



STATE OF WASHINGTON
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April 4, 2025

TO: Honorable Timm Ormsby
Honorable Travis Couture
House Appropriations Committee

Honorable June Robinson
Honorable Chris Gildon
Senate Ways and Means Committee

FROM: K.D. Chapman-See
Director

**SUBJECT: OFM CONCERNS WITH HOUSE AND SENATE SUPPLEMENTAL AND
2025-27 OPERATING BUDGETS**

Thank you for your continued partnership as we work together to finalize the 2025 supplemental and 2025-27 operating budgets. The biennial budget presents extraordinary challenges, and we recognize the thoughtful work and diligence each of your proposals represent. We value your collaboration and the ongoing, productive discussions occurring between the legislative and executive branches. As work toward reaching a final budget agreement begins, I want to highlight a few critical considerations.

First, we know you share our concern about growing uncertainty in federal funding. Since the start of the new federal administration, we have seen the abrupt cancellation of major public health grants, sudden attempts to freeze allocated funds, and proposed cuts to programs that directly support schools, housing, Medicaid and other safety net programs. Strong reserves are a strategic safeguard that will give us flexibility when we need it the most, including some capacity to sustain essential services when federal support falters or stalls. Planning for volatility in this budget cycle is critical. Both chambers' budget proposals anticipate ending fund balances, for Fiscal Year 2026 in particular, that would create significant risk for the state. The Senate's choice to not assume the 4.5% Outlook revenue growth factor for the 2027-29 biennium is appreciated as recognition of the Governor's repeated caution that the final budget should utilize the revenue forecast.

New spending should also be restrained to only what is most necessary to maintain current services and the most critically needed new investments. Expanding or adding new programs at the expense of inadequately funding core agency functions and infrastructure can undermine our ability to effectively serve the public or create legal or financial risk to the state.

Governor Ferguson has consistently emphasized the importance of thoroughly identifying efficiencies and savings throughout state government before considering new revenue sources. However, given our significant fiscal challenges, higher caseloads, the updated revenue forecast, and the unreliability of federal funding, it has become clear that meaningful reductions alone will not fully address the budget shortfall. New revenue ideas should be thoughtfully considered. The Governor agrees with the goal of improving the fairness of Washington's tax code. That said, the Governor continues to

reiterate his unwillingness to fund essential services by relying on a new tax that remains untested in court. A cautious, balanced approach is critical to maintaining Washington's fiscal stability.

As we move forward, I want to clarify the scope and intent of the remainder of this memorandum. It does not detail every difference between the proposed budgets; rather, it highlights significant areas warranting your careful consideration. We will also submit a variety of specific policy and technical issues to you and your staff.

Thank you again for your continued partnership and thoughtful considerations of these concerns.

STATE EMPLOYEE HEALTH CARE

Health Care Bargaining

The Senate included savings in the outlook period related to the implementation of SB 5793 by assuming that the state as an employer would cover 80% of health care costs beginning in the 2027-29 biennium. We are concerned about assuming savings by restricting bargaining rights of state employees, and in this specific example, by limiting health care bargaining.

GENERAL GOVERNMENT

2025-27 Biennial Budget

Department of Commerce, Apple Health and Homes Permanent Supportive Housing

Permanent supportive housing (PSH) units developed through the Apple Health and Homes program funded in the 2023-25 capital budget are just opening or are set to open in the beginning of the 2025-27 biennium. These projects were approved assuming sufficient funding would be provided in the operating budget. Without continued expenditure authority, operation of these units is at risk and the state will not realize the benefits of its capital investments. The House budget does not shift the full amount of funding needed to make these new PSH units operable and instead sweeps \$15 million from the account, which may put up to 1,000 residents at risk of homelessness.

Department of Enterprise Services, WSP and Capitol Campus Security Staffing

The Senate increases funding for law enforcement while the House decreases Washington State Patrol (WSP) presence and eliminates funding for Capitol campus security staffing. This funding ensures that the Capitol campus has 24/7 security coverage. We urge the House to continue funding security services and law enforcement for the Capitol campus.

Office of Minority and Women Business Enterprises, OMWBE Administration Underspend

The Senate budget reduces \$2 million of the agency's General Fund-State appropriation, directing OMWBE to utilize the OMWBE Enterprise Service Account for this spending instead. The House budget reduces OMWBE's General Fund-State appropriation by approximately 50%; a reduction of this size is detrimental to the agency's ability to conduct business. The OMWBE Enterprise Service Account cannot sustain the operational costs of the agency to the extent proposed in both budgets, as \$2.8 million of the funding in this account can only be used for work conducted for federal certification in collaboration with WSDOT. Governor Ferguson's proposed reduction of \$800,000 GF-S is preferred.

