

OFFICE OF FINANCIAL MANAGEMENT
BUDGET DIVISION

2013-15 Biennium

OPERATING BUDGET INSTRUCTIONS

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ELECTRONIC ACCESS TO BUDGET INSTRUCTIONS

Information contained in this document is located at: <http://www.ofm.wa.gov/budget/default.asp>

OFM STAFF ASSISTANCE

Contact your agency's assigned budget analyst for assistance. Assignments, phone numbers, and e-mail addresses for OFM budget analysts are available at <http://www.ofm.wa.gov/budget/contacts/default.asp>

To accommodate persons with disabilities, this document is available in alternate formats by calling the Office of Financial Management at 360-902-0555. TTY/TDD users should contact OFM via the Washington Relay Service at 711 or 1-800-833-6388.

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About the Instructions

What is in these instructions?

Instructions provide guidance on:

- Budget request basics, such as submittal components and format requirements
- Creation of decision package and Recommendation Summary documents
- Items to include in carry-forward, maintenance, and performance levels
- Allocating maintenance level subtotals and performance level decision packages to activities
- Performance measure and activity description submittal requirements
- Linking of operating and capital budgets
- Maintenance level, revenue, and other coding requirements
- Additional information requirements for technology portfolios
- Development of good cost estimates

Timeline of 2013-15 budget development events

For general planning purposes, use this timeline of the major budget events.

June	Priorities of Government analysis begins Predesign requests due to OFM – June Requests to change agency activity structure due to OFM by June 29
September	Agency capital and operating budgets due
August – November	Budget review by OFM and the Governor
September	Second-year estimate review due by September 28
November – December	Final budget decisions

Chapter 1

Budget Request Basics

1.1 THE STRATEGIC FRAMEWORK FOR BUDGET DECISIONS

The Governor relies on the Priorities of Government (POG) approach to develop a strategic framework for making investment decisions. This approach starts with these basic questions:

- What are the results that citizens expect from government?
- What strategies are most effective in achieving those outcomes?
- Given the money available, which activities should we buy to implement those strategies?
- How will we measure progress?

The Priorities of Government approach provides the strategic framework for the budget

This approach has proved effective in helping budget decision makers better understand the activities, costs, and outcomes of state government as a whole, not just what happens in individual agencies. The “core services” of government are those that produce the best outcomes.

An overview of the POG process is on page 5. For 2013-15 budget development POG will focus on six critical value statements and the results and high-level strategies connected to those values.

Washingtonians value world-class student achievement in early education, elementary, middle, high schools, and postsecondary institutions.	
Provide meaningful early childhood education from birth to 5 years of age.	
<ul style="list-style-type: none"> ▪ Support parents birth to three for at-home and community early childhood learning ▪ Support early childhood education for 3- and 4-year olds 	<ul style="list-style-type: none"> ▪ Ensure performance and accountability to parents, students, and the public
Improve student achievement in elementary, middle and high schools	
<ul style="list-style-type: none"> ▪ Provide basic education for students, kindergarten through 12th grade ▪ Align curriculum, instruction, and assessment ▪ Support career and college readiness during K-12 ▪ Promote strong teachers and leadership ▪ Support work to address the achievement gap ▪ Provide general education support for students ▪ Give students individual attention ▪ Provide education in a residential setting 	<ul style="list-style-type: none"> ▪ Support work to enhance math and science education ▪ Support work to make seamless transitions from early education through higher education ▪ Support parent and community connections ▪ Provide strategic and individualized preparation for education staff ▪ Ensure performance and accountability to parents, students, and the public
Improve the success of postsecondary learning	
<ul style="list-style-type: none"> ▪ Provide access to convenient and efficient high-quality postsecondary education and research opportunities ▪ Provide support services to college students ▪ Support career preparation beyond high school 	<ul style="list-style-type: none"> ▪ Provide upgrading of skills to current and returning workers ▪ Offer services to the community through colleges and universities ▪ Ensure efficiency, performance, and accountability to students and the public

We must improve the health of Washingtonians, and support and keep safe our children and adults who are unable to care for themselves.

Provide for the safety of Washington’s vulnerable children and adults

- Provide timely and quality responses to allegations of abuse and/or neglect
- Provide emergency cash, food, and shelter assistance
- Where necessary, provide institutional-based and outpatient services
- Provide community-based residential and in-home support services
- Provide secure treatment settings
- Provide support services to families
- Prepare and support youth and adults for employment
- Provide outpatient services
- Ensure efficiency, performance, and accountability to clients and the public

Improve the health of Washingtonians

- Encourage healthy behaviors
- Prevent and mitigate environmental hazards
- Identify and mitigate health risk factors
- Provide access to quality health care
- Provide institutional-based and outpatient mental health services
- Provide drug and alcohol abuse prevention and treatment services
- Ensure efficiency, performance, and accountability to clients and the public

It is our responsibility to provide for the public safety of people and property in Washington State.

Provide for the safety of people and property

- Prevent crime
- Support and enhance highway safety
- Support and provide crime investigation
- Enforce the law and support the justice system
- Incarcerate and rehabilitate juvenile and adult offenders
- Prevent, prepare for, and respond to domestic emergencies
- Prevent accidents
- Ensure efficiency, performance, and accountability to the public

Protect natural resources and cultural and recreational opportunities in Washington State.

Preserve and protect our state’s natural resources

- Encourage sustainable use of public natural resources
- Protect our state’s air, land, and water, including Puget Sound
- Preserve, maintain, and restore natural areas and systems
- Provide sound science and data to support decision-making
- Improve individual practices and choices about natural resources
- Ensure efficiency, performance, and accountability to the public

Improve cultural and recreational opportunities

- Provide stewardship of cultural and recreational assets
- Provide access and promote our cultural and recreational opportunities
- Maintain quality cultural and recreational opportunities
- Support the cultural and recreational opportunities of private groups and local governments
- Ensure efficiency, performance, and accountability to the public

Washington must promote economic development in a growing competitive environment.

Enhance the economic vitality of businesses and people

- Support business development and investment
- Ensure fairness, security, and efficiency in the economic marketplace
- Develop markets by promoting Washington products and services
- Remove economic development barriers where possible
- Improve workplace safety and fairness
- Return unemployed, underemployed, and injured workers to full-time work
- Support affordable housing development
- Provide consumer protection
- Coordinate government efforts to improve the effectiveness of economic investments
- Provide seed and growth capital, and support entrepreneurs
- Ensure efficiency, performance, and accountability to the public

Provide infrastructure for people and businesses

- Provide effective transportation system governance and management
- Support efficient, effective, and safe mobility by land, water, and air
- Improve mobility for commercial vehicles and freight
- Encourage alternatives to single occupancy vehicles
- Encourage non-motorized transportation in urban area
- Support an affordable, efficient, renewable, and safe support of energy
- Promote access to telecommunications
- Provide sufficient use of water resources
- Maximize use of existing systems
- Ensure efficiency, performance, and accountability to the public

Efficient state government services are important to the people of Washington State.

State government must achieve results through efficient and effective performance.

- Provide and support quality human resources for the work of government agencies
- Deliver the efficient use of financial resources to provide public services
- Provide objective data and information for the public and elected decision makers
- Provide efficient and effective logistical support to deliver services
- Support democratic processes to deliver services
- Pay for debt service
- Ensure efficiency, performance, and accountability to the public

Priorities of Government – What is it?

The “Priorities of Government” (POG) budget approach helps guide budget decisions by producing a statewide set of strategies to achieve intended outcomes.

The POG Process

Identify statewide **priorities of government**, i.e., values and outcomes that are expected of state government.

Identify **key indicators of success**: How would citizens know we are making progress toward intended outcomes?

Identify **proven or promising strategies for achieving results**: What do our experience and research tell us about factors most critical to success? What are the indicators of success for those strategies?

POG teams have access to the **activity inventory**, a catalog of the discrete activities of state government described in a citizen-oriented way. What do we do, for whom, why, what does it cost, and what do we expect to accomplish?

Dollar allocations serve as a constraint to the enterprise-wide purchase plan:

- The prioritization process is often more meaningful when the allocation is less than the amount currently spent in that result area.
- A dollar constraint encourages creativity, keeps proposals grounded in financial reality, and forces people to articulate priorities and choices.

The teams **develop an outcome-based prioritization of activities**. Given the available resources, what are the core/mandatory services necessary to achieve statewide outcomes?

- Teams are asked to focus only on maximizing results for citizens through evidenced-based strategies, and to ignore fund source and statutory restrictions that stand in the way.
- When they’ve exhausted their allocation, teams list items they would buy back next, in priority order.

POG strategies and prioritizations will be reviewed during executive budget hearings.

Key benefits of POG

- Helps keep focus on highest priorities and statewide outcomes – lets the budget escape agency “silos” and consider enterprise-wide strategies.
- Makes performance information more relevant to budget choices.
- Promotes thinking about trade-offs (i.e., what happens with more or less funding).
- Helps frame questions about whether we can buy more with the same amount of money (i.e., are there more efficient and creative ways to accomplish the same purpose) and what are core services.
- Describes what the budget will buy to citizens.

POG is not the actual budget, but illustrates what the budget might look like if the only objective were to maximize outcomes. It helps build a better budget in the complex real world and identifies barriers that need to be removed to build an even better one.

The POG approach for the 2013-15 budget

The POG process starts in June 2012 with OFM teams examining budget indicators and strategies. The teams arrive at preliminary priorities to inform agency budget deliberations and executive budget hearings.

Result teams rely on agency-provided information to develop a prioritized purchase plan – information that includes:

- Agency strategic plans
- Activity descriptions
- Performance information – statewide result indicators, strategy indicators, and agency activity measures.

Agencies have access to this performance measure information through the Enterprise Reporting System at <http://reporting.ofm.wa.gov/businessobjects/enterprise10/eportfolio/en/logonform.csp> or <https://fortress.wa.gov/ofm/reporting/businessobjects/enterprise10/eportfolio/en/logonform.csp> for Fortress users.

Result teams also consider information from GMAP forums

Agencies and POG teams use the Government Management and Accountability Performance (GMAP) processes and forums to continuously evaluate and improve the effectiveness of the strategies selected through the POG process. GMAP forums help to identify better ways to achieve results and provide important information for prioritization efforts.

The best budget proposals link investments to outcomes

The budget is one of the most important tools for implementing policy and achieving results. In its review of agency budget requests, OFM will ask these questions:

- What are the most effective strategies and activities in which to invest to achieve agency and statewide outcomes?
- What activities are mandatory/core to these strategies?
- How do we know we are purchasing these activities at the best possible price?
- Given financial or other constraints, how can we maximize the outcomes that citizens want?

The agency's strategic plan, activity descriptions, and decision package information should all focus on answering these questions. The best budget proposals are persuasive not only at the agency level, but also in the broader statewide context that OFM and the Legislature must consider when making decisions. Proposals that make the strongest case will be those that discuss the value and benefits of the services they deliver to achieve statewide outcomes.

More information about POG

<http://www.ofm.wa.gov/budget/pog/> (OFM)

1.2 FISCAL CONTEXT INFORMATION FOR 2013-15 BUDGET

After a decline in state near general fund revenue of 9.4 percent in FY 2009, and another 4.6 percent in FY 2010, revenues rebounded with an advance of 7.5 percent in FY 2011. Note that this growth was relative to a lower revenue base caused by the previous two years of recession. The last revenue forecast, in February 2012, stated an expectation for revenues to grow at a 0.9 percent pace for FY 2012.

All in all, General Fund revenues should grow 7.1 percent for the entire 2011-2013 biennium, compared to the 5.8 percent decline during the 2009-2011 biennium.

For the 2013-2015 biennium, the Council predicts revenue growth of 2.2 percent in the first year and 4.5 percent growth the next year. For the entire two-year span, revenues are expected to grow 7.0 percent over the 2011-2013 biennium.

With these growth rates, total near general fund state revenue is expected to reach \$32.6 billion in the 2013-15 biennium, compared with \$30.9 billion for the current biennium.

Ongoing effects of the “great” recession are the main reasons for the expected steady, but moderate revenue growth in the 2013-15 biennium. Revenue growth will be constrained by a relatively slow economic recovery/expansion, with the following characteristics:

- Measured housing market, possibly out of the trough but not by much
- Relatively modest hiring and protracted high unemployment
- Moderate income growth with selective consumer spending
- Slow and modest rebound in household wealth
- Consumer and business credit more available but borrowers still cautious Moderate investment rebound
- Hesitant overseas economies in both Asia and Europe

Most of these factors will constrain consumer spending and housing construction, which generate the largest part of state general fund revenue.

With the possible exception of medical cost inflation, which affects nearly 20 percent of the state general fund budget, pressures from population growth and general inflation are expected to be modest for the 2013-15 biennium.

Additional resources for fiscal context information

<http://www.cfc.wa.gov/> (Caseload Forecast Council)

<http://www.erfc.wa.gov/home.htm> (Economic and Revenue Forecast Council)

<http://www.ofm.wa.gov/forecasting/default.asp> (OFM)

1.3 HOW IS A BUDGET REQUEST ORGANIZED?

Recommendation Summary format summarizes the budget

Budget requests are summarized in a step-table format referred to as the “Recommendation Summary.” The Recommendation Summary begins with legislative spending authority for the current biennium and lists significant incremental changes to arrive at the agency’s 2013-15 request. Ideally, each Recommendation Summary line should represent a single budget policy decision.

