



STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

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March 28, 2017

Honorable John Braun, Chair  
Honorable Kevin Ranker, Ranking Member  
Senate Ways & Means Committee  
P.O. Box 40482  
Olympia, WA 98504-0482

Dear Senators Braun and Ranker:

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

While we are encouraged the Senate recognizes the need for new revenue, the budget makes only modest net investments in K-12 education. The Senate budget also makes a number of fiscal and policy changes that would do harm to our social safety net.

Finally, there are a number of concerns with the Senate budget underfunding of core services, caseloads and other known needs, which we have highlighted below. We are concerned that the Senate budget undermines our efforts to recruit and retain a high quality workforce and resorts to unallocated reductions in a number of areas. Together, these result in a budget that is once again unlikely to be sustainable without future supplemental appropriations.

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 Senate budget proposes \$2.6 billion in additional state funds — 40 percent below the level proposed by the governor. Further, Senate reductions to local voter-approved levies result in still lower net new funding resources for our schools.

### **Teacher compensation**

To manage the four-year outlook during negotiation of the 2015-17 biennial budget, a portion of the K-12 salary increases for the current school year were considered “one-time.” The Senate’s 2017-19



budget rolls back the “one-time” increases. As a result, beginning teacher salaries will go up just \$184 next year, to \$35,884 under the Senate plan. That is just 0.5 percent above the current level, and well below the rate of inflation. Further, the Senate budget provides no increase in funding for health benefits, so teachers will again lose purchasing power to inflation.

The Senate budget also saves \$83 million by cutting the national board certificated teacher bonus program. This would eliminate the \$5,208 annual bonus for nearly 7,500 of our top teachers and the additional \$5,000 bonus for 2,450 of those teachers who work in our most challenging schools.

### **Less transparency in funding for basic education**

The Senate budget proposes switching to a per-pupil funding model, which removes important funding information needed for the state to determine whether and how the state is meeting its basic education funding obligations under McCleary.

### **Mentoring**

The Senate budget allows current 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 increased investment was one-time and the program would move forward at \$5.5 million per year under the Senate budget. The governor proposed \$50 million to expand mentoring to all new teachers within four years and to make mentoring a full-time career option. The governor also proposed expanding the program to new principals.

### **Student supports**

The governor proposed \$405 million in specific evidence-based investments that we know improve student success. Proposed increases not included in the Senate budget include:

- \$325 million to add 1 FTE to each prototypical elementary, middle and high school to address social and emotional barriers to learning;
- \$10 million for career-connected learning and the opportunity for every student to learn computer science; and
- \$12 million to increase equipment and supplies in career and technical education and skills center classrooms.

### **Higher Education**

#### **Tuition waivers**

This \$19.9 million GF-S reduction assumes institutions discontinue tuition waivers in the form of institutional aid. These waivers largely affect low-income students who would be harmed by loss of the waiver. If the institutions decide to continue to waive tuition for these students, this cut would be absorbed by institutions.

#### **State Need Grant**

Under the Senate budget, 25,000 eligible students would remain unserved by the State Need Grant. The governor’s budget provides funding to expand the State Need Grant to 14,000 eligible but unserved students.

#### **Collective bargaining**

The Senate budget rejects all of the higher education collective bargaining agreements at both universities and community and technical colleges. (See Compensation section on page 8 for further discussion.)

## **University of Washington occupational health**

The Senate budget eliminates nearly 45 percent (\$6.2 million) of the Medical Aid-State Account funding for the UW Department of Environmental and Occupational Health Sciences. This reduction would result in the closure of the Environmental Health Laboratory, which analyzes workplace chemical exposure samples for Washington-based companies.

## **Health and Human Services**

### **Department of Social and Health Services**

#### **Long-term care**

*Medicaid transformation waiver savings* – The Senate budget assumes a four-year General Fund-State savings of \$37.3 million from continued implementation of the Medicaid transformation waiver. This is an overly aggressive savings assumption that would likely require the department to seek supplemental funding next year.

#### **Mental health**

*Private behavioral health community hospital beds* – The Senate budget reflects a strong commitment to making systemic improvements throughout the mental health system. While the Senate 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 private and public partnership. State-owned and -operated community mental health hospitals are essential to maintain the safety net necessary to treat the highest acuity individuals in need of mental health services within their communities. The governor proposed 16-bed state-operated community mental health facilities.

*Hospital transition funding* – Important progress has been made to address the crisis at Western State Hospital. DSHS is on target to resolve a series of “immediate jeopardy” findings issued by the federal Centers for Medicare and Medicaid Services (CMS) and to comply with requirements necessary to maintain federal 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 and the loss of federal funding. The Senate budget does not provide a hospital transitional funding increase, leaving a \$97 million hole in hospital funding over four years. Without additional funding, DSHS will have to implement reductions to the very improvements the hospital has recently made.

