



STATE OF WASHINGTON
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September 29, 2017

TO: Honorable Jim Honeyford
Honorable David Frockt
Senate Ways & Means Committee

Honorable Steve Tharinger
Honorable Richard DeBolt
House Capital Budget Committee

FROM: David Schumacher
Director

SUBJECT: 2017-19 CAPITAL BUDGET

Thank you for copying me on your four corners letter to Kaleen Cottingham at the Recreation and Conservation Office concerning the proviso in the reappropriations capital budget (Engrossed Substitute Senate Bill 5965) for her agency. I understand there may be other letters sent or contemplated related to the state capital budget and/or the lack of new capital appropriations for the current biennium.

I recognize your hard work to develop a capital budget during the 2017 legislative sessions. Despite your efforts, the state is in a unique situation today with regard to the capital budget. I am writing to update you on a number of issues that state agencies are managing in the absence of new capital appropriations.

Reappropriations

OFM is assisting agencies as much as possible in successfully implementing the reappropriations capital budget. However, the lack of new capital appropriations has affected staffing and projects statewide.

The reappropriation-only capital budget does not provide funding for staff at the Department of Enterprise Services, Office of the Superintendent of Public Instruction, and Office of Financial Management that is necessary to carry out the reappropriation projects. These agencies are carrying not-yet-funded staff to implement the legislative budget, and they are counting on future legislative appropriations to cover full staff costs. All state agencies are working to implement reappropriation projects within this constrained environment.

Drinking water reappropriation projects are on hold because most of those projects, for purely technical reasons, appeared as new appropriations in the proposed capital budget. Although substantial federal funding authority was provided as a reappropriation, there is no corresponding new appropriation essential to providing the state matching funds required to draw on the federal funds, bringing a halt to the projects. In fact, new costs for several drinking water projects have been necessarily incurred to secure construction sites to ensure public safety and project security. These projects will need new appropriations to cover these security costs.

September 29, 2017

Page 2

Staffing Capacity

It is essential that agencies retain critical capital project staff so that new appropriations can be efficiently implemented once they are enacted. Layoff of essential project staff at OSPI and DES, for example, would significantly delay new project implementation if these offices needed to re-staff and train for new projects. The same is true of higher education capital facilities staff who are expert in the preservation and construction of unique campus facilities. Although agencies are adapting as best they can to maintain essential staff, we anticipate increasing staff layoffs this fall, absent new appropriations. Maintenance of the core capacity of these teams is important to the future efficiency of operations and is dependent on restoration of new legislative appropriations reflected in the budget agreement you reached late last spring.

Community Impacts and Project Delays

Attached you will find a summary of the most significant project delays resulting from the lack of capital budget appropriations. It does not include all affected agencies.

Capital Emergency Pool

Absent new appropriations, the state is lacking an appropriated pool for responding to capital emergencies. We are fortunate not to have had any significant capital failure so far this biennium. However, it is not uncommon for fall and winter weather events to bring such emergencies.

I appreciate your efforts to develop full capital budgets, and we stand ready to work with you to that end. The Governor continues to urge all legislators to reach agreement to move forward on new capital appropriations for the communities of the state as soon as possible.

As always, please contact me if you have any questions.

cc: Honorable Mark Schoesler
Honorable Sharon Nelson
Honorable Frank Chopp
Honorable Dan Kristiansen
Richard Ramsey, Senate Ways & Means Committee
Melissa Palmer, House Capital Budget Committee

Community Impacts and Project Delays Resulting from Lack of Capital Appropriations

Department of Health

There are 61 projects that provide drinking water to nearly two million residents impacted by the lack of a capital budget. Nearly two-thirds of those projects will have to stop construction without the Drinking Water State Revolving Fund loans. The projects involve treatment facilities, transmission mains, reservoirs, and pump stations. All of these are necessary in order to protect public health and provide safe and reliable drinking water.

For projects that were suspended, securing construction sites as the projects are demobilized will increase project costs. In addition, re-bidding these projects at a later date will likely increase the overall cost of the projects by 10 to 25 percent. These cost increases most likely would be passed on to ratepayers. The total loan amount of these projects is \$251 million.

K-12 Public Schools

A delay in state-secured school construction funding (SCAP) puts various school district projects at significant financial risk. These projects include projects that have already started construction, projects in current design, and projects that do not have authorization to open bids until state capital funds are secured. The total estimated impact includes approximately 77 projects (3.7 million square feet) in 45 school districts for a total state investment of nearly a billion dollars. However, with uncertainty over state funding, these projects will accumulate additional unforeseen inflation and escalation costs due to delays in appropriations.

Higher Education

A delay in state funding puts higher education institutions at risk in several ways. Over \$200 million in proposed projects for the preservation of state capital investments currently lack funding, which will delay completion of critical infrastructure projects across the state. Several major higher education projects already have received state investments for design and are poised to move into a construction phase as soon as state funds are appropriated. Similar to school construction, institutions postponing construction and/or bids for these major higher education projects will accumulate unanticipated inflation costs.

Department of Social and Health Services (DSHS)

Delay in new capital appropriations seriously compromises the state's ability to meet the needs of persons who are in the care and custody of the state through DSHS programs. The delays will result in higher construction costs and impact the state's ability to provide specialized care to youth with mental health issues and to adults where services are currently under the scrutiny of state and federal courts. Delays specifically compromise the ability to meet the court's expectations in the Trueblood case.

The multiple delayed projects include:

- three construction projects which would create a total of 115 forensic beds at Western and Eastern State Hospitals and the design effort for an additional 90-120 forensic beds at Western State Hospital.
- two projects that are designed and nearly ready to bid:
 - A project at Echo Glen Children's Center that remodels and adds onto existing housing units, including a four-bed transitional treatment unit for girls with mental health issues. Recently a cottage was renovated to serve male youth with mental health issues and this project would bring gender equity to campus.

- A project on the Child Study and Treatment Center campus that creates 18 new beds to specifically address the security and clinical needs of youth in mental health crisis. Since fiscal year 2014, an average of 54 children per year have waited 30 days or more for placement in this type of facility

Department of Ecology

A delay in new appropriations puts \$29.2 million in federal funding in jeopardy, of which \$23 million is from the Clean Water State Revolving Fund and \$6.2 million is from the Clean Water Act, Section 319 program. Investments of \$210 million for the water pollution control revolving program are on hold. These awards would finance the construction of a number of water pollution control facilities in small, financially challenged communities, and allow planning and implementation of nonpoint source pollution control activities. The work accomplished through these programs is an integral and essential part of the state's strategy to reduce pollution of our marine waters, estuaries, lakes, rivers, and groundwater.

Department of Commerce

Delay in new funding also delays hundreds of local and community and affordable housing projects statewide. In addition, there is no new funding for behavioral health community capacity, including the expansion of existing local facilities and competitive grants for new mental health beds in the community. This additional community capacity provides critical local treatment options outside the state-run psychiatric hospitals.