Decision packages are one set of budget building blocks

Agencies must describe and support each requested incremental change to the current budget with a decision package. Decision packages are the place for agencies to make a persuasive case for their requests.

The Budget Development System assists agencies in developing budget decision packages and produces the resulting Recommendation Summary report.

Major budget categories help to organize the request

The incremental steps in the Recommendation Summary are grouped to help OFM and legislative fiscal staff analyze categories of expenditure changes from the current biennium level. The categories are:

▪ Carry-forward level

How much of the budget proposal is the biennialized cost to continue the workload or services already authorized through legislative budget decisions? OFM, in consultation with agency and legislative staff, determines the carry-forward level and communicates the dollar amount to agencies as soon as possible after the 2012 supplemental budget is enacted. Chapter 5.1 has more detail.

▪ Maintenance level

How much of the budget proposal is for additional mandatory caseload, enrollment, inflation, or other legally unavoidable costs not contemplated in the current budget? Maintenance level changes to budgeted, nonappropriated funds are also listed in this category. Chapter 5.2 has more detail.

▪ Policy and performance changes

What other expenditure change proposals are contained in the agency request budget? These options may represent significant changes in discretionary workload, the nature and scope of services, or alternative strategies and outcomes. Chapter 6 has more detail.

We expect that General Fund resources for new budget initiatives will be very limited. The Governor's priority for new money, if any, will be K-12 education. Accordingly, agencies should only consider GF-S policy level budget requests that fit one of the following criteria:

- Fixes elements of the current budget that can't be implemented.
- Improves performance and outcomes within existing resources.
- Offsets new program costs with tangible savings in the current biennium.

We encourage you to think in terms of buying what you need, not buying back what you had.

Agencies are also encouraged to make fee-based programs self-supporting.

The activity inventory provides another important set of budget building blocks

While the decision packages show the incremental changes to the agency budget, the activity inventory describes what the agency does: What are the activities of the agency? What does it cost to perform them? What are the products and outcomes of each activity? What is the connection between the outcomes of those activities and the desired statewide results?

Agencies also present the budget by activity

Agencies must prepare and submit an activity view of the budget in addition to the traditional decision package format. Chapter 2 has more detail.

Additional supporting information is needed for the request

In addition to the decision packages, Recommendation Summary report and activity inventory, the budget submittal includes other information OFM needs to analyze the budget request:

- Agency performance measures and the Performance Measure Incremental Estimates report (Chapter 10);
- Agency Revenue and Working Capital reports (Chapter 8); and
- Other special reports (refer to Chapter 14 to see which reports apply to your agency).

Some agencies provide budget data at the program level

OFM reviews most recommendation summaries at the agency decision package level. However, we ask for some program detail from agencies. For agencies listed below that are appropriated at program (or lower) level, we ask that you include program-level Recommendation Summaries with your agency request.

- 010 Bond Retirement and Interest
- 300 Department of Social and Health Services – program level, except the following submitted at category level:
 - Mental Health
 - Developmental Disabilities
- 305 Department of Veterans Affairs
- 310 Department of Corrections
- 340 Student Achievement Council
- 350 Superintendent of Public Instruction
- 405 Department of Transportation

1.4 WHAT ARE THE SUBMITTAL REQUIREMENTS?

The chart below shows the required components of the submittal and the way the material should be organized in the notebooks submitted to OFM. It is most helpful if notebooks include labeled tabs, especially tabs for each decision package. If an agency is submitting more than a handful of decision packages, a table of contents is also helpful.

Capital Budget Requirements

Submit your agency's capital budget request in a separate notebook. Refer to the Capital Budget Instructions for more information (<http://www.ofm.wa.gov/budget/instructions/capital.asp>).

Transportation Related Agencies

Additional requirements for transportation-related agencies can be found in the Transportation Budget Instructions Addendum

Required Budget Submittal Components

- | | |
|-----|--|
| TAB | <input type="checkbox"/> Agency Organization Chart |
| A | <input type="checkbox"/> Agency Activity Inventory Report <i>BDS report (Chapter 2 and Chapter 10.1)</i> |
| | <input type="checkbox"/> Performance Measure Incremental Estimates Report <i>BDS report (Chapter 10.2)</i> |
| | <input type="checkbox"/> Indirect Cost Allocation to Activities Description* <i>(Chapter 2.3)</i> |

- TAB B** **Recommendation Summary at Agency Level** *BDS report (Chapter 3)*
 Recommendation Summary at Program Level *BDS report (Chapter 3) – only for agencies listed in Chapter 1.3*

- TAB C** **Decision Package Summary** *BDS report (Chapter 4)*
 Individual Decision Packages* *BDS entry form and report (Chapter 4)*

- TAB D** **Summarized Revenues** *BDS report (Chapter 8.1)*
 Proposed Tax and Fee Changes *Excel Spreadsheet (Chapter 9)*
 Working Capital Reserve (B9-1) *By Fund Administrators – BDS entry form and report (Chapter 8.4)*
 Revenue Transfer Reconciliation Statement *(Chapter 8.3)*
 Federal Fund Estimates/State Match *OFM template (Chapter 14.2)*
 Non-Budgeted Local Fund Summary (B10) *OFM template (Chapter 14.1)*
 Puget Sound Action Agenda: List of Decision Packages and Capital Project Requests *(Chapter 14.5)*
 JLARC Audit Responses *(Chapter 1.5)*

- TAB E** **Targeted Budget Instruction Responses** *Responses and proposals not included as a decision package in Tab C (Chapter 6.2)*

- Attach specified documents as requested for information technology-related decision packages** *(Chapter 12.1)* and for **Self-Insurance Premium decision packages** *(Chapter 13)*
 Updated agency descriptions: return completed template to Laurie Lien at ofm.budget@ofm.wa.gov.

* Send an electronic copy of indirect cost allocation to activities information to Linda Swanson at Linda.Swanson@ofm.wa.gov

How many copies must we submit?

With the exceptions below, agencies must submit **six (6) complete copies** of their operating budget submittal documents to OFM, which will forward copies to the Senate and House Ways and Means committees.

Capital budget submittals should be consistent with the required number of copies as specified for the operating budget.

Department of Social and Health Services must submit three (3) additional copies, for a **total of nine complete (9) copies**.

Higher education institutions must submit two (2) additional complete copies of their operating budget requests, for a **total of eight (8) copies**. OFM will forward the additional copies to the Student Achievement Council and the Council of Presidents' Office.

Transportation agencies must submit one (1) additional complete copy of their operating budget requests, for a **total of seven (7) copies**, with the exception of the **Department of Transportation** which must submit three (3) additional copies, for a **total of 10 complete copies**.

What are the format requirements?

- Number all pages.
- Reduce oversized materials by photocopier whenever possible. What does this mean? 8-1/2x11 if legible at that size.
- Three-hole punch all materials and assemble each copy of the budget in a standard size notebook supplied by the agency.
- Organize and tab the material as shown above.

What is the submittal address?

Office of Financial Management
Operations Section, Budget Division
300 Insurance Building
PO Box 43113
Olympia, WA 98504-3113

Before the budget submittal is considered complete, agencies must release the Agency Request version in the Budget Development System. **OFM needs both the budget notebooks and the system data to begin analysis of the agency budget. Both are due to OFM on the dates listed in Appendix A-1.**

1.5 OTHER GENERAL PREPARATION REQUIREMENTS

The biennial budget process is the best opportunity for consideration of major initiatives

Supplemental budgets generally are limited to addressing emergencies, technical corrections, and mandatory items. Therefore, it is important that the strategic planning and budget process be a thorough analysis of the agency's needs, challenges, and opportunities for the biennium. This approach allows the agency to request what is needed to support the initiatives it deems essential to carry out its mission and contribute to desired statewide results.

Rounding protocols for dollars and FTEs

- Round all expenditure and revenue amounts to whole dollars except in the case of individual claims (legal judgments, Local Improvement District assessments, etc.) that must be reported exactly. Round fractions of dollars from \$.01 through \$.49 to the next lower whole dollar; and \$.50 through \$.99 to the next higher whole dollar.
- Omit dollar signs (\$) except where necessary to distinguish dollars from other numbers.
- Round FTE amounts to the nearest tenth.

Note: Budget Development System (BDS) reports will be accepted as produced.

Display of negative numbers

Use parentheses to indicate numbers reflecting expenditure decreases.

Required fund code conventions for budget documents

With few exceptions, use the state accounting system coding scheme for account numbers and other designations used in budget documents. Fund codes require both the account number and the appropriation type code that indicates the source character of the funds involved. Separate the one-digit appropriation type from the three-digit account number with a hyphen as shown in the table below.

General Fund

The following fund sources, where applicable, must be identified separately:

- 001-1** General Fund-State. Appropriation Type 1.
- 001-2** General Fund-Federal. Appropriation Type 2.
- 001-5** General Fund-Other Federal Fixed Grants (DSHS and Department of Health only). Appropriation Type 5.
- 001-7** General Fund-Private/Local. Appropriation Type 7
- 001-8** General Fund-Federal (ARRA). Appropriation Type 8
- 001-0** General Fund-Federal: Social Services Block Grant–Title XX (DSHS only). Appropriation Type 0.
- 001-A** General Fund-Federal: Family Support/Child Welfare–Title IV (DSHS only). Appropriation Type A.
- 001-C** General Fund-Federal: Medicaid–Title XIX. Appropriation Type C.
- 001-D** Appropriation Type D.
- 001-E** General Fund-Federal: Child Care Development Funds (DSHS only). Appropriation Type E.

Other Appropriated Treasury Funds

Identify other appropriated treasury funds by the following appropriation types:

- State: Appropriation Type 1
- Federal: Appropriation Type 2
- Private/Local: Appropriation Type 7

Nonappropriated Funds

All nonappropriated funds, regardless of original source of funding, must use Appropriation Type 6.

Agency request legislation proposals with a budget impact

Proposals must be submitted to the Governor’s Executive Policy Office, MS 43113 Olympia WA, 98504-43113, consistent with the budget submittal due date. See detailed instructions for submitting agency request. Agency request legislation instructions will be provided in a letter to agency directors from the Governor’s Office. Proposed departmental request legislation will be reviewed with the Governor this fall. Agencies must include decision packages in the budget submittal for any proposals with revenue or expenditure impacts.

Ensure that other agencies affected by your agency’s proposed legislation are aware of the request, since OFM will need fiscal notes from each affected agency. Each agency will also need to include the fiscal impact in its budget submittal.

LEAP will approve (or deny) budget program structure change requests June 13, 2012

Budget program or subprogram structure changes recommended by OFM must obtain LEAP approval as required by the State Budgeting, Accounting, and Reporting Systems Act (RCW 43.88). Refer to the memo about this process on OFM’s website at <http://www.ofm.wa.gov/budget/instructions/other.asp>.

Include JLARC audit responses in the budget submittal

RCW 43.88.090(1) requires that agencies reflect consideration of applicable Joint Legislative Audit and Review Committee (JLARC) performance audit recommendations in their budget requests. Specifically, “the estimates must reflect that the agency considered any alternatives to reduce costs or improve service delivery identified in the findings of a performance audit of the agency by the joint legislative audit and review committee. Nothing in this subsection requires performance audit findings to be published as part of the budget.”

The audits and studies are listed on JLARC’s website at:

<http://www1.leg.wa.gov/JLARC/AuditAndStudyReports/Pages/default.aspx>.

Agencies also should be prepared to provide information to JLARC.

1.6 USING THE BUDGET DEVELOPMENT SYSTEM

The Budget Development System (BDS) is a budget submittal tool that facilitates budget development. The system lets an agency develop its budget by decision package, capturing information (narrative, expenditure, revenue, activity inventory, and performance measure data) necessary to explain and justify the agency’s request. The system also generates many of the budget reports required as part of the submittal.

Here are key features of BDS that support development of the 2013-2015 budget:

- Agencies can attach documents to decision packages, which means that hard-copy information provided to OFM can be stored with the decision package in the system, itself. It also lets agencies export a partially completed decision package to Word or other word processing software to complete the decision package outside the system. The completed decision package report is then attached to the decision package in BDS for the record and for future reference.
- Activity description data elements are not tied to budget versions, which allows simplified reporting (both budget and performance measure reporting), and ensures that each version has accurate and up-to-date activity description information.
- Agencies will now use the Results through Performance Management system to submit the performance measure targets for the ensuing biennium.
- For agencies with only one activity, decision package amounts are automatically applied to that activity.

The Salary Projection System (SPS) can help agencies develop staffing-related FTE and expenditure estimates. The system can be used to analyze the cost of current staff levels or to develop scenarios to estimate the cost of budget proposals.

For more information or assistance in using BASS systems, contact the BASS Help Desk at 360-725-5278. Training classes or self-guided tutorial lessons are also available. Training information and registration are available at <http://www.ofm.wa.gov/training/default.asp>. Information on SPS, BDS and other BASS products is available at http://bass.ofm.wa.gov/BASSLogon_pr/logon.aspx or https://fortress.wa.gov/ofm/bass/BASSLogon_pr/logon.aspx for Fortress users.