HUMAN SERVICES

2025 Supplemental

Department of Social and Health Services, Overall FY 2025 Adjustments

While caseload adjustments for fiscal year 2025 provide large increases for DSHS in both budgets,

policy adjustments assuming significant underspending in this fiscal year put the agency at risk for fiscal year close. DSHS expects that the overall General Fund-State appropriation proposed by the Senate provides sufficient resources while the House funding level does not. However, in both cases, the agency will need broader transfer authority to ensure the flexibility to move funds at the end of the fiscal year.

Specific items of concern in the DSHS supplemental budget include:

- unrealistic underspending assumed for the Division of Child Support in both budgets, Diversion Cash Assistance in the Senate budget, and general administration in the Senate budget;
- no additional funding to cover base budget maintenance and operations of the Automated Client Eligibility System in the Senate budget; and
- savings tied to the choice to not open the Brockmann campus residential treatment facility in the House budget that could not be achieved in the short time remaining in the current fiscal year.

Department of Children, Youth and Families, Overall FY 2025 Adjustments

For fiscal year 2025, both the House and Senate budgets assume significant underspending across DCYF programs. The agency is not anticipating the amount of underspending assumed in these budgets, and the funding levels provided put the agency at risk for fiscal year close. In addition, the Senate budget excludes crucial investments needed for expenditures occurring in this fiscal year, including funding for the D.S. settlement agreement and staffing resources supporting juvenile rehabilitation.

Department of Labor and Industries, Crime Victims Compensation

The Department of Labor and Industries expects to spend a minimum of \$18.5 million on crime victims compensation by the end of the fiscal year. The reduction for this program in the Senate proposal leaves only \$17.2 million available for this purpose, putting the agency at risk for fiscal year close.

Employment Security Department, Elimination of Certain Services in FY 2025

The House budget eliminates FY 2025 funding for several services within the Employment Security Department, including the Economic Security for All (EcSA) program to serve individuals over 200% of the federal poverty level, business navigators, and an increased stipend to certain AmeriCorps members. However, most of these funds have already been obligated and spent, and eliminating these funds will result in ESD's inability to cover actual expenditures.

2025-27 Biennial Budget

Health Care Authority, Aged, Blind, or Disabled Service Delivery

Removing clients in the Aged, Blind, or Disabled caseload from managed care could negatively impact their access to services. This is a particularly fragile group of Washingtonians who greatly benefit from the case management services offered through managed care plans and who are particularly at risk for adverse health impacts if they do not receive services in a timely manner.

Health Care Authority and Department of Social and Health Services, Trueblood and Maple Lane/Brockmann Reductions

Both the House and Senate budgets reduce funding for Trueblood related programming. The Senate budget takes reductions in existing Trueblood community-based programs, and in part, uses that funding to pay for the Phase 4 settlement agreement. Both the House and Senate budgets reduce funding for state-operated bed capacity, delaying some units at Maple Lane and completely or partially eliminating the funding for the Brockmann campus in Clark County. The state's ability to be responsive to the requirements in Trueblood hinges on a complex mix of state-operated and community-based funding. Reductions on both sides of this ledger create risk to ongoing compliance and put the state in danger of

future fines and penalties from the federal court. The balance of what is needed to sustain recent gains in Trueblood is nuanced and complex. We are committed to partnering with the Legislature to ensure the state's recent success continues and the final budget reflects a well-balanced approach.

Health Care Authority, Trueblood Diversion Programs

The Senate proposal eliminates Trueblood diversion programs. Without these services, Trueblood class members will likely cycle through the system without access to services that reduce recidivism. These programs have historically had a heightened level of scrutiny from the federal court.

Department of Social and Health Services, Olympic Heritage Behavioral Health Reduction

Olympic Heritage Behavioral Health (OHBH) Hospital provides psychiatric care primarily to individuals exiting Western State Hospital. Both the Senate and House budgets reduce funding for the operation of OHBH. These reductions are in addition to the nearly \$8 million reduction identified by the department and included in Governor Inslee's proposed budget. If the final budget includes the House-proposed reductions, DSHS will not be able to fully operate its three wards at OHBH which may impact transitions out of Western State Hospital.

