



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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February 26, 2026

**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 OPERATING BUDGETS**

Thank you for your continued partnership as we work together to finalize the 2026 supplemental operating budget. The supplemental 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 continuing to improve the long-term sustainability of our state operating budget. As such, new spending should 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. The Governor intends to carefully examine the fiscal impacts of legislation when reviewing enrolled bills.

Budget reductions taken in this supplemental budget come on top of the numerous difficult reductions in the biennial operating budget. Many agencies are operating with limited resources to address urgent issues, uncertain federal funding, or unanticipated caseload changes. While we agree with the need to continue to reduce administrative costs, the compounding impacts of these reductions can unintentionally impact critical services to the public. We implore the House and Senate to refrain from directing agencies to take on new, under- or unfunded work, including studies, workgroups, reporting requirements, etc., when agency budgets for those activities and programs are being reduced.

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. OFM Budget, Office of the Governor staff, and state agencies 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.

## **GLOBAL ITEMS**

### **Administrative Reductions**

The House and Senate both significantly increased the targeted, non-staff administrative reductions from what was included in the Governor's proposal. While we do not have general concerns with administrative reductions, we do have concerns with what was included in the calculations and potential overlap between these and other large reductions. Examples include:

The Department of Social and Health Services, specifically the Developmental Disabilities Administration, is also subject to large, assumed underspends and targeted reductions. These administrative reductions were not adjusted to account for other large administrative cuts, as they were based on actual expenditures from fiscal year 2025 before the budget cuts implemented in the biennial budget or these new proposed reductions. The administrative cuts overlap with other reductions already taken and proposed, and the size means that implementation will impact staffing levels and program operations.

The specific expenditures used to calculate the reductions for the Department of Corrections include amounts related to the daily costs of incarceration, including food, clothing, and prescription drug expenses. Similarly, the Department of Children, Youth, and Families reductions in the Senate budget include amounts related to self-insurance liability program payouts which are not discretionary administrative expenses. Including these costs in the reduction means that the agencies will need to go well beyond administrative expenses to implement the reductions. OFM welcomes the opportunity to work with the Legislature and the agencies to identify an administrative expenditure base that makes sense for this calculation.

### **Climate Commitment Act Base Funding Reductions**

We appreciate the proactive approach of the House proposal to reconsider base budget investments of the Climate Commitment Act (CCA) accounts in advance of projected revenue declines in the 2027–29 biennium. However, because the account appropriations are biennial and agencies implement on a two-year timeframe, there would be impacts to joint efforts with local governments and nonprofits for climate related work. Additionally, making midstream reductions to the base operating level poses a significant operational challenge for agencies, local governments, and partners and puts our ability to implement existing statutory responsibilities at risk. Given uncertainty around future revenue adjustments and potential policy changes, we believe many of these reductions would benefit from a more coordinated approach.

Below are supplemental budget reductions of particular concern due to potential impacts on agencies' ability to carry out statutory requirements:

Clean energy bill implementation and statutory obligations (\$7.4 million CCA), including the following:

- Clean Energy Siting | Department of Agriculture
- Cultural Resource Surveys | Department of Archeology and Historical Preservation
- Clean Energy Permitting/Planning Grants | Department of Commerce
- Clean Energy Siting Council | Department of Commerce
- Energy Audit Grants for Public Buildings | Department of Commerce
- Clean Technology Advisory Committee | Workforce Training and Education Coordinating Board
- CCA Staff Consolidation | Governor's Office of Indian Affairs

Local government planning grants and technical assistance (\$12.3 million CCA), including the following:

- Local Government Climate Planning Grants | Department of Commerce
- Local Government Salmon Recovery Grants | Department of Commerce
- Shoreline and Growth Management Act Updates | Department of Ecology
- Local Government Climate Planning | Department of Fish & Wildlife
- Salmon Riparian Restoration Program | State Conservation Commission

Climate change agency response (\$968,000 CCA, \$69,000 GF-L), including the following:

- Climate Change Response Strategy Implementation | Departments of Commerce, Health, Military, Ecology and Natural Resources
- Climate Resilience Workgroup | Department of Ecology
- Climate Change Program Manager | Columbia River Gorge Commission

### **Healthy Environment for All Act and Environmental Justice Base Funding Reductions**

Similar to the reductions noted above, we are concerned about reductions impacting statutorily required Healthy Environment for All (HEAL) Act and environmental justice work. If the Legislature prefers to have agencies reduce their HEAL Act and environmental justice work, statutory amendments will be needed in addition to reducing appropriations..