Chapter 2

The Activity View of the Budget

2.1 THE ACTIVITY INVENTORY IS AN ALTERNATIVE VIEW OF THE BUDGET

Agencies must prepare and submit an activity view of the budget in addition to the traditional decision package described in Chapters 3 through 6. The Budget Development System (BDS) supports this requirement to include activity description and performance measure information in the budget database.

An activity is something an organization does to accomplish its goals and objectives. An activity consumes resources and provides a product, service, or outcome. One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state's citizens, we basically want to know "What do you do? For whom? Why is it valuable?"

Activity descriptions tend to be better than program descriptions at revealing the nature and purpose of the work performed by state government. The activity view of government has come to play an important role in the POG process, budget analysis, and decision-making.

The Activity Inventory describes the major activities of each agency. Each activity description must include the following information:

- A title that describes the nature of the activity (rather than an organizational name);
- A brief description of the activity, its purpose, and its intended recipient or beneficiary;
- The expected results of the activity (conveyed as a concise narrative description of outcomes, and/or as one or more performance measures);
- The primary statewide result area to which the activity contributes; and
- Other statewide result areas to which the activity contributes.

For more information, refer to OFM's "Activity Guide" at, and <http://ofm.wa.gov/budget/instructions/other/activityguide.pdf>

The OFM Performance Measure Guide at:

<http://ofm.wa.gov/budget/instructions/other/performanceguide.pdf>

2.2 WHAT ARE THE BUDGET SUBMITTAL REQUIREMENTS?

Agencies are required to assign certain budget totals and increments to activities to build a complete activity view of the budget. To prepare this view, agencies at a minimum must:

- Allocate the maintenance level subtotal to activities; and
- Allocate each performance level decision package to the affected activities.

These requirements are described in greater detail below. Presenting the current biennium level total, the maintenance level subtotal, and the performance level decision packages by activity provide an activity view of the total budget for the agency.

Current Biennium Totals: Agency Recast of 2012 Supplemental Budget

+ Carry-forward increments: (Optional to balance to activity)

+ Maintenance level increments: (Optional to balance to activity)

Subtotal Maintenance Level: Required to balance to activity+ **Performance level increments:** Required to balance to activity**Proposed Budget Total:** Required to Balance to activity**Allocate maintenance level to activities**

The agency budget submittal must present maintenance level totals (by account and fiscal year) by activity. Agencies may choose to assign the costs of some or all carry-forward or maintenance level decision packages to activities, but this is not required. In some way, the entire subtotal must be assigned to activities to provide the activity view of the budget through maintenance level. **The agency budget cannot be submitted to OFM until all these costs and FTEs have been assigned to activities.**

BDS provides options for agencies to assign these costs – by account and fiscal year – to activities. Most agencies have found that entering each increment by activity is the simplest method to meet this requirement. If this is not feasible for your agency, contact the BASS Help Desk at 360-725-5278 or by e-mail at DESmiISDBudgetHelpdesk@des.wa.gov to identify an option for your agency.

Allocate each performance level decision package to activities

Agencies are required to indicate how the costs – by account and fiscal year – and FTEs of each performance level decision package should be assigned to activities. BDS enables users to indicate the activity costs (by account and fiscal year) for each decision package.

Requests to add, delete, or edit activities must be made to OFM by June 29

Agencies cannot update the activity inventory without prior approval from OFM. Contact your assigned OFM analyst or Linda Swanson at Linda.Swanson@ofm.wa.gov to request changes.

If agencies wish to add or delete activities, submit a proposal to your OFM analyst no later than June 29. The proposal should provide a clear picture of the “before” and “after” set of activities, and include the following:

- List of current agency activities and descriptions;
- Proposed list of agency activities, explaining where current activities have been merged or split; and
- Brief explanation of the reason for the requested change.

OFM will review the proposal to consider how the change in information will affect the budget decision process, and provide a decision to the agency as soon as possible.

Provide information about non-budgeted funds supporting activities

Because the activity inventory is now a part of the budget system, the numbers reflected in the activity totals will only reflect budgeted funds. If an agency has an activity that is supported significantly by non-budgeted revenues, mention this in the activity description and note the dollar amount and fund source.

Include the Activity Inventory report in the budget submittal

Agencies are required to include a copy of the Agency Activity Inventory report in their submittal. This report (ACT 001) can be run in the Operating Budget Reports section of Enterprise Reporting. The report will include the descriptive information for each activity, including linked performance measures and expected results statements. See Chapter 10 for more information on performance measures.

2.3 HOW TO TREAT ADMINISTRATIVE COSTS IN THE ACTIVITY INVENTORY

Activity costs should include related administrative costs essential to support that activity.

The activity inventory should provide a reasonable estimate of the full cost of any activity, including related administrative costs that are essential to support it.

Administrative costs can be divided into two components: indirect costs and overhead costs. Information below describes how to handle the two types of costs in the activity inventory.

Definitions

We realize many of the cost terms used here may mean different things in different organizations. Use the definitions below for the purpose of developing activity inventory estimates.

▪ Allocate indirect costs to activities

Indirect costs are administrative costs linked to two or more activities. They are closely related, tend to vary with activity level or size, but usually cannot be practically or economically assigned as direct charges. Indirect costs should be assigned to activities through cost allocation and included in the total cost of the activity in the activity inventory.

Types of costs that could be classified as indirect costs may vary from agency to agency, but some possible examples include:

- ◆ Rent costs (if these are not already direct charged).
- ◆ Postage costs.
- ◆ Software development and IT support costs.
- ◆ Other shared administrative costs closely related to activity levels and size.

▪ Show overhead costs as a separate “administration” activity

Every agency has core administrative functions and costs regardless of the number or size of its activities. **Overhead costs** usually support the entire organization; are not directly attributable to specific activities; and tend to be relatively fixed and not easily affected by fluctuations in activity levels. These costs should not be allocated to activities because they are not “caused” by the activity. Indicate these costs separately in one “Administration” activity in the activity inventory.

Types of costs that could be classified as overhead costs may also vary from agency to agency, but some possible examples include:

- ◆ Salary and support costs for the agency director.
- ◆ Core portions of accounting, budgeting, personnel, communications, and receptionist functions.
- ◆ Other shared administrative costs that are not closely related to activity levels and size.

OFM is not concerned that each agency classifies the same type of cost in the same way. We want to ensure that activity costs include administrative costs that are critical to support the activity and help to achieve its intended outcomes.

Certain agencies are not required to have a separate administrative activity

As part of the update to the activity inventory in Fall 2003, OFM determined that some agencies (those with only a few activities) were not required to break out overhead costs as a separate administration activity. This distinction is reflected in the Activity Inventory. These agencies do not need to add an administrative activity for the budget submittal.

How to allocate indirect costs to activities

Indirect costs should be assigned to activities on some generally accepted cost-allocation basis. We encourage agencies already using a cost allocation methodology for some accounting purposes to use their method to allocate indirect costs to activities. Other possible approaches to allocating indirect costs to activities include, but are not limited to:

- Allocating by the number of FTEs in each activity.
- Allocating by the total dollars budgeted for each activity.
- Allocating by one or more bases that serve as good surrogates for the costs caused by each activity. For example, allocating IT staff costs by the number of personal computers or rent costs by the number of square feet.

Provide allocation information to OFM

The allocated costs should be included in the total costs for the activities. Agencies must also provide the following information in the agency budget submittal about the cost allocation approach:

- The total amount of indirect costs allocated.
- A brief description of the allocation method selected.
- The allocation percentage for each activity (percentage of the total indirect cost the agency allocated to each activity).
- The dollar amount allocated to each activity each fiscal year.

Use a format similar to that shown below. Send an electronic copy to Linda.Swanson@ofm.wa.gov.

Activity Inventory Indirect Cost Allocation Approach

Agency ABC				
Date				
Allocation Method Description:				
Total indirect costs were allocated to activities based on the number of FTEs in each activity.				
	% Allocation Received	Dollars Allocated FY1	Dollars Allocated FY2	Total Allocated
Activity A	20	\$200,000	\$250,000	\$450,000
Activity B	50	\$500,000	\$625,000	\$1,125,000
Activity C	10	\$100,000	\$125,000	\$225,000
Activity D	20	\$200,000	\$250,000	\$450,000
Total	100	\$1,000,000	\$1,250,000	\$2,250,000

2.4 IDENTIFICATION OF CORE / MANDATORY ACTIVITIES

OFM requires additional information about the nature of each agency's activity inventory to identify "core" or "mandatory" functions. This was automated last biennium as a module within the Activity Inventory. Agency access is via the BASS system: http://bass.ofm.wa.gov/BASSLogon_pr/Logon.aspx

This system is locked for changes and agencies must request changes through either their assigned budget analyst or OFM Budget Operations. At OFM's discretion

Is the activity a core function of government?

In other words, is it **mandatory** because it is:

- Required by constitutional mandates, court decisions, or federal law?
- Essential for preventing loss of life, addressing imminent issues of public safety, or avoiding immediate and catastrophic loss of state property?
- Necessary for the governance of mandatory activities?

If **non-mandatory**, does the activity have any of the following implications:

- Required by state law (RCW)?
- Governed by an existing contract (may include collective bargaining agreements)?
- Part of federal matching funds?
- Produces General Fund or other state revenues?
- Supported by fees?

Does the activity provide a broad public benefit or only serve a select clientele or constituency?

If the activity benefits a select clientele, can and should the clientele pay the cost?

Does it duplicate the activities of non-profits or other private initiatives?

Does it duplicate the efforts of other government agencies or programs?

Can this service or function be provided by way of performance contracts?

If not, why not?

Chapter 3

The Recommendation Summary View

3.1 WHAT IS THE RECOMMENDATION SUMMARY?

The Recommendation Summary summarizes the expenditure portion of the budget request

This is the step table format that summarizes expenditure change information. It begins with legislative spending authority in the current biennium and lists the significant incremental changes in the carry-forward, maintenance, and performance levels to arrive at the agency's 2013-15 request. Ideally, each budget line on the Recommendation Summary should represent a single budget policy decision.

Conceptual description of the Recommendation Summary

Budget Level	Appropriate Items
Current Biennium	Legislatively authorized appropriation level or nonappropriated expenditure level
Carry-Forward Changes	<ul style="list-style-type: none"> ▪ Biennialization of legislatively directed workload and program changes ▪ Shifting of any continuing unanticipated federal and private/local expenditures to anticipated appropriation type ▪ Negative adjustments for nonrecurring costs
Maintenance Changes - Level 1	<ul style="list-style-type: none"> ▪ Mandatory caseload, workload, and enrollment changes
Maintenance Changes - Level 2	<ul style="list-style-type: none"> ▪ Rate changes, such as lease, fuel, and postage ▪ Central service agency charges and other rate adjustments ▪ Specific compensation adjustments: OASI, merit increments (for agencies with fewer than 100 FTEs), and retirement buyout costs ▪ Inflation ▪ Changes to nonappropriated accounts beyond current allotted levels ▪ Other mandatory cost increases outside agency control ▪ Replacement of existing, but worn-out equipment ▪ Operating costs of just-completed capital projects ▪ Transfers between programs or agencies, or between years for dedicated accounts ▪ Unanticipated receipts not included in carry-forward level ▪ Federal, private/local, and dedicated fund adjustments <p>Note: See section 5.2 for further details on maintenance level.</p>
Performance Changes	<ul style="list-style-type: none"> ▪ New programs or services ▪ Discretionary workload in current programs ▪ Reduction or elimination of current programs ▪ Significant changes in fund sources
Total Budget Request	Sum of Items Above

3.2 WHAT ARE THE SUBMITTAL REQUIREMENTS?

The Recommendation Summary report has a required format

The Recommendation Summary displays the requested dollars by fund and the number of average annual FTEs for the biennium for each significant change between the current biennium and the ensuing biennium budget request. Each change item in the carry-forward, maintenance, and performance levels is listed as a separate line item with its own Recommendation Summary code and description. An example is provided at <http://www.ofm.wa.gov/budget/forms.asp>.

BDS will generate the Recommendation Summary

The agency is able to generate the Recommendation Summary directly from the Budget Development System (BDS) once it has entered its decision package information.

The Recommendation Summary reports submitted to OFM must contain OFM-approved current biennium and carry-forward level amounts

Carry-forward decision packages prepared in BDS will not be released to OFM. OFM will instead use its calculated carry-forward level as the base data. However, OFM and legislative staff do refer to the Recommendation Summary reports provided by the agency in its budget submittal. **These reports must show the OFM-approved current biennium and carry-forward level, or OFM will ask agencies to resubmit correct reports. Agencies will not be able to electronically release the budget from BDS when the carry-forward level does not match OFM's carry-forward level.**

Most agencies submit the Recommendation Summary at the agency level

Agencies must submit a Recommendation Summary at the agency level unless they are required to submit budgets at a lower level. Agencies listed in Chapter 1.3 must submit a Recommendation Summary at the program (or category) level.

Use approved codes to designate change items

Agencies must use valid Recommendation Summary (RecSum) codes to identify each incremental change. (RecSum codes are called decision package codes in BDS.) Chapters 5 and 6 also note OFM-designated codes that must be used for certain types of maintenance and performance level changes. These codes are shown in BDS at the bottom of the decision package code listing.

Chapter 4

Decision Packages

4.1 WHAT IS A DECISION PACKAGE?

What is a decision package?

Decision packages are a key set of building blocks to construct the budget request. The decision package is the place for the agency to make a persuasive case for any proposed changes. OFM will rely upon this information when evaluating the request.

