



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

April 4, 2023

TO: Honorable Timm Ormsby
Honorable Drew Stokesbary
House Appropriations Committee

Honorable Christine Rolfes
Honorable Lynda Wilson
Senate Ways and Means Committee

FROM: David Schumacher
Director

**SUBJECT: OFM CONCERNS WITH HOUSE AND SENATE 2023-25 AND 2023
SUPPLEMENTAL OPERATING BUDGETS**

We recognize the considerable effort it took to develop your 2023-25 operating budget proposals. As we all know, the pandemic placed enormous strains on our state and its people. The budgets you put forward will make great strides in addressing problems made worse by the pandemic, such as our housing and homelessness crises. And they will help us build back our health care systems, K-12 education, early learning and child care.

The purpose of this memorandum is to share our most pressing concerns as you continue working toward agreement on a final budget. Specifics will be shared by OFM staff. Besides adequately funding new or existing statutorily required programs, we ask that you consider the following important areas where there are significant differences between the Governor, House and Senate budgets.

Housing

The state Department of Commerce has released its final housing needs projections, which show we need an additional 1.1 million homes over the next 20 years to house the state's residents. More than half of these units will need to serve residents at or below 80 percent of the area median income, and a large portion will require subsidies to be built. Based on census data and the Office of Financial Management's population projections, these housing projections show that Washington needs more than 50,000 new units annually to keep pace with expected population growth.

Investments in the final operating and capital budgets of at least \$1 billion in total are necessary to meet our housing and homelessness challenges next biennium. We urge particular attention in the operating budget to investments to support emergency housing and shelter capacity, ensure appropriate backfill for lower-than-anticipated document recording fees to maintain current services and programs, support operations and maintenance costs of permanent supportive housing projects, and increase current homeless service grantee contracts to maintain services and stabilize their workforce in the face of rising costs.

One Washington

As you know, replacing our state's 40-year-old Agency Financial Reporting System (AFRS) is essential. The House fully funds the \$127.8 million request, which is critical to the success of the One Washington program. The Senate budget, however, significantly underfunds this critical effort by providing only

\$60.6 million. The program needs full funding in at least the first year of the biennium with a clear indication of the Legislature's commitment to adequately fund the second year. Without full funding, the July 2025 go-live date will not be possible. If full funding is not provided, the program will have to do another schedule re-assessment, which will cost more and take more time. The current momentum will be stalled as well. Full funding at the House level is also needed so we can recruit talented staff and contractors and maintain a stable work environment for existing staff and vendors.

While the House version is preferred, the Senate proviso is mostly workable with a few exceptions. We are willing to work with Senate members and staff to explain the challenges with those exceptions and offer alternatives. We remain committed to being transparent and focused in replacing AFRS and meeting the go-live date, and we will continue to communicate specific details.

Information technology

While both the House and the Senate fund some critical IT investments for the state, we are concerned with the level of funding in some cases and the omission of some critical items.

Electronic Health Records

Section 155 in ESSB 5187 includes funding for the Department of Corrections' Electronic Health Records (EHR) project (\$20 million). But it does not include funding for the coordination efforts of the Department of Social and Health Services, Health Care Authority, or Consolidated Technology Services/WaTech that are integral to creating a single, enterprise EHR platform. Funding for these agencies is necessary for the integrated EHR project to move forward. Although the House and Senate budgets provide the same level of funding, the House budget provides funds for all four agencies. This level of funding would provide what is needed to help create a better health care solution for individuals.

Innovation and Legacy System Funds

The Senate budget does not include the \$5 million provided in the Governor's budget for Innovation and Legacy System Funds. This request was made on behalf of executive branch agencies to support small, high-impact, low-cost projects that have the potential to quickly solve business problems by enabling and accelerating efforts to modernize outdated agency systems that pose security risks and no longer meet business needs. The proposal is supported by all executive branch agencies, many of which have already provided a list of projects for consideration. The House funds this request at \$3 million, which would support only five or six project requests, which WaTech estimates is far below the demand from agencies.

Data management

During recent strategic planning workshops, WaTech heard from over 60 agencies that data and analytics are critical to their ability to effectively serve Washington residents. This program represents an opportunity for our state to follow the lead of many other states by investing in centralized data leadership and data analytics services. This program would provide equitable data capabilities across the state, with a focus on two specific partnership opportunities – poverty reduction and statewide performance management. The Senate budget does not include this data management and accessibility program.