Department of Social and Health Services, Program Underspend

The Senate budget assumed nearly \$12 million GF-S in savings and the House budget assumed more than \$32 million GF-S savings for the Developmental Disabilities Administration. Various underspend reductions are feasible if there is no growth in utilization in employment services or in the Individual and Family Services waiver. However, utilization of both programs has been increasing, making it unlikely community services will be underspent. Funding that includes these proposed reductions may impact the agency's ability to serve clients eligible for a Medicaid entitlement service.

Department of Social and Health Services, Division of Child Support Underspend

Both the House and Senate assume a biennial underspend of \$10 million GF-S in the Division of Child Support, and the Senate also assumes a \$10 million reduction in federal funds. DCS will not experience an underspend of that magnitude. Reducing funds beyond a projected underspend will negatively impact the division's ability to provide services and collect child support. If the final budget includes reductions to ESA's budget that are not realized, ESA will likely need to reduce staffing, which will have negative impacts on client services.

Department of Children, Youth and Families, D.S. Settlement Agreement

In 2022, parties reached a settlement agreement in *D.S. v. Department of Children, Youth and Families*. The Governor Inslee and House budgets propose funding to implement provisions of the settlement agreement such as expanding the adolescent transitional living program, investing in hub homes, and implementing solutions that will allow the end of placement exceptions that concluded in calendar year 2024 to be maintained as required in the implementation plan for the settlement agreement. This includes using leased facilities and expanding receiving care capacity to transition away from placement exceptions. The Senate does not fund the settlement agreement and instead includes a proviso that allows DCYF to use its base funding to pay for the additional D.S. investments.

Additionally, the House does not fund the necessary quality assurance and fiscal support resources needed to implement provisions of the settlement agreement. Not investing in these items puts the state at legal risk under the settlement.

Department of Children, Youth and Families, Child Welfare Program Underspend

The Senate proposes a general underspend for the child welfare program. DCYF does not anticipate this level of underspend in the program and will likely need to reduce services to some of the most

vulnerable children and families in the state.

Department of Children, Youth and Families, Juvenile Rehabilitation Program Underspend

The House budget includes reductions in the juvenile rehabilitation program based on recent program underspends. The circumstances that resulted in underspending in prior years are not forecasted to continue. DCYF will need to eliminate currently filled positions and request additional funding in the 2026 supplemental budget to operate within the funding level assumed in the House proposal.

Department of Corrections, Reentry Center Closures

The Senate budget proposes closing the Brownstone and Tri-Cities reentry centers, in addition to the three reentry center closures in the House and Governor Inslee budgets. This would leave 580 total reentry beds, including only 170 east of the Cascades. With pending bills in the Legislature and the current population, DOC anticipates these additional closures would leave the program without necessary bed capacity. We are committed to partnering with the Legislature and the agency to negotiate the statewide portfolio of centers to ensure the final budget meets capacity needs and minimally impacts the reentry goals of residents.

NATURAL RESOURCES

2025 Supplemental

Department of Fish and Wildlife, Facilities Six-Year Plan Alignment

The Senate budget does not include necessary funding for lease expenses that the agency is incurring in the current fiscal year. The identified facility leases are being terminated or not renewed by the building owners for regional facilities that include laboratory and warehouse storage space. Directing remote work or reduced space is not feasible for these activities. The House proposal supports the agency's non-discretionary leased facility cost needs.

2025-27 Biennial Budget

Department of Natural Resources (European Green Crab), Washington State Department of Agriculture (Japanese Beetle and invasive moths)

Washington is at a critical juncture with harmful invasive species including moths, Japanese beetles, and European Green Crab, which have devastating impacts on the state's forestry, agricultural, and shellfish aquaculture industries. The requested capacity is required to implement the emergency and quarantine measures, as well as continuing trapping and treatment efforts to eradicate known populations and protect against future invasions. We recommend the level in Governor Inslee's proposal.

Department of Natural Resources, Washington State Parks, and Department of Fish & Wildlife, Discover Pass

The Discover Pass provides essential funding that operates the state's parks system and outdoor recreational opportunities on all public lands. The public expects that their fees will fund the services and opportunities that attract the public to visit and enjoy our state lands. The costs to maintain outdoor recreation opportunities have increased but the pass fee has not been adjusted since its inception in 2012. If all of the assumed increased revenue is swapped with ongoing General Fund-State reductions, the structural account issues will continue. The House version is preferable, as most of the proposed fund swaps are one-time in the 2025-27 biennium.

