



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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February 26, 2016

Honorable Andy Hill, Chair
Honorable Jim Hargrove, Ranking Member
Senate Ways & Means Committee
P.O. Box 40482
Olympia, WA 98504-0482

Honorable Hans Dunshee, Chair
Honorable Bruce Chandler, Ranking Member
House Appropriations Committee
P.O. Box 40600
Olympia, WA 98504-0600

Dear Senators Hill and Hargrove and Representatives Dunshee and Chandler:

I commend you for your efforts in crafting 2016 supplemental operating budget proposals for each chamber. As expected, the proposed budgets contain differences in both content and approach in meeting important supplemental budget needs and adjustments. Both proposals, however, share continuing commitment to the strong goals and improvements made in the underlying 2015-17 budget enacted last June. The Governor is encouraged that by working from the base budget, the differences between the House and Senate budget proposals can be bridged with solid legislative work in the remaining days of the session.

As negotiations begin toward a final supplemental budget, I want to share some high level concerns with the budget proposals. OFM continues to work with legislative fiscal staff on technical and other budget issues identified by state agencies, our staff, and others. Please let me know if I can be of further assistance to you on any of these issues. I look forward to continuing discussions with you as you work to complete a final supplemental budget.

Collective bargaining agreements – The Senate budget rejects the tentative bargaining agreement funding request included in the Governor’s proposed supplemental budget for psychiatrists and others in the Union of Physicians, and does not fully fund other related agreements as well as the tentative agreement with family child care providers. Under the current collective bargaining statute, the Legislature has clear authority and responsibility to review and either approve or reject in whole funding for the agreements. The Senate budget, however, proposes partial funding of the tentative agreements and attempts to provide for advance approval of alternative potential future agreements contingent on legislative parameters provided in the budget. By directing a specific outcome to negotiations in order to receive legislative approval for funding of an agreement, this budget proposal inhibits the state’s ability to engage in good-faith bargaining and arguably precludes it from fulfilling the legal obligation to bargain. The Governor supports full funding and implementation of the tentative agreements as presented to the Legislature under current bargaining requirements.

K-3 class size reduction – The Senate budget reduces K-3 class size reduction funding by \$52.5 million which is itself a concern given the strength and durability of the legislative commitment to fully meeting its funding obligations of HB 2776. At a minimum, we respectfully request additional legislative review of the technical assumptions underlying this reduction. We believe the Senate proposed policy will result in significantly lower savings as districts fulfill K-3 class size reporting requirements.

Mental health funding – The underlying biennial budget reflects a strong commitment to improving mental health services. The crisis at Western State Hospital has highlighted the necessity of strengthening not only the hospital operations and staffing, but also more systemic improvements throughout the mental health system. In both supplemental budgets and in related policy legislation, House and Senate proposals seek to strengthen the state’s mental health system, albeit in different ways. Important progress needs to be made this session in building greater community mental health capacity to improve patient treatment and reduce the need for hospitalization, to solidify operations at the state hospitals, and to improve transitional supports for patients leaving the hospitals.

The Governor is concerned that reductions to local RSN funding without at least corresponding reinvestment of these funds system-wide will undermine some of the mental health progress achieved last session.

Braam lawsuit – The DSHS Children’s Administration continues to need additional Child and Family Welfare Services (CFWS) staff to improve conditions and treatment of children in foster care and to comply with Braam settlement requirements that include monthly health and safety checks, training of foster parents, and reducing teen runaway rates.

The House budget provides additional funding for Family Reconciliation Services and licensing activities. While these are beneficial services, the highest priority is the increased staffing need in CFWS for Braam compliance. The Senate budget includes a \$4.2 million GF-S reduction in Children’s Administration staffing, based on expenditure data for the first six months of the fiscal year. This funding is necessary to sustain current level services in Children’s Administration; additional funding is needed to achieve Braam compliance.

Health Care Authority

- *Healthier Washington savings restoration.* The Senate budget provides no FY 2016 funding to buy back assumed savings in the underlying biennial budget for Healthier Washington. Assumed savings will not be achieved in the current biennium due to the voluntary nature of integrated financing of physical and behavioral health and lower than assumed participation by counties this biennium.

Based on the best information we have from the Health Care Authority, \$11.4 million in GF-S restoration is the minimum required for the agency to close FY 2016 within current appropriation levels, absent unacceptable service cuts to state-only programs funded in the agency. Further, FY 2017 savings in the biennial budget will not be achieved at anything close to assumed levels. To avoid a repeat of the prospect of insufficient funding for the second year of the biennium, we respectfully request additional consideration of \$31.3 million in FY 2017 Healthier Washington restoration funding. The House proposal includes \$26 million and the Senate does not adjust assumed spending levels for FY 2017. While fully recognizing the pressure this restoration item places on the supplemental budget and the four-year outlook, the fact remains that the assumed savings in the underlying budget will not be achieved this biennium.

February 26, 2016

Page 3 of 3

- *Blind-Disabled to fee for service* – The Senate budget assumes savings of \$25.5 million GF-S by moving the Categorically Needy Blind-Disabled and Community Options Program Entry System populations from managed care services to fee for service. Given the recent history of cost changes between managed care and fee-for-service care, projected savings from this shift are difficult to accurately assess. The Governor is focused on the quality and continuity of health care services and believes these clients will be better served, more cost-effectively over the long term, by managed care.

Model Toxics Control Act (MTCA) funding – Oil price reductions have lowered revenue forecasts for the MTCA accounts. The House budget proposals have not yet adequately responded to the MTCA shortfall. The Senate has outlined specific solutions to the MTCA shortfall in its operating and capital budget proposals. The Governor favors the more comprehensive approach taken by the Senate. Absent such action, the default solution to the MTCA shortfall will fall disproportionately and unnecessarily on reductions and delays to the cleanup of toxic sites.

Reductions of projected underspending – Finally, I would repeat a caution I have expressed previously that reductions to agency budgets that are not tied to articulated changes in caseloads and/or service levels will increase the likelihood that reversion targets used in our balance sheets may not be met. The point of capturing reversions on the balance sheet is to account for the potential of agency under-expenditures. Recapturing under-expenditures in supplemental budgets risks double-counting these savings on the balance sheet.

Thank you for your consideration.

Sincerely,



David Schumacher
Director

cc: Bryon Moore, Staff Coordinator, Senate Ways & Means Committee
Charlie Gavigan, Staff Coordinator, House Appropriations Committee
Jim Crawford, Assistant Director for Budget, OFM
Matt Steuerwalt, Policy Director, Office of the Governor
David Postman, Chief of Staff, Office of the Governor