pages.
- Reduce oversized materials by photocopier whenever possible, meaning, if legible, use 8 ½ x 11 paper.
- Three-hole punch all materials and assemble each copy of the budget in a standard size notebook supplied by the agency.
- Organize and tab the material as detailed in the capital budget [instructions](#).

### When is the budget submittal complete?

Your budget submittal is complete when:

- For capital budgets:
  - » The required number of capital budget hard copies are received by OFM, and
  - » Capital budget-request data from CBS is successfully released to OFM.

- For operating budgets:
  - » ABS data is successfully released to OFM and, where applicable,
    - Transportation project system data are successfully released to OFM, and
    - Transportation fund balance data are successfully released to OFM.

**OFM and the Legislature need both the capital budget notebooks and the operating budget system data released from ABS to begin analysis of agency budgets. All are due to OFM no later than the dates listed in Appendix 1.**

**Note:** Agencies may not amend their request after initial submittal unless prior authorization is received from OFM. The submittal requirements outlined above apply to all approved revisions or amendments.