### **Developmental Disabilities Administration**

*Residential habilitation center consolidation* – The Senate budget prohibits long-term admissions to Fircrest School for both intermediate care and nursing facilities. Residential habilitation centers such as Fircrest serve individuals who have exceptional care and treatment needs due to their developmental disabilities.

*Employment and community access* – The Senate budget removes the current requirement that DDA clients participate in nine months of employment services before transitioning to community access services. This will increase state costs. While the Senate budget funds this policy change at \$1.1 million GF-S, DSHS estimates the fiscal impact to be nearly \$11 million.

### **Economic Services Administration**

*Working Connections Childcare (WCC) enrollment freeze* – The Senate budget caps WCC at 31,000 families. This cap would eliminate access to subsidized childcare for approximately 3,400 children. The program provides low-income families with subsidized, quality childcare so parents can maintain self-sufficiency while working or attending school.

*Temporary Assistance to Needy Families/Workfirst spending plan savings* – The Senate budget makes a number of policy changes to achieve savings in TANF/WorkFirst grant programs and Working Connections Childcare. Much of the savings comes from reducing the number of clients receiving these services. The policy changes approved by the Senate conflict with the goal to help our most vulnerable families address barriers to self-sufficiency, reduce homelessness and to develop economic stability.

*Time limit pending SSI* – The Senate budget assumes a significant caseload reduction – of approximately 1,250 recipients per year – to the Aged, Blind and Disabled (ABD) cash assistance program, by limiting benefits to 36 months for recipients pending Supplemental Security Income (SSI). The policy change conflicts with the goal of helping low-income disabled individuals maintain housing and obtain SSI.

### **Children’s Administration**

*Department of Children Youth and Families* – State services are not organized in a way to achieve the best possible outcomes for children, youth, and families. Creation of a new Department of Children, Youth and Family Services would improve service delivery and help ensure optimal outcomes. A single agency dedicated to the safety, development, and well-being of children was recommended by a blue ribbon commission and has broad support. The Senate budget does not fund creation of the new agency.

*Behavioral health integration* – The Legislature has directed the state to fully integrate the financing and delivery of behavioral health and physical health by 2020. Integration will improve prevention and treatment of behavioral health conditions, help avoid commitments to state psychiatric hospitals, and support healthy, productive lives. To achieve successful integration, it is important to align oversight, purchasing, and management of behavioral and physical health under a single state agency. The Senate budget does not fully fund behavioral health integration.

*Child welfare social workers* – The Governor proposes funding an additional 56.3 staff to lower the caseload ratios to 18 families per child welfare social worker. High caseloads lead to longer stays in foster care, high turnover and burnout among social workers, and poor outcomes for children who are in out-of-home care. Funding additional social workers not only improves outcomes for children, but also helps to maintain a stable workforce as a result of lower turnover rates. The Senate proposal provides no additional funding.

### **Department of Corrections**

*Historical underspend* – The Senate budget reduces 2017-19 funding for DOC based upon FY 2017 expenditures and allotments. Due to recruitment challenges for various health care positions, salaries and benefits within the department have not been fully expended; however, recent recruitment efforts are likely to reverse this trend. This, coupled with other savings assumptions in the Senate budget, means a savings of \$10.7 million in the biennial budget is not achievable without eliminating important positions. The department estimates that this savings step could result in the elimination of 64 staff.

*Enterprise records staffing* – The governor’s budget includes funding for 25 additional staff necessary for DOC 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 Senate budget provides no funding.

*IT business solutions* – In response to the sentencing calculation error, DOC retained Gartner Consulting to conduct an assessment of the department’s information technology infrastructure. The assessment identified six key areas essential to aid in the success of IT and to support strategic business initiatives. The governor’s budget provides the resources necessary to help ensure these types of errors do not occur again. The Senate budget provides no funding.

## **Health Care Authority**

*Healthier Washington savings restoration* – The Senate budget again provides no funding to buy back assumed savings for the Healthier Washington initiative. Because the health care integration aspects of the initiative are voluntary, the assumed savings will not be achieved in the current biennium, nor in the next.

*Managed care trend* – Historically, the Medicaid forecast provides for a 2 percent assumed growth trend for managed care rates. The Senate budget holds the managed care trend at an unrealistic zero percent.