Decision packages organize and describe proposed cost changes in a way that highlights the budget decisions. The decision package consolidates financial information, supporting justification and statement of impact for a specific action or policy proposed in the budget. One decision package describes a proposed item of change listed on the Recommendation Summary

The Budget Development System (BDS) assists agencies in developing all components of budget decision packages. It also automatically displays the expenditure, revenue, and FTE detail that agencies enter into the system rolled up to the selected level (agency or program) for the decision package report.

When is a decision package needed?

Decision package narrative is required for all incremental changes to the current biennial budget except for changes for carry-forward, OASI, inflation, the I-732 COLA increase, and the transaction to recast maintenance level to activities.

Agency request legislation decision packages must be submitted with the budget

If an agency submits proposed agency request legislation with a budget impact, a corresponding decision package must be included in the agency budget submittal.

Decision packages should be prepared at the required budget level (agency level except for those agencies listed in Chapter 1.3), but should always describe which programs and activities are affected by the request.

Decision packages should represent significant, discrete decisions

Each decision package will appear as one line with a **positive or negative** amount on the Recommendation Summary and should represent a significant, discrete budget decision. Craft your decision packages so related items are grouped together, but do not obscure or combine separate decisions.

The budget decision hinges on the stated performance objective being addressed.

Example: Seven new driver's license examining stations are proposed to expand geographic coverage and reduce client waiting time. The performance objective in this case is singular, i.e., expanding coverage and reducing wait times.

While the location of the examining stations is a necessary component of meeting the objective, the location of each station is not a separate budget decision. In this case, the agency would submit one decision package.

Contact your OFM budget analyst if you have questions about how best to organize budget requests into decision packages.

Budget requests should be anchored to the agency's strategic plan

OFM expects agency budget requests to be anchored to the agency's strategic plan and to clearly support the implementation of these strategies and achievement of performance targets. Decision packages that are inconsistent with the strategic plan are unlikely to fare well.

Use Plain Talk Principles

Your decision packages will be persuasive only if OFM analysts and decision-makers can understand them. Use Plain Talk principles. Avoid jargon and acronyms. Keep your writing brief and clear. Find more information about Plain Talk at <http://www.governor.wa.gov/priorities/plaintalk/default.asp>.

Be clear and complete, and anticipate questions

The time available for budget review is scarce and the capacity for rounds of questions on agency decision packets is very limited. The risk of rejection increases greatly if the decision package is unclear, if requested information is missing, if assumptions are incomplete; or if expected performance impacts are not explained.

4.2 THE REQUIRED ELEMENTS OF THE DECISION PACKAGE

The decision package has required elements

Decision packages are comprised of elements for key information OFM needs to analyze the request. We expect justification materials to vary in length and complexity, depending on the decision package proposal. The Budget Development System (BDS) facilitates the entry of all of the following required components:

- **Decision Package (RecSum) Code**

Decision packages are identified with unique, two-digit decision package codes (also called RecSum codes). Agencies choose codes from the list provided in BDS. Agencies must use alpha-alpha codes, except for certain types of maintenance and performance level changes. Those codes are designated by OFM and can be found in Chapters 5 and 6.

- **List decision packages in priority order**

List performance-level decision packages in priority order on the Decision Package Summary. BDS allows agencies to reprioritize decision packages once their budget development is complete. Please note that the decision package code does not indicate the agency's priority order.

- **Decision package title**

The title is a first impression. Use it to accurately describe what is being purchased or the issue being addressed. The title will appear on the Recommendation Summary report and should be as descriptive as possible within the limit of 35 characters.

The system also offers the option of entering a longer, more descriptive title for other purposes. However, this longer title will not be sent to OFM or printed in required reports.

▪ Recommendation Summary text

Each decision package should have a brief description of its purpose, written in complete sentences. This text will be loaded into the OFM WinSum budget system and will serve as the starting point for OFM text that describes items funded in the Governor's budget.

Recommendation Summary text must succinctly answer three questions:

1. What problem or opportunity is the agency trying to address?
2. What would this item actually buy?
3. What outcomes does the agency expect as a result?

We expect that General Fund resources for new budget initiatives will be very limited. The Governor's priority for new money, if any, will be K-12 education. Accordingly, agencies should only consider GF-S policy level budget requests that fit one of the following criteria:

- Fixes elements of the current budget that can't be implemented.
- Improves performance and outcomes within existing resources.
- Offsets new program costs with tangible savings in the current biennium.

We encourage you to think in terms of buying what you need, not buying back what you had. Agencies are also encouraged to make fee-based programs self-supporting.

OFM uses Recommendation Summary reports to brief executive decision-makers. Make your text **concise** and compelling. Avoid jargon and acronyms. The text should be clear to an audience that is not expert on the issue. We suggest that agencies limit this text to 100 words.

We urge agencies to look at examples in the last budget for guidance on the kind of summary information desired at <http://www.ofm.wa.gov/budget09/recsum/default.asp>.

▪ Fiscal detail

BDS automatically displays operating expenditures by account and objects of expenditure; staffing detail by FTEs; and revenue detail by account that agencies have entered into the system for each decision package. BDS provides the option to print the fiscal detail at the agency level, with program detail (required for agencies appropriated by program listed in Chapter 1.3). (Additional charts of the fiscal impacts into the future can be attached.)

▪ Package description

Use the package description section to answer these three questions:

1. What is the problem or opportunity the agency is addressing? This description should allow OFM and the Legislature to understand the nature of the problem or opportunity, including what is driving it and why it is important to address it.
2. Exactly how does the agency want to address this problem or opportunity?
3. What will the package funding actually buy?

Describe what the money would purchase (e.g., X FTEs to do X, consultant services to do X, X kind of equipment for X.) The later section on revenue and expenditure calculations and assumptions provides more detail on these items.

At the end of this section, provide contact information for the agency's subject matter expert so OFM can call with any questions.

▪ **Narrative justification and impact statement**

The core of the decision package justifies the change being requested, i.e., the business case for making this investment. BDS is structured to elicit information for each of the following elements of the decision package.

▪ **What specific performance outcomes does the agency expect?**

Describe and quantify the specific performance outcomes the agency expects as a result of this funding change. As appropriate, answer:

- ◆ What desired results will be achieved?
- ◆ What undesired results will be reduced?
- ◆ Will efficiency increase? How?
- ◆ Will outputs change? How?
- ◆ What is the expected impact on clients? On services provided? On citizens? On other agencies or governments?

Note: Proposals that do not make a compelling case for a quantifiable and positive performance impact on activity or statewide results will likely fare poorly in the budget competition.

▪ **Performance measure detail**

If one or more activity performance measures the agency reports in the Results through Performance Management (RPM) system are affected by the decision package, identify the expected incremental change in annual performance targets for each measure and for each applicable fiscal year if the decision package is enacted. BDS provides tools to identify the incremental impacts for these measures.

If the decision package will contribute to a new activity result that we would be interested in tracking over time, the agency should establish a new measure in the system for that activity.

Do not create a new performance measure in RPM solely to discuss the expected results of the decision package. That discussion should be provided in the section noted above.

Refer to Chapter 10.2 for more information on identifying performance measure increments.

▪ **Is this decision package essential to implement a strategy identified in the agency's strategic plan?**

If so, describe.

▪ **Does this decision package provide essential support to one of the Governor's priorities?**

If so, describe.

▪ **Does this decision package make key contributions to statewide results? Would it rate as a high priority in the POG process?**

If so, describe.

▪ **What other important connections or impacts are related to this proposal?**

Use this section to describe other important information decision-makers would want to know about funding this package, for example:

- ◆ Will any stakeholders have concerns about the changes related to this proposed investment?
- ◆ Which stakeholders support this proposal?
- ◆ Is this related to a legal matter?
- ◆ Is this related to a task force, GMAP or audit recommendation?

▪ **What alternatives were explored by the agency and why was this alternative chosen?**

Discuss the pros and cons of the alternatives, why they were not selected and why the recommended alternative was chosen. In this section, anticipate the logical questions a curious budget analyst might have. For example, did you consider:

- ◆ Approaches with different budget impacts?
- ◆ Regulatory or statutory changes to simplify, reduce, and streamline requirements that must be fulfilled by the agency process(es) affected by this budget change?
- ◆ Resource redeployment options to maximize the efficiency of existing agency financial, staffing, capital, or technology resources devoted to the problem this budget change is designed to address?

▪ **What are the consequences of not funding this package?**

Describe the consequences to desired outcomes and stakeholders if the decision package is not funded as requested.

▪ **What is the relationship, if any, to the state capital budget?**

If the decision package requires new space, alterations to existing space, or increased maintenance, these items should be described. Also note if the proposal reduces facility requirements.

If an agency capital budget request supports the decision package, it should be referenced by the same project title, number, cost, and fund source in both places if possible. If this decision package is related to a separate decision package for operating lease adjustments, reference that package here.

▪ **What changes would be required to existing statutes, rules, or contracts to implement the change?**

Indicate any proposed agency request legislation related to this decision package.

▪ **Expenditure and revenue calculations and assumptions**

Agencies should display the calculations (e.g., unit costs and formulas) used to arrive at expenditure, revenue, and workload estimates connected with the decision package. Identify the factual basis of any policy or workload assumptions and how the cost estimates are derived from these assumptions. Describe the classification and number of staff assumed in the calculations.

▪ **Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?**

Describe and include the dollar amount for how much of the request is necessary to cover one-time funding (such as for equipment or a study). Also discuss future effects on expenditures, FTEs, fund sources, and revenue.

- **Objects of expenditure**

This portion of the report is automatically inserted into the decision package from the Object Detail worksheet created by the agency in BDS. While the agency's base budget is not required to be submitted by object, OFM analysts find it very helpful in understanding how the new funding requested in the decision package will be used.

Do not include estimates for the cost of goods sold in the cost of the agency budget submittals, although this information may be described in the decision package.

See the decision package example in Appendix A-2

We have included a model decision package example in Appendix A-2 to show the level of information we expect.

Other decision package information requirements

Refer to Chapter 11 for a checklist to ensure that decision packages are consistent with information being proposed in the agency's capital budget.

Refer to Chapter 12 for information on IT portfolios and additional information elements that must be included in relevant decision packages.

Refer to Chapter 13 for information that must be included in self-insurance premium decision packages.

Refer to Chapter 9 for information that must be included for new or increased taxes or fees.

Refer to Chapter 14.5 for information requirements that relate to requests related to Puget Sound recovery.

Chapter 5

Carry-Forward and Maintenance Levels

5.1 WHAT IS THE CARRY-FORWARD LEVEL?

What is the carry-forward level?

The carry-forward level is a reference point created by calculating the biennialized cost of decisions already recognized in appropriations by the Legislature.

OFM calculates and provides carry-forward level to agencies

In consultation with legislative staff, OFM calculates the carry-forward level for each agency and provides agencies with a worksheet indicating the amount by account that must be placed in budget submittals. OFM budget analysts will discuss these calculations with agencies as soon as possible after passage of the 2012 supplemental budgets. We expect carry-forward levels to be finalized in June 2012.

At the agency and fund level, the carry-forward level in the agency budget submittal must match the total for each account-appropriation type on the OFM carry-forward cost worksheet. Agency budget submittals should display at least one incremental step between current biennium and carry-forward level to reflect total changes. Since the OFM budget database will already contain all the incremental items that belong in carry-forward level, it is not necessary for an agency to create a decision package for each item.

OFM uses recommendation summary (RecSum) codes to summarize common items of change at the statewide level. These codes are identified on the report sent to agencies that indicate carry-forward level amounts by account. Agencies should consider using these codes in their own budgets for consistency and comparative purposes.

How OFM calculates the carry-forward level

The OFM calculation starts with the 2011-13 expenditure authority as represented by current appropriations, compensation or other allocations, and the nonappropriated funds assumed in the legislative budget. Governor's Emergency Fund allocations are considered nonrecurring costs and are not typically added to the base. Adjustments are then made for biennialization of workload and service changes directed by the Legislature, and for deletion of costs that the Legislature considered nonrecurring. Nonappropriated funds are adjusted to match allotments. These ensuing biennium revisions generally match legislative assumptions of "bow wave."

Unanticipated receipts received and approved in 2011-13 that will continue in 2013-15 are also considered part of carry-forward level if approved prior to the finalization of the carry-forward cost calculation. (See Chapter 5.3.)

Examples of carry-forward level adjustments

▪ Legislatively directed workload changes

Only those changes already recognized by the legislative appropriation level in 2011-13 (or for nonappropriated accounts through a change in the legislative budget database or allotments) are included. Examples include staffing for opening of new facilities and biennialization of the cost of mandatory caseload, enrollment, or population growth that occurred during 2011-13.

- **Legislatively directed changes in level of services**

Again, only the carry-forward of those changes recognized by the Legislature through revised appropriations are included in carry-forward level. Examples include a change from annual to semi-annual inspections or an increased resident-counselor ratio.

- **Nonrecurring costs**

Nonrecurring costs usually reflect deletions of what the Legislature has identified as projects or other short-term expenditures. Legislatively directed nonrecurring costs are eliminated in carry-forward level. Agency-generated savings would be shown as negative adjustments in maintenance level.

