



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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March 2, 2020

TO: Honorable Christine Rolfes, Chair
Honorable John Braun, Ranking Member
Senate Ways & Means Committee

Honorable Timm Ormsby, Chair
Honorable Drew Stokesbary, Ranking Member
House Appropriations Committee

FROM: David Schumacher
Director

SUBJECT: CONCERNS ON SENATE/HOUSE SUPPLEMENTAL OPERATING BUDGETS

Thank you for your efforts to pass 2020 supplemental operating budgets in the House and Senate. The budgets make great strides to address the homelessness issue that was one of Governor Inslee's highest priorities this year. Though there are differences between the House and Senate approaches, both budgets increase funding for helping people off the streets and into safe and secure environments.

I am writing to respectfully offer our most pressing concerns for your consideration as you continue working toward agreement on a final budget.

Sheltering/Housing

We are grateful that the House and Senate budgets acknowledge the need for significant investments to address our state's homelessness crisis. The governor's budget made a large commitment to move people off the street and into shelter quickly, backing this investment up with a continuum of services to move sheltered individuals into stable housing solutions, totaling nearly \$318 million over four years. Supporting request legislation required cities and counties to adequately plan for sheltering their homeless populations.

Although we prefer the Senate approach to more immediately address homelessness, both budgets make significant progress toward addressing unsheltered homelessness. We ask that the final budget include requirements that funding for shelters will be available to cities and counties that prepare plans aligned with local homeless housing plans and strategies for outreach and connecting sheltered individuals with services.

Workforce Development/Higher Education

Career connected learning. Engrossed Second Substitute House Bill 2158 laid the foundation for a statewide system of career connected learning opportunities to connect more students and families with meaningful work experiences aligned with a credential. We ask for additional, modest investments that would provide strategic marketing to get the word out to students and families, complete phase one of an online program directory to connect students and families to career connected learning opportunities, and create new career connected learning curricula with additional program grants.

Equity Office

We are pleased that the House budget fully funded the Equity Office, which means that agencies will have a partner to help them reach inclusion goals, break down barriers to growth and opportunity, and create best practices around diversity, equity, and inclusion. The original bill creating the office was amended in Senate committee, which will result in a higher cost than the original estimate. We recommend funding the office at the House level of \$1.2 million.

K-12 Education

School nurse corps. The governor and the House budgets increase funding for the school nurse corps that provides registered nursing support to small, rural school districts. Funding for this program has not increased since it was established in 1999 and buying power has eroded substantially over the past 20 years. We ask the Senate to consider adding funding for this important work.

Health and Human Services

Department of Corrections

The Legislature is contemplating transformational change in Washington's approach to criminal justice, but both the House and Senate budgets significantly underfund a number of current, ongoing expenditures on nondiscretionary items. When the Department of Corrections is not adequately funded for these items, it must reduce the programming and services provided to incarcerated individuals, negatively impacting recidivism rates, public safety, and the provision of adequate health care.

Maintenance items alone are underfunded by \$7.5 million in the House budget and \$10.2 million in the Senate budget. Neither budget funds such basic needs as collectively bargained compensation adjustments and equipment replacement; the Senate budget also did not fund pharmacy expenditures and emergency relocations due to lease renewals.

Nondiscretionary health care items are underfunded by \$7.2 million in the House budget and \$14.9 million in the Senate budget. These amounts include funding for Hepatitis C treatment and required staffing levels for health care provision. Staffing costs will be incurred either as overtime or as new funded positions, and expenditures are unavoidable either way.

Custody relief and tolling calculation are ongoing staffing costs that are underfunded by \$9.4 million in the House budget and by \$18.4 million in the Senate budget. Custody relief is necessary to maintain required staffing levels in correctional facilities and is frequently accomplished through mandatory overtime. These costs are unavoidable, and if not funded, will result in cuts to programming and services. Tolling calculation staff are a recent necessity after the determination that the automated OMNI system was providing incorrect calculations. The Legislature recognized the importance of this work and provided \$1.2 million in fiscal year 2019, but has not provided ongoing funding.