*Medicaid transformation waiver* – Washington received an approval from the federal Centers for Medicare and Medicaid Services for a five-year Medicaid waiver demonstration. This agreement brings \$1.5 billion of federal funds to the state to help reduce avoidable use of intensive services and high cost settings, improve people's health, and help to ensure that Medicaid per-capita cost growth is below national trends. The Health Care Authority and Department of Social and Health Services would partner with community providers to administer the waiver's three initiatives. The Senate budget removes all federal appropriation authority for two of the three initiatives next biennium. Without authority to implement all three initiatives, the success of the waiver is unlikely, and the state will relinquish hundreds of millions of federal dollars.

## **Department of Health**

*Safe injection sites* – The Senate budget would bar the state treasurer from distributing public health funds to county and health districts that allow safe injection sites located within their territory or area. Under the Senate budget, for example, King County would not receive approximately \$25.3 million in funding, which would severely harm public health services for citizens residing in the county.

*Family planning* – The Senate budget requires the department to reduce by 10 percent GF-S expenditures for family planning services that exceed the state matching funds required under Title X of the Public Health Service Act, beginning July 1, 2017. This is an estimated reduction of \$860,000 each year for needed public health services.

*Foundational public health* – The governor proposed an immediate investment to begin stabilizing the local public health system and to fill the most critical gaps that threaten the health of our communities. This immediate investment will restore key functions that have already been lost and improve local public health's ability to respond to the threat of communicable and chronic diseases. Without this investment, local public health systems will be unable to meet their basic responsibility to provide core public health services to all communities in our state.

## **Natural Resources**

### **Oil spill prevention**

Adequate revenues are needed to close the shortfall in the Oil Spill Prevention Account (OSPA) and to fully fund additional planning and preparedness requirements mandated by the 2015 Oil Transportation Safety Act. These programs are necessary to maintain spill prevention and preparedness activities that ensure the safety of oil transported by rail and vessel, and protect environmental health and the economy from the effects of preventable oil spills. The Senate budget does not provide a 2 cent increase in the per-barrel oil tax needed to close a projected \$3.6 million OSPA shortfall next biennium.

### **Clean Air Rule**

The Senate budget does not provide \$4.6 million GF-S to implement the Department of Ecology's Clean Air Rule that caps and reduces greenhouse gas emissions from major sources.

### **Hunting and fishing opportunities**

The Senate budget does not provide sufficient revenue or appropriations to sustain current levels of fishing opportunity and hatchery production at the Department of Fish and Wildlife. The budget leaves the department \$21 million short of funding to sustain current operations. This will result in substantial cuts to higher-cost tribal, commercial, and recreational salmon fisheries; enforcement; recreational access to state and private lands; habitat protection; hatchery production; and fishery monitoring.

### **Forest practices**

The Senate budget reduces funding by \$1.1 million GF-S for the Department of Natural Resources forest practices program that regulates timber harvest on 12 million acres of state and private forestlands. This represents a 7 percent GF-S cut in the program, which amounts to an overall program cut of 4.7 percent. Forest practice permits generally go into effect 30 days after submitting a completed application, even if the agency has not had time to complete its review. A lack of review by DNR staff will likely result in negative impacts to water quality and salmon recovery, increase risk from harvest associated with unstable slopes, as well as further reductions of technical assistance to small forest landowners.

### **Puget Sound Partnership**

The Senate budget does not provide \$907,000 GF-S to backfill the loss of federal funding for key staff positions at the Puget Sound Partnership. These positions ensure a coordinated, science-informed recovery process for the Puget Sound ecosystem and endangered salmon. Without these funds, the agency will struggle to provide the Action Agenda roadmap to Puget Sound restoration, to coordinate implementation of Puget Sound salmon recovery and monitoring, and to implement recommendations of a recent JLARC audit.

### **General Government**

#### **Lt. Governor's Office**

The Senate budget does not include a \$360,000 maintenance level increase for additional staff, travel costs and other resources for accommodation for the lieutenant governor.

#### **Homelessness**

The Senate budget eliminates all but \$10 million of the \$69 million Housing and Essential Needs (HEN) program, which serves low-income adults who are temporarily unable to work. This population is not able-bodied, has almost no assets, has no dependents, and is either homeless or at risk of imminent homelessness. Over 8,200 people received HEN assistance in calendar year 2015.

#### **Economic development**

The Senate budget eliminates International Trade; Marketing and Communications; Business Development; and sector lead functions at the Department of Commerce. This would eliminate the department's ability to support small- to medium-sized businesses in expanding export opportunities. The department estimates more than 1,500 businesses would not receive direct business assistance over the next two to three years.