Some changes will not be part of carry-forward

Increases in Fiscal Year (FY) 2013 expenditure levels not specifically authorized by the Legislature, such as agency reallocation of dedicated funds from FY 2012 to FY 2013, are excluded from the bow wave calculation for carry-forward level. FY 2013 increases in nonappropriated fund sources would have to be supported by a specific tie to legislative direction or an approved allotment before being included.

The Recommendation Summary reports submitted to OFM must contain OFM's carry-forward level amount

Carry-forward decision packages prepared in BDS will not be released to OFM; OFM will use its calculated carry-forward level as the base data. However, OFM and legislative staff do use the Recommendation Summary reports provided by the agency in its budget submittal. **These reports must match the OFM-approved carry-forward level or OFM will ask agencies to resubmit correct reports. Agencies will not be able to electronically release the budget from BDS when the carry-forward level for the version does not match OFM's carry-forward level.**

5.2 WHAT IS MAINTENANCE LEVEL?

What is maintenance level?

Maintenance level reflects the cost of mandatory caseload, enrollment, inflation, and other legally unavoidable costs not contemplated in the current budget. Expenditure adjustments may be positive or negative, depending on expected experience in the ensuing biennium. Agencies will notice that BDS splits maintenance level into two different levels to indicate different kinds of maintenance level costs.

Who prepares maintenance level?

Agencies prepare the maintenance level component of the budget submittal. Like the carry-forward level, maintenance level is a reference point for budget consideration. It is not a guarantee of that amount of funding.

Maintenance Level 1 includes mandatory caseload and enrollment changes

A mandatory caseload or enrollment change arises from an explicit statutory requirement for state-funded services. A change in the demand or the need for a service is not mandatory unless the recipients of that service (or benefactors of the activity) are entitled by statute or rule. Mandatory maintenance level changes are entered as Maintenance Level 1 items in BDS.

Be sure to identify projected caseload growth separately for each discrete service provided by the agency at the same level of detail as forecasted by the Caseload Forecast Council.

Maintenance Level 2 includes inflation and other rate changes

Costs related to inflation and mandatory rate changes are included in BDS as Maintenance Level 2 items. Examples of these types of changes are OASI rate revisions, salary increments (for agencies with fewer than 100 FTE staff), current lease/purchase contract payments, utility expenses, and increased costs for current leases. Costs for new leases, moves, or acquisition of new space should be included in the performance/policy level budget request.

Also included in Maintenance Level 2 are:

- Costs related to replacing existing, but worn out equipment.
- Operating costs for just-completed capital projects. These costs should be previously assumed in the capital project plan. Operating costs related to changes in assumptions or scope should be included in the policy/performance level.

Salary increments

Because vacancy rates typically result in savings that can offset salary increment costs in large agencies, agencies exceeding 100 FTE staff per year should not include merit system salary increments in their maintenance level calculation. The Court of Appeals, which functions as three autonomous courts each with fewer than 100 FTEs, and other smaller agencies may identify increments as long as the cost does not exceed 2.5 percent of annual salaries.

If agencies believe they have justification for salary increments beyond these limits, they should include the increments in their performance/policy level. Salary increments should not be added for exempt or Washington Management Service staff.

Nonappropriated expenditure adjustments

Unless they are part of a performance/policy level decision package, budgeted/nonappropriated expenditures beyond current allotment belong in the Maintenance Level 2 category. Decision packages for nonappropriated accounts that reflect a policy change should be requested in the performance level of the agency's budget.

The 2013-15 budgeted level for nonappropriated funds will become the control numbers for the 2013-15 allotment of those accounts. For this reason, agencies should budget the maximum amount they anticipate spending in the ensuing biennium.

Agencies must use OFM-specified RecSum codes for selected maintenance level items

OFM has recommendation summary (RecSum) codes to more clearly identify certain maintenance level items of change at the statewide level. Agencies must use the RecSum codes identified below for these maintenance level changes. Agencies are free to use other available codes and titles for other maintenance level items.

Budget Level	RecSum Code	Description
Workload, caseload and utilization type adjustments		
ML1	8A	Federal requirements workload, DSHS
ML1	93	Mandatory caseload adjustments (for officially forecasted caseloads only)
ML1	94	Mandatory workload adjustments (for officially forecasted caseloads other than SPI)
ML1	95	Enrollment/workload adjustments, SPI
ML1	9R	Utilization changes (DSHS only)
Wage and compensation type adjustments		
ML1	9C	Initiative 732 COLA
ML2	8C	Minimum wage adjustments
ML2	97	Merit system increments (for agencies with fewer than 100 FTEs)
ML2	99	OASI adjustments
ML2	9P	Pension adjustments, other than rate changes
ML2	8R	Retirement buyout costs
Budget structure change, cost allocation and transfer type adjustments		
ML2	8D	Budget structure changes (LEAP-approved)
ML2	9T	Transfers (between programs, agencies, years or funds)
ML2	8Y	Cost allocation adjustment (cost must net to zero in the agency)
Specific cost type adjustments		
ML2	8F	Fuel rate adjustments
ML2	8L	Lease rate adjustments
ML2	8M	Mileage rate adjustments
ML2	8P	Postage rate adjustments
ML2	8U	Utility rate adjustments (for non-Department of Enterprise Services utility billings)
ML2	9H	FMAP match adjustment
ML2	9I	K-12 inflation
ML2	9K	Levy equalization update (SPI only)
ML2	9V	Operating costs for just-completed capital projects (those costs previously planned)
ML2	9M	Medical inflation
Summary and recast type adjustments		
ML1	90	Maintenance level revenue (all maintenance level revenue not related to individual expenditure decision packages)
ML2	9Z	Recast to activity
OFM use only		
ML2	91	Workers compensation changes (OFM use only)
ML2	92	Central service agency charges (OFM use only)
ML2	98	General inflation (OFM use only)
ML2	9D	Pension rate changes (OFM use only)
ML2	9X	Self-insurance premium (OFM use only)

How to treat payments to central service agencies in maintenance level

Do not include maintenance level changes for payments for the central service accounts listed in Chapter 14.3 in the agency budget submittal. They will be added by OFM in the fall when decisions have been made on these central service agency budgets. Agencies will be provided with a base amount and proposed fund splits in the spring and will be asked to review and request changes to fund splits at that time. (See Chapter 14.3 for more information.)

5.3 HOW TO TREAT UNANTICIPATED RECEIPTS

What are unanticipated receipts?

Unanticipated receipts are monies received from the federal government or other non-state sources that were not anticipated in the budget approved by the Legislature and that can be used only for a purpose specified by the grantor. A statutory process described in RCW 43.79(270) allows agencies to request expenditure authority for these unanticipated revenues through OFM.

Where should they be included in the budget?

OFM will work with agencies to review unanticipated receipts already approved this biennium to determine if there is a realistic expectation that the original funding source support will continue. If the support is expected to continue, and if the activity remains consistent with statewide priorities, the funding should be included in the 2013-15 budget request. This will enable the Legislature to consider the activity as part of the regular budget process.

OFM will confirm if the item should be included in carry-forward or other budget level. Be sure to use the federal or private/local appropriation type rather than an unanticipated receipt appropriation type for these items.

Chapter 6

Policy and Performance Level

6.1 WHAT IS THE POLICY AND PERFORMANCE LEVEL?

Incremental expenditure changes that do not fall under the definitions of carry forward or maintenance levels are considered policy or performance changes. These changes may represent revised strategies or substantial differences in program direction, and can include proposed program reductions. Each significant change to current performance must be justified in a decision package. Examples of policy and performance level items include:

- **Discretionary workload**

The expenditures necessary to address workload not defined as mandatory.

- **New programs or services**

New programs or any change in the level or scope of existing programs. This category also covers improvements that would result in more effective delivery of services, or higher quality services, and proposals for enhanced employee development or training programs. Funding changes for new program structures requiring legislative authorization should also be included in the Recommendation Summary at the policy level. (See Chapter 1.5.)

- **Program reductions and other changes**

Requests for new programs can sometimes replace lesser priority programs. Any policy decision that would result in a reduction of services or clients served should be displayed as a separate decision item.

Include related revenues in the same decision package

Revenue changes related to a policy level item should be included in the same decision package with the expenditures.

Performance level decision packages must be allocated by activity

Each performance level decision package must indicate the costs and FTEs by activity. (See Chapter 2.2 for more information.)

6.2 AGENCIES MAY RECEIVE “TARGETED BUDGET INSTRUCTIONS”

OFM will ask some agencies to provide additional information in their budget submittal

OFM will ask some agencies to submit budget decision packages or additional information as part of their budget submittal. There are two key drivers for these requests:

1. The POG result teams may recommend ideas for improving results, reducing costs, or gaining research to aid the evidence-based prioritization of activities. OFM may select some of these ideas and ask agencies to prepare proposals or information.
2. RCW 43.88.090 established requirements for performance measure review and follow-up. The key requirements are:
 - i. An agency must establish performance measures for each major activity in its budget that illustrate whether the agency is achieving or making progress toward the purpose of the activity and statewide priorities.

- ii. OFM must regularly conduct reviews of selected activities to analyze if measurements submitted by agencies demonstrate progress toward statewide results.
- iii. When a review determines that the agency is making insufficient progress toward the goals of any program, is underachieving, or otherwise inefficient, **the agency's budget request must contain proposals to remedy or improve the selected programs.**
- iv. The Governor's operating budget documents will identify activities that are not addressing the statewide priorities. (See RCW 43.88.030(4).

How will targeted instructions be issued?

OFM will issue budget instructions in a memorandum addressed to agency directors. Instructions resulting from the POG process may be issued separately from instructions that result from performance measure reviews.

Not all requests will require a budget decision package

Information requested in targeted budget instructions will vary. In some cases, OFM will ask for a budget proposal. Sometimes the agency may choose to respond to a more general request with a specific budget proposal. In other cases, OFM will ask for a legislative proposal, or analysis or research that does not require a decision package. This information should be included in the budget request notebook, but a decision package is not required.

Chapter 7

Salary, Pension and Insurance Data

7.1 AGENCY COMPENSATION DATA COLLECTION AND UPDATE

The initial salary data collection process for collective bargaining is underway

The Governor's Office, supported by the Labor Relations Office (LRO) in OFM, negotiates collective bargaining agreements for state governmental agencies and for some institutions of higher education. The nature of collective bargaining requires OFM to have salary data at the employee level. OFM must be prepared for proposals that group employees by bargaining unit, classification, range and step, years of service, etc. It also is necessary to have compensation data available at this level of detail for non-represented state employees to permit similar calculations for non-represented groups.

In January 2012, OFM began its data collection for 2013-15 collective bargaining salary negotiations and budgeting for all state employee salaries and benefits. These data are needed so agency budgets can include correct funding for labor agreements and compensation changes.

Agencies may update 2013-15 data in May

In May 2012, agencies were given a second opportunity to ensure that their data is in line with their 2013-15 proposed maintenance level. Governmental (non-higher education) agencies should add or delete positions in the SPS CIM Release file to match the annual average 2013-15 FTE Level at Maintenance Level. Higher education institutions will continue to use the CIM-Agency Interface System to do the same

It will be important for agencies to take a fresh look at the data, with the goal of making the following corrections:

- If Agency Maintenance Level FTEs differ from the FTE level submitted to the Compensation Impact Model, provide an explanation of the difference to Jane Sakson at Jane.Sakson@ofm.wa.gov.
- Update bargaining unit coding to accurately reflect the agency's employee representation.
- Update the Work County Code to ensure it is accurate for each employee.
- Ensure that hourly employees have an accurate work period percent to reflect an annual average percentage for time they are paid.
- Correct fund source designation, if necessary. Agencies must not use Account 03K Industrial Insurance Premium Refund Account, or 290 Savings Incentive Account as a funding source for these compensation data.

The deadline and additional budget instructions for the May update were sent via e-mail to agency budget officers and SPS users in early May. Budget managers should ensure that OFM has the appropriate system users name and email address for this communication to reach the appropriate staff.

Resources

Jane Sakson, OFM Budget Assistant to the Governor, at 360-902-0549 or Jane.Sakson@ofm.wa.gov
 Pam Davidson, Senior Budget Assistant to the Governor, at 360-902-0550 or Pam.Davidson@ofm.wa.gov

7.2 VALID PENSION SYSTEM CODES

The following table reflects all valid pension system codes for the 2011-13 biennial budget.

Retirement Systems	Description
H1	Higher Education System – 5% Contribution Rate
H2	Higher Education System – 7½% Contribution Rate
H3	Higher Education System – 10% Contribution Rate
J2	Judicial Retirement System (capped)
R1	Judicial Retirement Account Plan I
R2	Judicial Retirement Account Plan II
L1	Law Enforcement Officers and Fire Fighters – Plan I
L2	Law Enforcement Officers and Fire Fighters – Plan II
N2	Public Safety Employees' Retirement System
P1	Public Employees' Retirement System (PERS) – Plan I
P2	Public Employees' Retirement System (PERS) – Plan II
P3	Public Employees' Retirement System (PERS) – Plan III
T1	Teachers' Retirement System (TRS) – Plan I
T2	Teachers' Retirement System (TRS) – Plan II
T3	Teachers' Retirement System (TRS) – Plan III
S1	Washington State Patrol Retirement System – Plan I
S2	Washington State Patrol Retirement System – Plan II

7.3 OTHER COMPENSATION COST NOTES

Salaries

In developing decision packages, agencies should use base salaries from the July or September 2010 salary schedules. Discuss the use of any other compensation plan with your OFM analyst before using it in a budget request. Agencies should **not** budget for overtime, sick leave, or shared leave.