State network firewall replacement

The House budget does not fund the state network firewall replacement. The current firewall infrastructure is at end of life and is a critical component for the security of the state government network (SGN). By funding this item, we will provide industry-standard, next-generation firewalls to enhance the state's security, including additional features to detect and block sophisticated attacks against the SGN. This will cover hardware replacement and ongoing support for the software and security features of the firewalls.

Geographic information system (GIS) program

The GIS program supports critical decision making for agency programs and priorities through the use of

geographic data. Funding this work in the Governor’s budget builds upon the current WaTech initiative to efficiently share geographic data within the GeoPortal 2.0 system. Agencies have requested the project be expanded to include salmon recovery, sensitive species, equity, and low carbon energy siting and to broaden capacity for data coordination with local government. Funding this item will allow WaTech to continue to lead efforts in geospatial data management and expand the geospatial infrastructure to support these efforts and other work by WaTech’s customer agencies. The House does not fund expansion of the program.

Human services

It is clear from your budgets that the House and Senate prioritize improving the lives of Washington’s most vulnerable citizens. The human services section of the budgets increases supports for people who have behavioral health and developmental challenges, children, parents, the elderly, and vulnerable people living with assistance of state care.

However, taking savings that agencies cannot realistically achieve and not addressing health care for people who are incarcerated need to be addressed.

Program integrity savings

Both the House and Senate budgets do not adequately restore assumed savings in the Health Care Authority program. As you know, program integrity savings are captured in the Medicaid managed care forecasts, so failing to restore the savings is effectively a cut to the Medicaid program and does not accurately reflect actual savings. The Senate budget restores 60 percent of the program integrity savings, while the House budget does not restore any of the projected savings.

Budget language requires HCA to “take steps including but not limited to reduction of rates or elimination of optional services” if HCA projects to overspend the General Fund-State appropriation. In either chamber’s scenario, HCA would begin the fiscal year at an assumed deficit. Unless the Legislature intends for HCA to begin preparations for rate reductions or elimination of optional services, 100% of the program integrity savings for fiscal year 2024 needs to be restored.

Department of Corrections health care

Additional funding for physical and mental health care at the Department of Corrections is needed to address the ongoing health care needs of incarcerated individuals and for people working in these state institutions. Investments are needed to increase access to care for individuals in total confinement, including through addiction treatment, preventive care for diabetic individuals, resources to change the culture of incarceration, and resources to change the use of restrictive housing.

Although the Senate budget provides substance use disorder resources for individuals leaving prison, it does not fund addiction treatment for people in confinement, preventive care for diabetic individuals, or resources to change the use of restrictive housing – all items that are funded in the House budget. Both chambers provide some resources to address the mental and physical health of residents and staff by transforming correctional culture, and while neither investment is as robust as we would recommend, the House budget includes sufficient resources to begin addressing these needs.

Climate Commitment Act

We appreciate the hard work of both chambers to make meaningful and significant investments to reduce carbon emissions, enhance climate resiliency and advance environmental justice with Climate Commitment Act revenues. As you work together to determine a final operating budget, consider prioritizing the Clean Energy Fund, energy assistance, state agency electric vehicle charging infrastructure, and retrofitting state buildings with clean energy technologies.

The Clean Energy Fund is critical for clean energy development. Energy assistance, including replacement of old heating systems with heat pumps, will help low-income communities and reduce carbon emissions.

Electric vehicle charging infrastructure at state agencies and additional staff resources will help transition the state automobile fleet from carbon producing vehicles to clean electric vehicles. We recognize that the House transportation budget invests in these programs, but the Senate budgets do not.

Additionally, the Senate operating budget includes \$50 million for the Office of Financial Management to implement a state building energy retrofit pool. While we support the purpose of reducing emissions from state facilities, appropriating this funding for specific projects in the capital budget is preferable because it is more efficient and holistic.

Healthy Environment for All Act (HEAL Act)

The Healthy Environment for All Act (HEAL Act) requires agencies identified in statute as “covered entities” to identify and address environmental health disparities in overburdened communities and underserved populations. In general, the House budget includes funding to implement agency HEAL Act plans, and we prefer this level of funding. Without adequate funding, covered agencies will not be able to meet the extensive requirements of the act — such as engaging with overburdened communities, tracking expenditures, reporting to the Environmental Justice Council, and managing other activities necessary to promote equity and environmental justice.