#### **Lease costs**

The Senate budget creates a lease cost pool and provides \$14.1 million in the budget. The governor's budget provides nearly \$20 million to support agencies in the relocation of state facilities, including lease adjustments and tenant improvements for small agencies moving to the Capitol Court building, tenants of the new 1063 building, the Department of Social and Health Services, Department of Corrections, and State Board for Community and Technical Colleges. In addition to not fully funding

anticipated relocation costs, the budget funds ongoing costs (lease adjustments) out of a one-time pool, creating an inconsistent funding mechanism for real estate obligations. This will prevent agencies from making legal commitments to leases due to funding uncertainty.

### **Legal services**

The Senate budget reduces the Office of the Attorney General's (AGO) budget by \$21 million GF-S and replaces this funding with consumer protection recovery funds at the agency, including the recent VW settlement. This jeopardizes important civil rights, environmental crime and federal lawsuit defense services of the AGO which are currently funded through a combination of GF-S and consumer protection recoveries.

Further, by partially funding the Attorney General's request for additional staff to address child welfare-related proceedings, AGO's ability to provide sufficient legal services in response to the sustained increase in referrals from DSHS may lead to a case backlog and significant filing delays, and fewer children moving from higher cost foster care to stable, permanent homes in a timely fashion. And OFM continues to see the need to correct the funding shortfall for a classification adjustment for legal support staff, which fell short of implementation costs in the 2015-17 budget.

### **Central services**

The Senate budget eliminates funding from the OFM budget for the Results Washington program, a data-driven initiative to make government more effective, efficient and customer-focused.

The Senate budget provides no revenue backfill for IT mainframe services at Consolidated Technology Services (CTS). As state agencies migrate systems off the mainframe, CTS receives less central service charge revenue but does not see a corresponding reduction in costs. This is because most of the mainframe costs are fixed software and licensing costs that do not scale with demand. CTS estimates it will have a revenue shortfall of \$8 million in the 2017-19 biennium for the mainframe service. The mainframe must continue to operate until all systems have migrated (which includes AFRS and HRMS, among others). As a largely fee-for-service agency, CTS does not have the capacity to recover shortfalls in mainframe services from other service charges.

### **Public Employment Relations Commission (PERC)**

The Senate budget removes GF-S funding for PERC and replaces it with funds from the Personnel Services Account. The budget assumes PERC will charge unions a 5 percent surcharge or administration fee on union dues collected by the state on behalf of unions. Using union funds to support PERC could affect public perception of the agency's neutrality in arbitrating disputes between unions and their members.

### **Compensation**

#### **Collective bargaining**

The Senate budget rejects the funding for nearly all of the collective bargaining agreements that were included for legislative approval in the Governor's proposed 2017-19 budget. It selectively funds only four of the 28 bargaining agreements – for the Teamsters Local 17 employees working at the Department of Corrections, Coalition of Unions, and the troopers and lieutenants at the Washington State Patrol.

Instead of the negotiated general wage increases in the rest of the agreements, the Senate budget calls for giving most state employees small lump-sum increases — \$500 on July 1, 2017, and another \$500 on July 1, 2018. This undermines the intent of our state's collective bargaining laws.

Under the Senate budget, the vast majority of state employees would see their take-home pay further eroded by inflation. What's more, the Senate approach would significantly hinder the state's ability to address critical recruitment and retention problems in areas such as child protective services and safety inspectors. Several of the agreements rejected by the Senate include targeted increases for staff working at institutions serving Washingtonians.

The proposed budget also rejects all of the contracts for publicly funded non-state employees. Instead, it provides a 2 percent increase for each of the non-state employee groups except language access providers, who would receive no increase. The agreements before the Legislature reflect an appropriate investment in ensuring we have a qualified and stable group of providers. The rejection of these agreements will, among other things, jeopardize our ability to continue to provide Washingtonians with:

- Care in community-based settings, such as their own home or adult family home settings;
- Quality childcare services; and
- Access to interpreter services.

#### **Law enforcement officers' and firefighters' retirement**

The Senate budget eliminates the 20 percent state support for city, county and other local law enforcement and firefighter pensions, except for fire districts.

#### **Unallocated staff reduction**

The Senate budget would reduce the number of employees in general government agencies through a cut in payroll funding (\$6 million GF-S, \$13 million all funds), beginning in the second fiscal year. The stated intent is to reduce by 2 percent the number of employees who do not have direct contact with the public. It is unknown how this cut of an estimated 500 to 600 employees will affect services to citizens.

#### **Unallocated management reduction**

The Senate budget reduces funding for management positions in general government agencies through another payroll cut. The reduction (\$22 million GF-S, \$45 million all funds) is intended to cut 10 percent of Washington Management Service supervisory positions and 10 percent of all Exempt Management Service positions, beginning in the second fiscal year. Again, the effect on agency programs is unknown at this time.

Thank you for your consideration.

Sincerely,



David Schumacher  
Director

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