Washington State Parks, ADA Compliance/Parks Planning

The House budget does not provide sufficient funding for Parks to comply with the Americans with Disabilities Act (ADA). State Parks is under a legal obligation and not funding it delays Parks' ability to meet a U.S. Department of Justice settlement timeline. Failure to receive a minimum level of funding

can lead to increased costs through penalties and other legal requirements. Parks could manage this obligation with the reduced appropriation included in the Senate version.

Department of Agriculture, Cannabis Lab Accreditation & WSDA Cannabis Program

The commercial cannabis industry generated \$1.23 billion in sales in 2023. Regulating cannabis standards is critical for industry support and public health. These budget items were designed and implemented to increase efficiency and cost savings, so there are no additional cost savings in these activities. Without thorough testing and rigorous standards, people are at risk of consuming pesticides, heavy metals, and unverified potency. These regulatory activities require full funding and should be funded out of the Dedicated Cannabis Account.

Columbia River Gorge Commission, Elimination of Operational Funding

The Columbia River Gorge Compact, authorized under the National Scenic Area Act and Chapter 43.97 RCW, establishes and empowers the Columbia River Gorge Commission to implement policies which protect and enhance natural resources, scenic vistas, cultural resources and recreational experiences in the Gorge. The House proposal removes all funding for the Commission. The compact and state statute requires the Commission's budget to be apportioned equally between Washington and Oregon. The Commission, historically, has received minimal outside funding that cannot be used to operate the agency. Without funding from Washington, it would be unable to continue to operate. If the Legislature decides that the Commission is no longer of value, it would need to withdraw from the compact by repealing Chapter 43.97 RCW. We recommend continued funding for the agency.

HIGHER EDUCATION

University of Washington, Center for Behavioral Health and Learning

The House budget included \$10 million for the Center for Behavioral Health and Learning, while the Senate budget matched Governor Inslee's proposed budget. This funding helps address the shortage of long-term civil commitment beds in our state and allows for intensive inpatient treatment for patients in behavioral health crisis. Funding at the level in the House budget will decrease the number of patients who will be able to receive care from the facility. We recommend funding at the Senate level.

TRANSPORTATION

Washington State Patrol, Bomb Squad Equipment Replacement

Governor Inslee and the Senate budgets provide \$1.4 million for the replacement of outdated bomb squad equipment. While this amount addresses the most critical need, additional appropriations will be necessary to fully replace the deteriorating equipment. This funding is necessary to ensure the bomb squad can continue to effectively carry out its mission to safeguard public safety, especially given the heightened public safety needs associated with the upcoming World Cup matches in Washington state.

INFORMATION TECHNOLOGY PROJECTS

Office of Financial Management, One Washington

The House and Senate underfund the One Washington program which is working to replace our state's 40-year-old Agency Financial Reporting System (AFRS). The program needs project funding, along with maintenance and operations funding, to continue the current momentum of the project. Without adequate funding, the program will need to do another schedule re-assessment for the future go-live date. The House proposed funding level is preferred.

Human Rights Commission, Case Management Database

The Senate proposal does not include funding for the Human Rights Commission to maintain its newly

built case management database system. The agency will be unable to absorb the ongoing maintenance and operations costs. The enforcement capabilities and case management of investigations are dependent on an operational database to meet the state standard.

Department of Fish and Wildlife, Hydraulic Permit Approvals Permitting System

The Hydraulic Permit Approvals Permitting System Modernization project is currently funded in the IT Investment Pool with gated oversight and will be completed by June 2025. Maintenance and operation costs begin in FY 2026. Without full, ongoing funding, the state's initial investment and WDFW's ability to approve hydraulic permits are at risk.

FUNDING FOR 2025 LEGISLATION

Both budgets do not fund the implementation and operational costs of several pieces of legislation. As agencies work to incorporate budget reductions in the 2025-27 biennium and beyond, it will not be possible to implement new policies without sufficient funding. We encourage you to appropriately fund any new legislation.

FUND SWAPS AND TRANSFERS

Finally, there were many fund swaps and fund transfers to the general fund proposed in both budgets, some of which pose difficulties for agencies. I've attached a table to this memorandum with concerns for these items.