Food security

Food security for Washington residents continues to decline as food costs increase and federal SNAP benefits are reduced at the end of the federal COVID-19 public health emergency. Low-income, BIPOC, and rural communities have had difficulty accessing hunger relief. The Farmers to Families Food Box program fills this gap by providing local agricultural food supplies directly to hunger relief organizations serving low-income, BIPOC, and rural communities. The Governor’s and House budgets propose a slow phase-out of the program over several fiscal years. The Senate’s phase-out is too steep. Please provide funding closer to the House level to provide adequate food assistance to hungry Washington families.

Riparian habitat

Although both the House and Senate budgets place a priority on improving protection of riparian areas, additional resources are needed for technical assistance to landowners to implement riparian projects and to educate landowners on the importance of riparian protection. More is also needed for state agency coordination to improve riparian project coordination, develop common metrics across programs, and consolidate data platforms. All these items are interconnected and support a comprehensive riparian restoration program to ensure state investments can be successful and tracked.

Education

Elementary and Secondary School Emergency Relief (ESSER)

The House and Senate propose shifting \$155 million in ESSER federal funding from current biennial appropriations for identified entities to different educational purposes. The Governor’s proposed budget reappropriates this funding into the next biennium for the same purposes that they were originally appropriated to OSPI. The current contracts and grants accelerate learning, address student mental health, and improve equity for students related to the COVID pandemic. Reappropriating all these funds for new purposes will delay the use of these federal funds and take funding away from important strategies to accelerate learning and support students.

Higher education fund split

Our higher education institutions continue to face challenges related to rising costs and inflation. To offset these costs and to keep institutions competitive, the Senate and Governor’s budgets proposed to increase the state’s share of higher education funding splits. While the House budget proposes a similar share for select

institutions, the House should consider matching the Senate's proposed fund split for the University of Washington and the community and technical colleges.

Career Connect Washington (CCW)

The Governor's budget addresses the growing demand from students, labor and employers for career connected pathways into high-demand jobs by adding \$3.2 million for the CCW grant pool. These investments are needed to boost the state's current and future economic competitiveness. They will also maximize the state's ability to meet requirements of the Good Jobs Act and Apprenticeship Building America Act (the state has received nearly \$30 million in federal funding through these acts) and position the state to successfully compete for the CHIPS and Science Act, Inflation Reduction Act, and Bipartisan Infrastructure Act opportunities. The Senate includes the full \$3.2 million for the grants, but the House adds just \$1 million. The higher level of funding is needed to fully meet student, industry and labor needs.

Facility lease savings

The Governor's and House proposed budgets take a thoughtful and deliberate approach to savings achieved through the reduction of leased office space. State agencies are reevaluating the amount of physical office space needed as telework policies adopted during the COVID-19 pandemic continue to evolve. To achieve cost savings due to reduced office space needs, the Governor's and House operating budgets require agencies to reduce leased office space based on leases that are expiring and a review of their space needs.

The Senate budget includes a proviso that would result in lease savings through a lease cost pool (Part VII, Special Appropriations). The budget identifies agencies with leases expiring; however, in some cases, agencies have retained the space and renewed the lease identified in the LEAP document. The lease cost pool is an ineffective approach to managing lease costs. However, the revision to Section 754 requiring the Office of Financial Management to report anticipated office space reductions compared to the realized savings is useful and would provide valuable information.

CHIPS and Science Act and other federal funding opportunities

The CHIPS and Science Act, a federal statute enacted in August 2022, provides approximately \$280 billion in new funding nationwide for research and manufacturing of semiconductors. Few of the funds will be allocated directly to states; they will be awarded to local governments, businesses, and higher education institutions. As new information about these federal funding opportunities has come to light in recent months, we know there is a need for additional state and local capacity to pursue federal grants.

The House added \$5 million for this purpose. This will enable the Department of Commerce to support regional and local initiatives seeking federal funding by providing technical support for application development and grant writing. The department also will be able to conduct economic analysis of various sectors and other activities necessary for the state and its partners to compete for federal funds.

Additionally, the Department of Commerce has grown dramatically in a short period of time and requires additional staff to not only assist with the efforts described here but also to manage the current federal funding grant applications, implementation, and reporting requirements.

Thank you for your consideration. OFM budget staff will be in contact with Senate Committee Services and House Office of Program Research staff to convey additional technical and other issues.

cc: Dave Johnson, Staff Coordinator, House Appropriations Committee
Susan Howson, Staff Coordinator, Senate Ways & Means Committee
Nona Snell, Budget Director, Office of Financial Management