Department of Social and Health Services

Transfer authority. The Department of Social and Health Services utilizes the flexibility of transferring funds between programs to close the fiscal year within its appropriations. The limited transfer authority included for DSHS does not provide sufficient flexibility to respond to issues outside the agency's control, such as federal and local revenue, that ultimately affect DSHS state fund balance. Without being able to transfer funds between all programs, DSHS does not have sufficient flexibility to close out the fiscal year within agency appropriations.

Behavioral Health

Hospital safety. The governor proposed a \$17 million package that included necessary training, staffing, recruitment and direct care staff to increase safety at Western State Hospital. The safety of patients and staff at the state psychiatric hospitals continues to be a top priority. The House budget funded many of these investments, but did not fund the direct care staff nor did it fund the recruitment team at necessary levels. The Senate budget did not fund the package at all. This investment is necessary to continue systemic improvement to transform our mental health system into a 21st century model of care that meets growing demand.

Volunteer Support Group and Family Visitation pilot. The House budget included a proviso that requires Western State Hospital to implement a volunteer support group and pilot family visitation program. We fully support the concept of assisting with family involvement at all of our facilities. However, this proviso provides no funding and will likely require a significant investment of hospital staff time and resources. Without any funding, the hospital will need to take direct care staff away from their patient care responsibilities to implement this requirement.

Electronic health records. The House budget removes base funding that the Department is using for staff working on electronic health record implementation.

Developmental Disabilities and Aging and Long Term Care Services

Consumer Directed Employer. The Senate budget proposes a substantial reduction in funding for the Consumer Directed Employer. We are concerned that this reduction in funding puts the viability of the administrative entity and this project in jeopardy without a viable cost-effective backup plan. Full funding as reflected in the House budget is requested.

Service plan signatures. The Senate budget provided partial funding for this item in the IT Pool. The proposed budget makes large reductions to the anticipated required staffing and the number of signatures that would actually be required to be collected manually. If the federal government implements a disallowance of federal funds due to non-compliance, the financial penalties would be substantial. Full funding as reflected in the House budget is requested.

Post-acute care (Second Substitute Senate Bill 6275) and developmental disability budgeting (Engrossed Substitute Senate Bill 6040). The Senate budget made large and unrealistic reductions to assumptions related to the number of clients impacted and the necessary staffing associated with the workload contemplated in these bills. If these bills pass, full funding is requested.

Agency-wide Costs

IT Service Impacts and Correct Funding Gap. The Department is still experiencing the impact of changes related to the creation of the Department of Children, Youth and Families and integration of community and behavioral health, including insufficient funds for current operations of agency-wide IT and the program that pays for central services. The Senate budget provides no funding and the House budget provides insufficient funding to maintain current IT systems or to adequately fund the agency's central services costs. Full funding is requested.

Department of Children, Youth and Families

Juvenile rehabilitation to 25 and JR forecast adjustment. Both the House and Senate budgets make headway in advancing groundbreaking reform policies for incarcerated youth and young adults (Chapter 322, Laws of 2019). With an eligible population over three times higher than originally anticipated, safe

and successful implementation of these reforms is contingent upon providing appropriate funding for staff, individualized rehabilitation services, pathways to education and employment, and legal advocacy. The governor's budget provided funding for the necessary staffing to safely oversee this larger caseload and to provide appropriate programming for youth in a juvenile facility. The Senate budget provides full caseload funding, but does not fully fund programming needs (\$8,432,000); the House budget provides full program funding (\$10,289,000) but underfunds staffing needs in fiscal year 2020. We ask that the final budget fully fund (\$12,190,000) this newly adopted legislation.

Health Care Authority

APM4 FQHC reconciliation. The Senate budget provides funding to reconcile federally qualified health clinic costs reported in 2017 and 2018, with an expectation that HCA use an accrual to partially fund the reconciliation. HCA does not have enough unliquidated accruals in prior periods that are not obligated to satisfy this expectation. Full funding is requested.