Workers compensation costs (medical aid and industrial insurance)

OFM will coordinate with the Office of Actuarial Services at the Department of Labor and Industries to determine agency rates and add workers compensation rate adjustments to agency budgets in the biennial budget. Agencies should not submit decision packages for workers compensation in the biennial budget request.

In supplemental budgets, however, an agency may submit a decision package for the portion of the rate adjustment that the agency feels it cannot accommodate in its budget.

Chapter 8

Agency Revenues and Fund Balance Reports

8.1 SUMMARIZED REVENUES REPORT

What is the Summarized Revenue by Account and Source Report?

Agency revenue estimates are used to identify funds that support agency expenditure requests and to help estimate statewide fund balances. The Summarized Revenue by Account and Source Report form shows revenues that are expected for budgeted funds in the ensuing biennia. These include all accounts with a budget type of A, B, or M and certain type H accounts. See the State Administrative and Accounting Manual (SAAM) section 75.30.50 for a list of funds and their respective budget types (<http://www.ofm.wa.gov/policy/75.30.htm#75.30.50>). The report also includes Recommendation Summary text for each entered revenue-related decision package. (An example of this report is available under “Examples of Budget Forms” at <http://www.ofm.wa.gov/budget/forms.asp>.)

Who must submit the Summarized Revenue by Account and Source Report?

Any agency that collects, deposits, transfers, or reports revenue for any budgeted account must complete and submit a Summarized Revenue Report. Only revenue transactions executed by an agency should be reported by that agency. For example, the Department of Revenue would report taxes it collects although it may not spend them; and the State Treasurer, instead of individual agencies, should report interest earnings (Source 0408).

Remember to include both the capital and operating budget revenues

Revenue estimates related to the capital budget should be included, along with estimates for the operating budget, on the Summarized Revenue by Account and Source Report. Although it is typical for a capital project to take several biennia to complete, the revenue estimates should be limited to the 2013-15 biennium.

How are the data used?

The Governor must propose a balanced budget in which all funds are balanced. The ensuing biennium revenue estimates from agencies are combined with beginning budget fund balances, working capital reserves, current biennium revenue actuals and estimates, and proposed expenditure data to determine each account’s estimated 2013-15 ending fund balance for the proposed budget.

What information is required?

Agencies must submit maintenance level and policy level revenue estimates for the 2013-15 biennium by fiscal year, account, major source, and source. Revenue estimates should be reported on a GAAP basis.

OFM does not require current biennium or carry-forward level estimates for revenue. Total maintenance level revenue for the 2013-15 biennium should be entered in a single step as one revenue-only decision package in Maintenance Level 1 with the RecSum code of 90. There is one exception: The revenue adjustments related to an individual maintenance level item should be included in the same decision package as the expenditures for that item, and not included in the M1-90 decision package.

Agencies may choose to enter information at the current biennium and carry-forward levels in BDS, but this information will be rolled together as a maintenance level total on the Summarized Revenue Report and when submitted to OFM.

Policy level revenue items must be submitted in a policy decision package. Related expenditures, if any, should be included in the same decision package.

Explain assumptions in the decision package

In a decision package containing revenue, include the following information in the narrative:

- Key assumptions underlying the estimate of each revenue source.
- Numerical expressions showing how the projected revenue amounts were calculated and derived.
- If the health and continued viability of the revenue source is in question, discuss why and the expected impact.

Refer to Chapter 9 for additional information required for revenue requests.

What if an account is only partially budgeted?

When an account is partially budgeted, the agency should not report revenue associated with the non-budgeted portion of the account. Partially budgeted or mixed funds are generally proprietary funds. In proprietary funds where only administrative costs are budgeted, only enough revenue should be submitted to offset the budgeted expenses. The administering agency should be sure that reported revenue is sufficient to cover the budgeted expenditures for all agencies that spend from that account. In budgeted proprietary funds that engage in sales of merchandise, gross profit (sales net of cost of sales) should be submitted in the budget rather than total sales revenue.

A reminder about balancing federal and private/local revenues and expenditures

For all accounts, federal revenue must equal federal expenditures shown in the agency's budget (both operating and capital), unless the agency receives federal revenue that is spent by another agency. In this case, federal revenue and expenditures must net to zero at the statewide level.

Known exceptions to the 'federal match by agency' rule include:

- State Treasurer, Fund 113-Common School Construction Account.
- Military Department, Fund 05H-Disaster Response Account. Federal revenue will exceed expenditures by the amount of recovery dollars received when disasters are closed out. These dollars become state fund balance, which offsets federal expenditure variance.
- Health Care Authority, Fund 001-General Fund Federal. After expenditures are settled, match revenue leaving a positive variance to offset negative variance in Veterans Affairs. These funds are Medicaid dollars booked at HCA but spent in support of state veterans' homes in Retsil and Orting.
- Department of Veterans Affairs, Fund 001-General Fund Federal. Negative variance is offset to positive variance in HCA. Funds are Medicaid dollars booked at HCA but spent at the Veterans Facility in Spokane.
- Employment Security, Fund 119-Unemployment Compensation Administration Account. Carry forward fund balance from previous biennium.

Similarly, private/local revenues must equal private/local expenditures shown in the agency's budget (both operating and capital) unless the agency receives private/local revenue that is spent by another agency. In this case, private/local revenue and expenditures must net to zero at the statewide level.

Known exceptions to the 'private local match by agency' rule include:

- Criminal Justice Training Commission, Fund 03M-Municipal Criminal Assistance Account. Carry forward fund balance from previous biennium.
- DSHS, Fund 001-General Fund Private/Local. After expenditures are settled, match revenue.

The Budget Development System (BDS) will produce a warning if federal or private/local revenues and expenditures are not in balance on the pre-release edit report.

Use BDS for preparing the report

Agencies must use BDS to prepare the Summarized Revenue Report. BDS will generate the report based on the revenue entered in the decision packages. Contact the BASS Helpdesk at 360-725-5278 or ofmbass@ofm.wa.gov if you have questions or need access to the system.

Use prescribed revenue and source codes

Use the correct two-digit major source code and two-digit source code to identify each type of revenue. Refer to the list of official revenue source codes in the State Administrative and Accounting Manual for the appropriate revenue source codes and titles: <http://www.ofm.wa.gov/policy/75.80.htm>.

Provide updated revenue estimates to OFM in the fall if forecasts change

OFM uses the Economic and Revenue Forecast Council's September and November GAAP forecasts for accounts that they, and participating agencies, forecast. **Agencies should let OFM know about material adjustments to the submitted revenue estimates not formally included in state forecasts.**

8.2 FUND SUMMARY AND FUND BALANCING

Reserve fund balance for compensation and other changes

Agencies should ensure their budget submittals will reserve enough remaining fund balance to cover potential salary, health insurance, pension, and central service agency charge adjustments by OFM and the Legislature. As a guide, look at the amounts funded for these changes in previously enacted budgets.

Fund administrators must coordinate with other agencies on the projected 2013-15 ending fund balance

Administering agencies for specific accounts need to coordinate with other agencies using that account to ensure that combined budget proposals do not put the account into a projected negative fund balance at the end of the 2013-15 biennium.

If you have questions about which agency is considered the fund administrator, consult the Fund Reference Manual that lists the administrator for each account, in addition to other information at <http://www.ofm.wa.gov/fund/default.asp>.

OFM will send agencies the beginning budget fund balances that will be used for the budget

These are divided into two groups:

- **Governmental funds**

Each biennium, the Governor must prepare a budget proposal that is balanced for every account. Beginning fund balances for the current biennium are based on Comprehensive Annual Financial Report data. These balances are adjusted to create beginning "budgetary" or "spendable" fund balances and are not the same as 'cash' or 'book' balances. OFM will notify agencies in the spring of the adjusted beginning balances it plans to use based on the General Ledger (G/L) codes listed below.

In the case of Governmental Funds, all Revenue (32xx) and all Expenditure (65xx) codes and the following fund balance general ledger (G/L) codes are included in the beginning fund balance:

- ◆ 9220 Prior Period Material Corrections
- ◆ 9221 Fund Type Reclassification Changes
- ◆ 9222 Accounting Policy Changes
- ◆ 9223 Fixed Asset Policy Changes
- ◆ 9531 Reserved for Permanent Funds - Expendable Portion
- ◆ 9532 Reserved for Permanent Funds - Investment Losses
- ◆ 9578 Designated for Debt Service
- ◆ 9580 Other Designated Fund Balance
- ◆ 9590 Unreserved/Undesignated Fund Balance

■ Proprietary funds

In the case of proprietary funds, restricted and long-term assets and liabilities are removed by excluding the following G/L codes from beginning fund balances, thereby converting proprietary fund balances into meaningful budget balances.

The G/L codes excluded in calculating the budget fund balance for proprietary funds are listed below:

Note: *An x indicates all G/L codes within that series are excluded.*

- | | |
|--|--|
| ◆ 1130 Petty cash | ◆ 52xx Long-term liabilities (except 5256-Advances due to other funds) |
| ◆ 1140 Cash with escrow agents | ◆ 59xx Other credits |
| ◆ 1150 Cash with fiscal agents | ◆ 61xx Appropriations and estimated expenditures |
| ◆ 12xx Investments (except 1205-Temp./Pooled cash investments) | ◆ 62xx Allotments |
| ◆ 1410 Consumable inventories | ◆ 63xx Reserves |
| ◆ 1440 Raw materials inventories | ◆ 6410 Encumbrances |
| ◆ 1450 Livestock | ◆ 65xx Other expenses |
| ◆ 1510 Prepaid expenses | ◆ 91xx Budgetary control summary |
| ◆ 16xx Long-term receivables (except 1656-Advances due from other funds) | ◆ 92xx Correction/Changes |
| ◆ 19xx Other assets | ◆ 93xx Contributed capital and capital investments net of related debt |
| ◆ 2xxx Fixed assets | ◆ 94xx Retained earnings |
| ◆ 3110 Approved estimated revenues | ◆ 95xx Reserves and designations |
| ◆ 32xx Accrued/Cash/Non-cash revenues | ◆ 96xx Other reserve accounts |
| ◆ 5114 Annuities payable, short-term | |
| ◆ 5118 Benefit claims payable, short-term | |
| ◆ 5125 Annual leave payable, short-term | |
| ◆ 5127 Sick leave payable, short-term | |
| ◆ 5128 Compensatory time payable, short-term | |
| ◆ 516x Short-term portion of bonds payable | |
| ◆ 5172 Lease payable, short-term | |
| ◆ 5173 COP payable, short-term | |
| ◆ 5197 Obligations under securities lending agreements | |

8.3 REVENUE TRANSFER RECONCILIATION STATEMENT

When must a Revenue Transfer Reconciliation Statement be submitted?

Generally, operating revenue transfers balance at the agency level. When both sides of a transfer are not shown on the Summarized Revenue report (i.e., transfers between budgeted and non-budgeted funds), a Transfer Reconciliation Statement is required as part of the revenue justification material. This statement assists the OFM analyst in understanding the purpose and mechanism for the complete transfer.

Here is a sample format for the Transfer Reconciliation Statement:

SOURCE 06XX — TRANSFERS IN:

<u>Fiscal Year</u>	<u>Amount</u>	<u>From Account</u>	<u>To Account</u>	<u>Purpose</u>
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SOURCE 06XX — TRANSFERS OUT:

<u>Fiscal Year</u>	<u>Amount</u>	<u>From Account</u>	<u>To Account</u>	<u>Purpose</u>
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8.4 WORKING CAPITAL RESERVE (B9-1)

Who must submit this statement?

The administering agency of a special revenue fund must also submit a Working Capital Reserve form (B9-1) that lists the recommended ending fund balance for those accounts. (An example is available at <http://www.ofm.wa.gov/budget/forms.asp>.)

Use BDS for preparing the report

Agencies use the Budget Development System (BDS) to prepare this report. BDS includes the appropriate worksheet and prints the report.

What to consider when estimating a reasonable working capital reserve

The agency should enter the working capital reserve that, in its judgment, should remain in the account at the end of each biennium to cover fluctuations in cash flow. For most funds, a reasonable amount would be sufficient to cover two months' worth of cash expenditures.

The recommended balance should be entered for each account needing a working capital reserve. There is no need to indicate a source code.

The recommended ending balance should include a cash reserve sufficient to ensure the account does not end the biennium with a negative cash balance. However, administering agencies may find it prudent to recommend a higher ending balance because of volatile revenues, unique cash-flow cycles, or to offset an operating deficit in the ensuing biennium.

Administering agencies should ensure sufficient balance to cover compensation, central service agency charge increases, and other cost adjustments typically made by OFM after agency budgets have been submitted.

Since only administering agencies may enter a recommended reserve, they should contact any other agencies operating in the account to determine the impact of those operations before recommending an ending balance.