HEAL and Environmental Justice (\$2.9 million CCA, \$1.7 million GF-S)

- HEAL Act Compliance Staffing | Department of Commerce
- Environmental Justice Council | Department of Health
- Environmental Justice | Department of Natural Resources
- HEAL Act | Department of Agriculture
- HEAL Act | Department of Natural Resources

### **GENERAL GOVERNMENT**

#### **Governor's Office of Indian Affairs, Underspend**

The House-proposed budget reduces the Governor's Office of Indian Affairs' appropriations by \$208,000 in fiscal year 2027. This funding represents an FTE position that is critical to implementing work required by Executive Order 25-10, increased emphasis on tribal consultation enterprise-wide, and administrative demands. This reduction, when combined with the House-proposed ongoing reduction to the agency's Climate Commitment Account funding of \$125,000, would significantly impact the Office's ability to continue implementing its Climate Commitment Act obligations and regular coordination with Tribes and state agencies as required by law.

#### **Office of the Governor, Child Welfare Work Group**

The House budget requires the Office of the Governor to convene a work group to address the rise in the number of child welfare critical incidents, to be completed within existing resources. This proviso creates a significant workload for the Office of the Governor and does not provide funding to complete the work. Funding is necessary to contract with a third-party facilitator to write a report under the timeline outlined in the proviso. In addition, Governor's Office staff will share proposed amendments to the language in this proviso that will better align the work with the ongoing work of Washington Thriving.

## **Office of Financial Management, OneWA AFRS Replacement and HRMS/SAP Cloud Migration**

The Senate budget, as proposed, assumes delays and underspending that result in insufficient funding to fully support the Phase 1A AFRS Replacement and HRMS/SAP Modernization. Agency project underspend is already accounted for in the funding level in the Governor's proposed budget. The additional reported underspend is due to the timing of contract deliverables and delayed billing, rather than true savings.

Additionally, the funding provided for the HRMS/SAP cloud migration provides only three months of operating expenditures, necessitating a delayed start date. This creates a significant scheduling risk. If work does not begin earlier in fiscal year 2027, the state will not meet SAP's end-of-life deadline for on-premise support, creating an unacceptable risk to continuity of the state's HR management system.

### **Section 701 Changes**

Section 701 of the Senate proposal requires that projected spending amounts in the technology budgets not exceed enacted budget amounts by fund and by fiscal year. This requirement would create significant challenges for IT projects funded with biennial appropriations, which traditionally allow spending flexibility across the two-year period. By limiting projected spending to enacted amounts by fund and by fiscal year, the ability to shift spending between years when schedules change is removed – creating compliance risks, added administrative burden, and potential project delays even when total biennial funding remains sufficient. Additionally, several items are funded using account 447 (IT Pool funds) for non- IT Pool projects. These two issues make administering the IT Pool, which is a joint task for the Office of Financial Management and WaTech, unworkable.

## **HUMAN SERVICES**

### **Multiple Agencies, 30-Day Notice Requirements**

We understand and share the concern that impacted populations be timely notified of major policy changes. However, the language included to this effect in the House budget for the Department of Social and Health Services, the Health Care Authority, and the Department of Children, Youth, and Families is both overly broad and vague, causing concerns around administrative capacity and clarity for implementation. OFM and the Governor's Office would welcome the opportunity to work with the Legislature on language that both addresses concerns around transparency and timely notification while also meeting the implementation needs of the agencies.

### **Multiple Agencies, Electronic Health Record**

We appreciate the shared understanding of the need to continue efforts toward implementing an electronic health records system that works for Washingtonians. Since the Governor's budget was released, work has continued to evaluate the most sustainable and timely path forward on this project. The approach that has emerged as best meeting the state's fiscal goals while still achieving the necessary implementation timelines for the Department of Social and Health Services and the Department of Corrections is the project funded in the House Chair's proposed budget. We urge the Legislature to adopt the House's path on electronic health records to provide our agencies with the medical resources they need.

### **Department of Social and Health Services, Developmental Disabilities, Program Underspend**

Both the House and Senate assume savings related to program underspending for the Individual and Family Services (IFS) waiver and employment and day services. The House and Senate budgets assume similar savings of \$32 million and \$33 million, respectively. These programs have historically been underspent; however, the 2025-27 biennial budget already reduced the IFS budget by \$50 million per biennium. The agency does not believe the program can absorb this additional, large reduction without negatively impacting service delivery to clients.

## **Department of Social and Health Services, Developmental Disabilities, Maintenance and Operations**

Both the Senate and House budgets propose reductions or omit investments in areas where the Department of Social and Health Services (DSHS) is unable to avoid expenditures. With reductions in other areas, the agency will not have resources to absorb these expenditures.