Thank you for your consideration. We look forward to continuing discussions with you and your staff as you work toward agreement on the final budget.

cc: Dave Johnson, Staff Coordinator, House Appropriations Committee
Susan Brooks, Staff Coordinator, Senate Ways & Means Committee
Robyn Williams, Budget Director, Office of Financial Management

Fund Swaps and General Fund Transfer Concerns

Fund Swaps:

Correctional Industries Account:	This fund is used by DOC to operate the correctional industries (CI) program and does not have sufficient fund balance for additional expenditures. This swap may require backfill from the general fund, reductions in the CI workforce, and/or increases to the prices agencies pay for CI goods and services.
Discover Pass: <i>Limited Fish and Wildlife Account</i>	The costs to maintain outdoor recreation opportunities have increased but the Discover Pass fee has not been adjusted since its inception in 2012. If all the assumed increased revenue is swapped with General Fund-State reductions on an ongoing basis, the structural account issues will continue. The House version is preferable, as most of the proposed fund swaps are one-time in the 2025-27 biennium.
Employment Security Accounts: <i>Service Administrative Account</i> <i>Administrative Contingency Account</i>	The Senate budget proposes fund swaps at the Employment Security Department to reduce NGF-S. In doing so, the fund balances for Fund 120 and Fund 134 are reduced to levels that could result in fund insolvency.
Hunting and Fishing Licenses: <i>Recreational Fisheries Enhancement Account, Fish & Wildlife Enforcement Reward Account, Eastern Washington Pheasant Enhancement Account, Limited Fish and Wildlife Account, Rockfish Research Account, Regional Fisheries Enhancement Group Account, Fish, Wildlife, and Conservation Account</i>	The costs to maintain hunting and fishing opportunities have increased over the past 14 years, but the license fees have not had an inflationary increase since 2011. Due to inflationary and compensation impacts, a structural deficit in the license fee account begins in the 2025-27 biennium. By removing General Fund-State appropriation for all new license fee revenue, the Senate proposal will drive the fund balance negative in the 2027-29 biennium. The House version is preferable as it alleviates the structural deficit issue.
Transfers:	
Apple Health and Homes Account	The House budget transfers \$15 million from this account. Projects funded in the current biennium in the capital budget are just opening or are set to open in the beginning of the 2025-27 biennium. These projects built their pro formas assuming operating funds. Without continued expenditure authority for these operating funds, these units are at risk, the state will not realize the benefits of its capital investments, and it may put up to 1,000 residents at risk of homelessness.
Business and Professions Account	There is not sufficient fund balance available for this transfer and it may eventually have to be passed on as fee increases.
Construction Registration Inspection Account	The transfers for this account in the Senate budget will reduce the funds in this account below the working capital (three months of expenditures). This could require a reduction of inspections/services and/or the need for fee increases.

Electrical License Account	The transfers included for this account in the Senate budget will reduce the funds in this account below the working capital (three months of expenditures). This could require a reduction of inspections/services and/or the need for fee increases.
Gambling Revolving Account	Both budgets transfer from this account which may result in the account being overdrawn in fiscal year 2026.
Model Toxics Control Account	We urge the Legislature not to rely on assumed underspending to balance the over-appropriation of the MTCA accounts or to enable revenue transfers from MTCA accounts to the general fund. There has been a decline in forecasted revenue in the hazardous substance tax (HST) over the last year and half. Continuing to rely on assumed underspends – while increasing the use of HST revenue and/or the MTCA accounts through expanded appropriations, fund shifts, and revenue transfers – will likely continue to create issues for these accounts in the future.
OFM Central Services Account	The proposed transfer in the House budget will result in a payback of federal funds with state funds. Our preference would be to utilize a holiday rate rather than the proposed transfer. Agencies would see a reduction in billings and OFM would use existing fund balance.
Pipeline Safety Account	Though this transfer was included in Governor Ferguson's recommendations, due to a federal component of the fund, there may not be available fund balance for this transfer.
Pressure System Safety Account	The transfers included for this account in the Senate budget will reduce the funds in this account below the working capital (three months of expenditures). This could require a reduction of inspections/services and/or the need for fee increases.
Professional Engineers' Account	There is not sufficient fund balance available for this transfer, and it may eventually have to be passed on as fee increases.
Real Estate Commission Account	There is not sufficient fund balance available for this transfer, and it may eventually have to be passed on as fee increases.
Secretary of State's Revolving Account	We anticipate that this account sweep could result in the Secretary of State's Office needing to request GF-S backfill in the next biennium, making this an inefficient reduction.
State Treasurer's Service Account	The House proposal transfers \$110 million, \$100 million of which is in FY 2026. There is not enough in the account for this transfer without creating a negative fund balance.