8.5 HOW TO AVOID COMMON REVENUE ERRORS

Reminders

Here are some helpful reminders to avoid errors in calculating your agency's revenue estimates and sufficient fund balance:

- Do federal and private/local revenue match the combined expenditures of both the operating and capital budgets for the biennium? (See Chapter 8.1 for a list of exceptions.)
- Did you include all revenue collected by your agency, even if spent by another agency? Check to see what actual revenues are reported by your agency in AFRS.
- Did you include revenue estimates for changes or new sources resulting from recently-passed revenue legislation?
- Did you reduce revenues available for transfer or distribution for the amount of new expenditures proposed from those funds?
- Are there sufficient revenues to cover dedicated account expenditures?
- Did you reserve enough fund balance to cover possible compensation or central service agency charge adjustments by OFM?
- Will you send revised revenue estimates to OFM in the fall for agency dedicated fund forecast changes?
- Did you remember that you:
 - ♦ Do not submit estimates for revenue that is collected by another agency.
 - ♦ Do not include interest earnings (Source 0408), which are part of the Treasurer's Office estimates.
 - ♦ Do not include transfers or revenue distributions executed by the Treasurer's Office.

Chapter 9

Tax and Fee Information

9.1 APPROVAL FOR NEW OR INCREASED TAXES AND FEES

Whenever possible, agencies are encouraged to request new or increased fees to make programs self supporting. This applies both to programs currently not supported by fees as well as those partially supported by fees.

Tax and fee increases

As required by Chapter 43.135 RCW (Initiative 960 and Initiative 1053), all agency tax and fee increases must receive legislative approval prior to implementation. This applies to all fees regardless of whether the Legislature provided an agency with statutory authority to administratively set fees.

New tax or fee requests

Requests for new taxes or fees require legislation and should be submitted through the agency request legislation process, as well as included in the budget submittal. Specific instructions for agency request legislation will be issued by the Governor's Office at a latter date.

Justification for new or increased tax or fee requests

Any taxes or fees expected to be initiated or increased during the 2013-15 biennium should be justified as part of the 2013-15 budget submittal, either in the decision package related to the increased expenditure request, or in its own decision package if no expenditure increase is being requested. The decision package should include the following data:

1. Tax or fee name
2. Current tax or fee amount (FY 2013)
3. Proposed amount
 - ◆ FY 2014
 - ◆ FY 2015
4. Incremental change for each year
 - ◆ FY 2014
 - ◆ FY 2015
5. Expected implementation date
6. Estimated additional revenue generated by increase
 - ◆ FY 2014
 - ◆ FY 2015
7. Justification for the increase and discussion of consequences of not increasing the tax or fee
8. Indication of any changes in who pays
9. Indication of any changes in methodology for determining the tax or fee
10. Recommendation Summary code for the related expenditure request, if tied to a budget request,
11. Alternatives considered to an increase
12. Indication of whether the fee increase requires a statutory change, i.e., a separate bill. (If yes, a proposal should be submitted as part of the agency request legislation process.)

9.2 SUBMITTAL PROCESS

Excel spread sheet

An Excel template, available at www.ofm.wa.gov/budget/forms.asp captures the requested new, continued, or increased fee data. Instructions for completing the form and an example are also provided. The spreadsheet is a summary of the information provided in your decision package and should be shown at the level for which you need legislative authority. For example, new and renewal licenses should be shown together on the spreadsheet, but if they have different rates, should be detailed in the decision package.

Include fee information as part of agency budget request

Both the decision package and the Excel spreadsheet should be printed and included as part of the agency budget request paper document. In addition, an electronic copy of the Excel spreadsheet should be sent to: Kay.Baxstrom@ofm.wa.gov

It is recognized that some fee increases will not match up to an expenditure change on the Recommendation Summary (e.g., fees necessary to support the 2013-15 carry-forward level, fees that support non-budgeted funds). Regardless, justification for all fee increases must be submitted as part of the agency budget request document.

Chapter 10

Performance Measures

10.1 ACTIVITY PERFORMANCE MEASURE TARGETS

Why is performance measurement important?

Performance measurement makes accountability possible. It attempts to answer a simple question: “Are we making progress toward achieving our targeted results?” A credible answer to this question is backed by evidence, which comes from performance measures.

Information about the effectiveness of an activity purchased in the budget is important to gauge whether the investment has proven worth the cost. Analyzing performance can help agencies and analysts recognize how to improve performance and whether other strategies can contribute more toward achieving activity and statewide results.

Statewide result indicators are available in reports

Through the POG process, the state develops key indicators of success for the 10 statewide results. Key indicators of success for each result area are available at <http://www.ofm.wa.gov/budget/pog/>. Each result area’s webpage shows the result and strategy indicators developed for that area.

Submit performance measure target information for each activity

Agencies are required to propose at least one performance measure for every major activity (RCW 43.88.090). The measures should be able to determine if the agency is achieving or making progress toward the purpose of that activity and statewide priorities. For the most part, measures telling the story about whether an activity is achieving its purpose will be found in the middle range of the logic model. The OFM [Performance Measure Guide](#) provides examples of logic models. For the budget submittal, agencies must specify targets for these activity measures.

Required totals for each performance measure

For each performance measure linked to an activity in the Budget Development System (BDS), use the Results through Performance Management (RPM) system to:

- Report actual performance levels attained for FY 2010 and 2011, and the target for FY 2012.
- Provide performance level targets for FY 2013, 2014 and 2015, assuming all the agency’s proposed decision packages are enacted. Each decision package that affects the measure should also note the incremental effect on the performance level.

Each activity must have at least one performance measure or statement of expected result

RCW 43.88.090 now requires each major activity in the agency’s Activity Inventory to have at least one performance measure. If the agency and OFM agree that it is not possible to identify an appropriate quantitative performance measure for an activity, the agency must at least provide a narrative description of the intended outcome for the activity in the “expected results” text box provided in the system. **The agency will not be able to submit its budget to OFM unless each activity is linked to at least one performance measure or has an expected results statement.** The performance measure and expected results information will be printed on the Activity Inventory report that the agency must include in its budget submittal.

Agencies should incorporate suggestions from OFM performance assessments

OFM conducts regular formal reviews of the performance measures it receives from agencies to determine if they demonstrate progress toward the purpose of the designated activity and toward statewide priorities. These reviews include recommendations to agencies about how to improve the quality of current performance measures, including additional or alternative measures. OFM expects the agency to incorporate these recommendations wherever feasible.

FAQs about performance measures

Q. Is each activity required to have a unique measure?

No. An agency may have several activities that are all targeted toward achieving the same outcome. The system allows you to link one measure to multiple activities. However, make sure that measures linked to an activity indicate whether the agency is achieving or making progress toward the purpose of that activity and toward statewide priorities.

Q. Is it acceptable for an activity to have both performance measures and an expected result statement?

Yes. The combination of outcome description and quantitative measures will most clearly express the contribution the activity makes in achieving agency goals and statewide results.

Q. Are we required to create a performance measure for each decision package?

No. You are required to describe the expected outcome of funding the investment in the narrative justification portion of the decision package under the heading “**What specific performance outcomes does the agency expect?**” However, that doesn’t mean a unique performance measure should be created for each package in the Results through Performance Management system. For each decision package, ask:

- Will this investment affect one or more of the activity performance measures reported by the agency in the Results through Performance Management (RPM) system? If yes, identify the expected incremental change in annual performance targets for each measure and for each applicable fiscal year if the decision package is enacted. BDS provides the tools to identify the incremental impacts for these measures.
- If the answer to the first question is no, but the decision package will contribute to another significant ongoing activity outcome, we suggest that the agency establish a new measure in the system for that activity.
- If the decision package is expected to bring about some other kind of performance change that would not be relevant as an ongoing measure of activity results, do not create a new measure in RPM.

Q. Why do we have to develop activity-related measures?

OFM asks for activity-related performance measures to help assess the results achieved for budget investments. The Legislature also finds this perspective helpful, and modified RCW 43.88.090 to require agencies to report at least one performance measure for every major activity in the agency’s activity inventory. Each measure should be able to be used to determine if the agency is achieving or making progress toward the purpose of that activity and statewide priorities.

Q. May we modify the activity-related measures we are reporting now?

If you want to propose alternative measures, you need to submit the new or modified measures to OFM via the Results through Performance Management (RPM) system. OFM can then review

and either approve them or follow up with the agency on a suggested alternative. You will need to submit new measures to OFM prior to releasing your agency budget so they can be approved and available in BDS for the Performance Measure Incremental Estimate Report.

If your agency has received recommendations for improving activity-related performance measures in an OFM performance measure assessment, implement those improvements wherever feasible.

Performance measure resources

Refer to the OFM Performance Measure Guide at <http://www.ofm.wa.gov/performance/>.

Contact Jeffrey Showman at OFM with any questions about performance measures, to review proposed agency measures or for information about performance measure training. Jeffrey can be reached at 360-902-7536 or Jeffrey.Showman@ofm.wa.gov.

10.2 PERFORMANCE MEASURE INCREMENTAL ESTIMATES REPORT

Indicate the effect of decision packages on activity performance

As discussed in Chapter 4.2, a decision package should describe the change in performance that can be expected from the investment. If this change in performance is a change in one of the activity performance measures reported in the system, agencies should indicate the incremental change in that performance measure related to that decision package. If the decision package will contribute to another ongoing activity result, the agency should establish a new measure in the system for that activity. Any activity performance measure descriptions established in BDS will be available on the selection list in the decision package screen.

If the decision package is expected to bring about another kind of performance change that would not be relevant as an ongoing measure of activity results, do not create a performance measure for the sole purpose of describing the effect of a decision package. This information should be described, and if possible, quantified in the decision package narrative.

These incremental changes recorded in the BDS decision package console will be listed in the Performance Measure Incremental Estimates report required as part of the budget submittal.

Chapter 11

Facility Leases, Facility Maintenance and Links to the Capital Budget

11.1 LEASE REQUESTS AND THE SIX-YEAR FACILITIES PLAN

What additional information is required in a facility lease-related decision package?

In addition to the decision package information requirements in Chapter 4, for a lease rate decision package (8L) attach a spreadsheet that contains the following information for all current and projected leased facility costs:

- Action (new, renew, change, close)
- UFI: Unique Facilities Identifier
- Address (street address, where available and city)
- Square feet
- Current lease start date and end date
- FY2013 total costs
- Services included in the lease
- Renewal increase (in percent)
- Project FY2014 and FY2015 costs
- Funded level for FY2013
- FY2014 and FY2015 need
- Requested one-time costs (total dollars)
- Any relevant notes

A request for one-time costs should include details about the individual project costs.

A template is available at <http://www.ofm.wa.gov/budget/documents/LeaseCostTemplate.xls> to assist you in submitting this information.

The unique facilities identifier for existing facilities is available in the state's [2011 Facilities Inventory \(FIS\)](#).

OFM encourages the use of a standard lease renewal rate increase tool based on CPI-U. The tool is available upon request.

If you are requesting new space, market rates are available upon request from Facilities Oversight.

Decision packages with space-related costs should be consistent with the Six-Year Facilities Plan

Agency operating budget requests for space-related costs must be consistent with the information the agency provided to OFM as part of the statewide six-year facilities planning process. Space-related costs include:

- Existing lease cost changes
- New leases
- One-time costs of acquiring new space or relocating

What is a Six-Year Facilities Plan?

OFM, with the cooperation of state agencies, develops and publishes a statewide six-year facility plan for the state of Washington by January 1 of each odd-number year. This document includes state agency space requirements and other pertinent data necessary for cost-effective facility planning. This planning process and the resulting product are expected to improve the oversight, management, and financial analysis of state agency facilities. The development of this six-year facilities plan is directed by [RCW 43.82.055](#).

The six-year facilities plan will include:

- Lease renewals
- Leased and owned relocations
- New facilities projects

See the [2013-19 Implementation Plan](#) for more information about the plan and the plan scope. Visit the [OFM Facilities Oversight six-year facilities planning website](#) for more information about this planning process and related tools.

What additional information is required for major leases?

[RCW 43.82.035\(4\)](#) now requires that proposed major leases are included in the 10-year capital plans. A major lease is any proposed lease project of 20,000 rentable square feet or more. Similar to capital projects included in the 10-year plan, project information must include estimates for present and future operating costs. The lease must be entered into the Capital Budget System (CBS) using a project type “Lease” with a fund type “LEA.” Questions on how to enter the lease into CBS should be directed to the BASS Helpdesk.

If you have questions or need assistance, contact your assigned OFM Facilities Analyst. Contact information is available at <http://www.ofm.wa.gov/budget/contacts/facilityoversight.asp>.

Chapter 12**Statewide Enterprise Approach for Information Technology Operation and Investment****12.1 IMPLEMENTATION OF NEW TOOLS TO IMPROVE AND OPTIMIZE THE USE OF THE INFORMATION TECHNOLOGY RESOURCES**

To facilitate transparency and increase legislative and public confidence in state Information Technology (IT) spending, the Office of the Chief Information Officer (OCIO) has acquired for statewide use an IT financial management (ITFM) application. All state agencies and institutions of higher education are required to implement this new ITFM application in accordance with the schedule developed by the OCIO. The ITFM application will enable state agency IT managers and staff to better understand the costs of all areas of IT infrastructure and application spend using real-time financial, human resources, and IT asset management system data. Using this information, state agencies will be able to identify areas to optimize information technology service delivery, freeing up resources for other essential programmatic or IT investments. The judicial and legislative branches are encouraged to use this application.