The Senate does not provide funding for DSHS to address the Individual Provider penalty owed in fiscal year 2026. The agency is required to return federal funds paid for the service hours determined to be out of compliance with federal training requirements. Compliance with these requirements is outside of the agency's control, however the state is responsible for paying the penalty.

The House proposes an ongoing 10% reduction to maintenance and operating costs for the residential habilitation centers. While efforts to continue to identify efficiencies are appreciated, a reduction of this magnitude will negatively impact the agency's ability to comply with regulatory requirements and maintain safe and healthy facilities as costs of goods continue to increase.

The House also proposes removing one-time funding provided to update DSHS policies and systems in preparation for the Centers of Medicare and Medicaid Services (CMS) anticipated eligibility changes in the current fiscal year. Work to align state agencies with the CMS changes has already begun, and the agency does not have the resources to absorb this work going forward, if that is the Legislature's intent. Without these resources, DSHS would stop this effort and fall out of alignment with the Health Care Authority which did retain its funding for this project in the House budget.

## **Department of Corrections, Capacity Funding**

Both the House and Senate budgets include insufficient resources to adequately address the capacity issues the Department of Corrections (DOC) is experiencing.

The Senate budget significantly underfunds new units proposed to open at the Monroe Correctional Complex to meet the state's growing close custody capacity needs. The resource needs identified by the agency are essential to maintaining the safety and security of incarcerated individuals, staff, and to maintain facility operations.

The proposed Senate budget also includes insufficient resources for the DOC to manage and provide adequate care for the population relocated from Mission Creek Correctional Center for Women (MCCCW) to the Washington Correction Center for Women following the closure of MCCCW in the enacted 2025-27 biennial budget.

Both the House and Senate proposed budgets include a reduction associated with the closure of the Sage Unit at Coyote Ridge Correction Center (CRCC) effective April 1, 2026, assuming savings associated with the transfer of incarcerated individuals to Airway Heights Correction Center. DOC assumes that any SAGE specific staffing would transfer to Airway Heights Corrections Center at the time of the closure, and no savings will be realized.

## **Department of Corrections, Supervision Vacancy Savings**

The Senate budget includes a targeted elimination of funding for seven Community Corrections Program Managers and 14 iCOACH staff. Specific funding for these individuals was removed in the biennial budget, and the agency has been using vacancy savings to pay for these positions due to the critical nature of their roles. Community Corrections Program Managers are responsible for ensuring changes are correctly implemented, and that DOC meets statutory requirements to help achieve positive outcomes towards public safety. iCOACH specialists support successful reentry and community integration of formerly incarcerated individuals. Eliminating or reducing these programs would negatively impact public safety.

## **Department of Children, Youth, and Families, Working Connections Child Care Attendance Policy Administrative Funding**

The House and Senate each propose changes to Working Connections Child Care attendance policies in SB 6363 and PSHB 2689 respectively. Each of these policies will require staffing resources in order to address what DCYF expects to be significant changes in provider authorizations, attendance, and billing practices, and consequently, an increased risk of overpayments and audit issues. Due to timing, there is not a formal estimate of the administrative support needs tied to either of these bills, but we emphasize the need to provide adequate resources to implement any policy that is eventually adopted.

## **NATURAL RESOURCES**

### **Washington State Parks, Department of Fish & Wildlife, State-Tribal Recreation Impacts Initiative**

Tribes with treaty and reserved rights in Washington have advocated through the annual Centennial Accord meetings for creation of an interagency-Tribal process to address impacts of recreation on natural and cultural resources and on protected Tribal rights across state-managed lands and waters. Initiated in the 2023-25 biennium, the supplemental budget request supported by the Senate proposal ensures that relationships and information sharing between governments is sustained for management on all state public lands. Funding the facilitation and pass-through for Tribal participation is necessary to avoid disrupting an established, highly significant and timely state-Tribal undertaking, which impacts natural and cultural resources.

## **FUNDING FOR 2026 LEGISLATION**

In both budgets, there are several pieces of legislation for which agencies were not sufficiently funded for implementation and operational costs. As agencies work to incorporate budget reductions this biennium and beyond, it will not be possible to implement new policies without sufficient funding. Any new legislation must be appropriately funded to ensure new policies are implementable.

## **FUND SWAPS AND TRANSFERS**

Finally, there were several fund swaps proposed in both budgets, some of which pose difficulties for agencies. These concerns will be communicated directly to staff.

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