MQIP payments. The Senate budget provides \$68,867,000 General Fund-Federal without the necessary General Fund-Local appropriation to implement Medicaid Quality Improvement Program (MQIP), which will support Initiative 1 of the Medicaid transformation waiver. HCA needs additional local appropriation authority and matching federal funds to operate MQIP. If the intent is to cap current Initiative 1 spending, HCA would need \$89,476,000 in federal authority and \$36,548,000 in local spending authority. Full funding at the level in the House budget is preferred.

Department of Veterans Affairs

Home operations director. The Senate budget does not provide funding for this position that will provide critical oversight of the highly regulated 517 skilled nursing facility beds. Full funding is requested.

Washington Department of Transportation

Dayton Avenue building remodel. The governor and Senate budgets provide flexibility for WSDOT to furnish the Dayton Avenue facility in Shoreline using \$1.5 million and any achieved savings. The House proviso remains prescriptive and prohibits using savings that may be realized to meet the project needs. We request the House budget align with the governor and Senate budgets to allow flexibility in fully furnishing the building so Ecology can move in as planned and save money on lease costs.

Natural Resources

Department of Ecology

NW regional office relocation to Dayton Avenue Building. In addition to WSDOT, the House operating budget provides the requested \$2.1 million for Ecology to move into and furnish its portion of the Dayton Avenue building by the end of FY 2021, but the Senate does not. Full funding is needed to ensure a successful and timely relocation.

Proposed methanol plant supplemental environmental impact statement. The governor and Senate budgets provides \$600,000 GF-S for the department to complete a second supplemental environmental impact statement (SEIS) for the proposed methanol plant at the Port of Kalama. The House budget does not provide any funding. The SEIS will add to information submitted by the Port to provide a full lifecycle analysis of greenhouse gas emissions which would result from the plant, allowing Ecology to make a fully informed and legally defensible decision on whether or not to issue a permit for the proposed plant.

Greenhouse gas emissions evaluation rulemaking. Both the governor and House budgets provide \$2.4 million for Ecology rulemaking to support implementation of Governor's Directive 19-18 on Environmental Assessment of Greenhouse Gas Emissions. This directive requires Ecology to adopt rules to strengthen and standardize the consideration of environmental impacts for major projects with significant environmental impacts. The Senate budget does not provide this funding.

Governor's Salmon Recovery Office/Recreation and Conservation Office

Riparian habitat coordinator. The House budget includes one-time funding for a riparian habitat coordinator in the Governor's Salmon Recovery Office. This staff position is needed on a temporary basis to assist the governor in meeting commitments made to tribes at the Centennial Accord to develop a statewide riparian buffer policy. The work involves coordinating state agencies, collaborating with interested tribes, and presenting a proposal at the next Centennial Accord in November. Afterwards, the coordinator will assist other agencies in implementing the new policy through the end of the biennium. We request this funding in the final budget.

Department of Fish and Wildlife

Operating budget support. We appreciate the Senate and House addressing the budget shortfall at the Department of Fish and Wildlife. State general fund support is necessary to maintain valuable department programs if the Legislature does not pass our request legislation (Senate Bill 6166) to increase license fee revenue. The House budget is our preferred option, which provides the most stable funding for the future by including an additional \$17,614,000 in state general fund support this biennium and \$36,207,000 ongoing next biennium. This will greatly reduce the budget shortfall.

Hatchery feasibility study. The Senate budget includes \$750,000 to assess the feasibility of a pilot program to model Alaska's hatchery policies. The Alaska hatchery system is based on a cost recovery approach with the goal of being financially self-sustaining. This type of hatchery system would be very difficult to implement in Washington, given the different tribal treaty obligations and Endangered Species Act requirements. We would ask that it not be included in the final budget.

Columbia River salmon policy. The Governor and House budgets include \$573,000 GF-S for research on alternative commercial gill net fishing methods on the Columbia River and development of a license buyback program. The Senate version provides the same level of funding but solely for implementing a commercial license buyback program similar to Senate Bill 5617. We prefer the House approach as it looks more comprehensively at ways to reduce commercial fishery impacts on endangered salmon and steelhead, as well as resources to first develop and identify the components and costs of implementing a commercial buyback program prior to beginning license buyback.

General Government

Office of Financial Management

State Efficiency and Environmental Performance (SEEP). The Senate budget does not fully fund the SEEP Office. Created by executive order, the SEEP Office works with state agency partners to achieve reductions in greenhouse gas emissions and eliminate toxic materials from state agency operations.

Statewide Accounting staffing. We appreciate the support for the One Washington program but prefer the House funding level, which includes all six FTEs for OFM Statewide Accounting to support the state's transition to a new accounting system. Statewide Accounting requires at least an additional six FTEs to standardize and create business processes, draft statewide policy, and document processes and procedures.

In addition, the transition to a new accounting system will significantly disrupt existing processes and will require increased collaboration and education.

Collective bargaining. The Senate budget directs OFM to request funds from the state general fund for 2021-23 collective bargaining agreements, rather than from the State Wildlife Account or other funds with limited capacity for new spending. This would preempt policy decisions by the Governor, and by the future Legislature as a whole, about priorities for the use of available resources. It is appropriate to weigh all spending, both the continuation of current activities and proposed new expenditures, as part of the 2021-23 budget process.

Office of the Governor

Expand outreach team. The Senate budget did not provide funding for a dedicated resource for the central and eastern parts of the state. One staff member currently represents 17 counties, requiring them to triage their efforts to support the individualized needs of communities in these areas.

Transition office. Contingency funding was not provided in either budget to cover the cost of transitioning the Governor's Office if a new governor is elected in the November 2020 election. Funding is important to ensure an orderly and financially feasible transition.

Washington State Patrol

Toxicology Lab funding. The governor and House budgets provide \$3.6 million in additional resources for the Toxicology Lab. The Senate budget provides no funding for the project. Without this funding, long delays in toxicology test results disrupt the entire system, diminish justice, and delay substance use disorder treatment for individuals who may need it. We recommend the Senate fully fund \$3.6 million to enhance Toxicology Lab operations.

Gun violence data analyst. The proposed governor and House budgets provide \$150,000 in additional resources for a gun violence data analyst. The Senate budget provides no funding for this position. Without this funding, the state's ability to identify trends around gang gun violence will be severely diminished. We recommend the Senate fully fund \$150,000.

Studies, Reports and Workgroups

The House and Senate budgets require many actions (inventories, evaluations, and prioritizations) that are followed by reports. Some of the work is not funded and some of the timelines are short, are outside the biennium, or have other challenges. The purpose of many of these reports is important, and we are very willing to help amend the provisos in such a way that useful and timely information is provided to the governor and the Legislature. Specifically, the following provisos include challenges:

- Climate resilience projects – The Senate proposal requires OFM to consult with natural resource agencies for a report due November 1, 2020. Quality work cannot be accomplished in this timeframe and without additional funding.
- Net ecological gain – The House proposal includes a proviso that directs the Department of Fish and Wildlife to contract with the Washington Academy of Sciences to complete an assessment by December 1, 2020 on how to incorporate net ecological gain into state land use, development, and environmental laws. Completing this work will likely require more time than provided in the proviso. In addition, some of the work outlined in the proviso, including stakeholder outreach, meetings and final report writing, should more appropriately be completed by WDFW. We request that the proviso be modified to address these concerns.

- Medicare stakeholder work group – Additional resources and focus on retiree medical coverage is welcome and timely. The Health Care Authority and OFM will continue efforts to provide additional health care options for Medicare-eligible retirees. The Senate budget's creation of a separate stakeholder work group, however, duplicates the work of the Public Employees' Benefits Board, which includes a representative of school retirees and a representative of retired public employees. The Board is responsible for studying and designing insurance programs for retirees and can solicit stakeholder feedback to relay to the governor and Legislature.

Thank you for your consideration. We look forward to working with you on a compromise budget in the coming weeks.

cc: Michael Bezanson, Staff Coordinator, Senate Ways and Means Committee
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