12.2 ROLE OF THE NEW OFFICE OF THE CHIEF INFORMATION OFFICER (OCIO)

Chapter 43, Laws of 2011 ([ESSB 5931](#)) created the new Office of Chief Information Officer (OCIO) within the Office of Financial Management. The OCIO is tasked with a number of responsibilities related to effective and efficient IT resource usage. They are as follows:

- Prepares and implements a strategic IT plan and enterprise architecture for the state;
- Works toward standardization and consolidation of IT infrastructure, establishes standards and policies for enterprise architecture, and educates and informs the state on IT matters;
- Prepares a biennial state IT performance report, evaluates current IT spending and budget requests, and oversees major IT projects including procurements;
- Assesses agencies' ability to utilize Consolidated Technology Services' (CTS) services and develops a strategy for increased use of CTS;
- Advises the new Technology Services Board (TSB) in the review and approval of IT-related standards, policies, and procedures; and approves and oversees major IT projects.

Recently, the OCIO developed a new Technology Strategy Document that identifies twelve action strategies. A link to the complete strategy document can be found at:

http://ofm.wa.gov/ocio/technology_strategy_022312.pdf

12.3 NEW BUDGET INSTRUCTIONS FOR 2013-15 BUDGET INFORMATION TECHNOLOGY REQUESTS

The 2013-15 IT budget instructions reflect a simplified process designed to minimize data entry while improving the quality of information to make good IT resource decisions. The OCIO IT Consultants will assist the OFM Budget Division in both review of agency IT-related budget requests and the

development of the Governor's 2013-15 IT budget. The remainder of this section summarizes agency requirements related to supporting 2013-15 budget development.

Agencies must:

- Submit a plan to the OCIO by August 30, 2012, to adopt the Information Technology Financial Management (ITFM) application. The OCIO IT portfolio instructions will contain more detailed guidance concerning the contents of this plan.
- Submit a standard budget decision package for any IT-related requests for new funding with the agency's 2013-15 budget submittal. In addition, e-mail an electronic copy of the decision package and any associated attachments to the OCIO (ocio@ofm.wa.gov) no later than the agency budget submission deadline.
- For all major IT projects (regardless of whether or not 2013-15 funding is requested), use the IT Portfolio's project feature to capture all major IT project costs by project phase over the expected life of the project. This information will be included in the Governor's 2013-15 IT Budget appendix. The OCIO IT portfolio instructions (for the August 2012 portfolio submission) will contain more detailed instructions that will instruct state agencies on how to meet this new requirement.

This portrayal of major IT project costs provides a deliberate and transparent approach to planning and designing major IT projects whether funded in the agency's budget base or requested for new funding. The three major phases are described as follows:

- **Predesign phase** – includes work done to initiate the project; conduct business process analysis; define initial requirements; consider common system and shared services solutions; determine most feasible project approach; and provide a high level project schedule.
- **Design, development, and implementation phase** – includes work activities to accomplish the following tasks:
 - ◆ Develop and issue the acquisition (RFP, RFQQ, etc.);
 - ◆ Finalize functional requirements, system design, and other development phase prerequisite activities; and,
 - ◆ Transform plans and designs into the actual application/system; test and deploy the application/system; train stakeholders; and complete application/systems documentation and transition to on-going operations.
- **Maintenance and operations phase** – includes work done to maintain and operate the application/system once the project is completed.

The definition of a major IT project can be found at

http://www.ofm.wa.gov/ocio/policies/documents/def_of_major_project.pdf.

12.4 FORMAT FOR GOVERNOR'S 2013-15 INFORMATION TECHNOLOGY BUDGET

The OCIO and the Budget Division are working in partnership to develop the Governor's 2013-15 IT Budget that supports the implementation of the state's strategic IT plan and strategies to optimize IT resource usage. IT budget and IT portfolio instructions have been aligned to provide information to inform IT investment and optimization strategies.

The planned components of the Governor's 2013-15 IT budget include the following:

1. Funding plan for major IT projects and initiatives;
2. Budget adjustments to reflect enterprise IT savings and investment opportunities;
3. Cost effective IT enterprise service provider rates;
4. A practice for identifying enacted IT expenditures for agencies and major IT projects in a system such as the Budget Allotment System;
5. An appendix that details (by-agency) IT and major IT project expenditure data as follows:
 - All IT expenditures (by Project X and Y, object of expense, FTE's, and fund sources):
 - Current (actual FY2011 and FY2012) IT expenditures [data source: **Agency Financial Reporting System (AFRS)**]
 - Budgeted (agency proposed 2013-15) IT expenditures [data source: **IT Portfolio**]
 - Budgeted (legislatively enacted 2013-15) IT expenditures [data source: Major IT project expenditures (by Project X and Y, object of expense, FTE's, and fund source)
 - Current (agency self-reported actual FY2011 and FY2012) major IT project expenditures [data source: **IT Portfolio**]
 - Budgeted (agency proposed 2013-15) IT project expenditures [data source: **IT Portfolio**]
 - Budgeted (legislatively enacted 2013-15) IT project expenditures [data source:

OFM's Statewide Accounting Division, Budget Division, and OCIO will work closely with state agency Chief Information Officers (CIOs) and Chief Financial Officers (CFOs) to put into practice these five components. In preparation for these conversations, state agency CFOs and CIOs should ensure that IT accounting and IT portfolio information is accurate as it will be used to develop the Governor's 2013-15 IT Budget.

12.5 INFORMATION TECHNOLOGY PORTFOLIOS AND THE BUDGET CONTEXT

Washington State employs an IT portfolio as the planning and management process for IT resources. The process integrates agency strategic planning, technology planning, and the budget process.

The IT portfolio includes all of an agency's major current and planned IT assets, projects, investments, and acquisitions. Agencies making budget requests for IT investments must do so in the context of their IT portfolios and the state strategic plan.

IT Portfolio policies on portfolio management are available at:
<http://ofm.wa.gov/ocio/policies/manual.asp>.

IT portfolio resources

Agencies should contact their OCIO consultant early in the planning process for any major IT budget request item. The consultant can also be contacted for additional assistance or for information on the IT portfolio. The OCIO Strategic Technology consultant list can be found at:

<http://ofm.wa.gov/ocio/resources/2012%20-%20OCIO%20IT%20Consultant%20List.pdf>

Agencies should consider existing system solutions first

From a state enterprise perspective, certain business needs may be best met through existing systems or services. The budget review process will include an evaluation of all planned IT investments in an agency's portfolio for their alignment with existing services and with state strategic IT goals.

OCIO approval is required for financial or administrative systems investments

To ensure that system investments support or take advantage of shared services and enterprise system strategies, agencies must seek written approval from the OFM OCIO before beginning any significant financial or administrative system development, enhancement, or acquisition. (Per SAAM 80.30.88.b, "significant" means requiring the equivalent of six or more months of staff effort.) Approval is required regardless of the funding source or whether additional funding is requested.

After receiving the necessary paperwork, the approval process usually takes less than 30 days and focuses on the agency's business need(s) and how well the proposed investment fits with enterprise system strategies. The OCIO will take one of the following actions:

- Approve the request;
- Approve the request with conditions to ensure the project is better aligned with enterprise system strategies;
- Deny the request because the project would duplicate enterprise system functionality or would contradict enterprise system strategies; or
- Ask the agency to study its needs further and resubmit a request at a later time.

More information about the approval process, requirements, and evaluation criteria can be found in Section 80.30.88 of the SAAM at <http://www.ofm.wa.gov/policy/80.30.htm>. The system approval page is <http://www.ofm.wa.gov/systemsapproval/default.asp>. Please send approval requests to the OCIO at ocio@ofm.wa.gov.

State Interoperability Executive Committee (SIEC)/OCIO approval is required for radio, Radio over Internet Protocol (RoIP), and public safety communication systems investments

Agencies must receive written approval from the SIEC before beginning any major investment in radio, Radio over Internet Protocol, or public safety communication systems development, enhancement, or acquisition. (For a definition of a major project, refer to:

http://www.ofm.wa.gov/ocio/policies/documents/def_of_major_project.pdf.)

Approval is required regardless of the funding source or whether the request is for additional funding or for a previously approved or funded effort.

Investments must fit with state plans

The approval process focuses on how well the proposed investment fits with the Technical Implementation Plan (TIP) (http://siec.wa.gov/pubs/files/tip/TIP_v8.0_FINAL_11302005.pdf) and the State Communication Interoperability Plan (SCIP) (<http://siec.wa.gov/plan/files/SCIP.pdf>.)

If the SIEC finds that an agency lacks the information to determine if a system will involve a significant investment in radio or RoIP technology, the agency may be asked to study its needs further and resubmit its request at a later time.

Over the next six to 10 years, the SIEC will implement incremental statewide radio, RoIP, and public safety communication systems investments. Wherever possible, agencies are asked to wait for anticipated common solutions rather than invest in agency-unique solutions.

However, the SIEC recognizes that alternative strategies may be necessary to accommodate urgent agency business needs that do not coincide with the established scope and schedule of the TIP and SCIP. Please note that requests to approve systems with a primary or significant focus on TIP and SCIP business processes are likely to be denied or substantially restricted unless they contribute to the state's strategic direction for interoperable public safety communications systems.

For OCIO policies and standards and for enterprise architecture, visit <http://ofm.wa.gov/ocio/policies/manual.asp>.

Chapter 13

Risk Management and Self-Insurance Premiums

13.1 AGENCY SELF-INSURANCE PREMIUM DECISION PACKAGES

Risk management is a key strategy for reducing costs and improving outcomes

Risk is defined as anything that poses a potential barrier to an agency achieving its mandated and strategic objectives/goals on time. Risk management refers to the practices an agency uses to manage its risks.

Enterprise Risk Management (ERM) is a coordinated method of performing risk management that considers all risks that affect an agency's goals across all parts of the agency. ERM allows an agency to identify, measure, prioritize, and respond to its risks. This approach can create cost savings and enhance efficiency by identifying resources and linking them to agency goals and action plans. Governor Gregoire has declared ERM to be an agency best practice that should be integrated with all planning, strategic, and decision-making processes. This section of the budget submittal offers a means for agencies to describe their ERM strategies, programs, activities, and needs.

Use maintenance level decision package (9X) for self-insurance premiums

When available, preliminary estimates for self-insurance premium cost changes for 2013-15 will be posted at <http://www.ofm.wa.gov/rmd/budget/default.asp>. Agencies should prepare a maintenance level decision package (9X) requesting this amount.

OFM will update the agency-submitted amounts in the budget in the fall when the self-insurance premium costs are finalized.

An Enterprise Risk Management Update form must be attached to the self-insurance premium decision package

Agencies must complete the Enterprise Risk Management Update form in its entirety and attach it to the 9X – Self Insurance Premium decision package – using the new attachment feature in BDS. The Enterprise Risk Management Update form is available on the OFM forms page at <http://www.ofm.wa.gov/budget/forms.asp>. Some agencies have already completed a similar form, the 2011 Enterprise Risk Management and Safety Update. If available, that update form can be attached instead of the Enterprise Risk Management Update form referenced here.

When completing the Enterprise Risk Management Update form, do not include confidential information related to specific closed/pending claims or lawsuits. Seek advice from agency legal staff if there are questions about confidentiality issues.

In addition to the Enterprise Risk Management Update form, also address the following topics in your decision package narrative (as noted above, do not include confidential information):

- **Past Agency Loss Trends** – Summarize your agency's loss trends over the previous five years. (See "Resources" below.) Include information to address whether the loss trends match the risks your agency has identified.
- **Future Agency Loss Trends** – Summarize your agency's potential future loss trends and explain strategies your agency will use to mitigate/preclude these losses from occurring.

Request other risk management funding separately

Request other extraordinary ERM-related costs (e.g., unexpected costs related to implementing ERM programs, or unexpected costs related to specific risks and their associated treatment plans) in a separate policy-level decision package. Do not include such requests in the Self Insurance Premium decision package (9X).

Resources

- Department of Enterprise Services (DES), Risk Management Division (RMD) can provide a loss history profile of agency losses, including pending claims.
- For additional risk management information and resources, including the Risk Management Division Guidelines for Chapter 13.1 Risk Management and Self-Insurance Premium 2011-13 Budget, visit the RMD website at <http://www.ofm.wa.gov/rmd/budget/default.asp>.
- RMD staff members are available to assist you with interpreting loss trends and developing risk management goals.

Chapter 14

Other Budget Reports

14.1 NON-BUDGETED LOCAL FUND SUMMARIES

Reports in this section are additional items required by statutory provisions or because they provide data not included in other forms. These instructions apply only to agency budgets with the indicated funds or activities. Samples are shown here or at <http://www.ofm.wa.gov/budget/forms.asp>.

Non-budgeted local fund summaries (RCW 43.88.030(1)(f))

The Non-Budgeted Local Fund Summary is used to summarize financial data for non-budgeted (nonappropriated/nonallotted) local funds outside the State Treasury. Data can be entered in an Excel spreadsheet available from OFM. This information will be displayed in the Governor's budget document.

Instructions

- a) Narrative description: List, in account code number sequence, all non-budgeted local accounts in the agency. Include the full title of each account, a brief description of purpose and source of revenue, and the statutory authority.
- b) Summary financial statement: In addition to the narrative descriptions described above, prepare a summary financial statement of fund balances on the Non-Budgeted Local Format Summary form. List each non-budgeted local fund by fund-class sequence.

The fund balances shown for June 30, 2011, and June 30, 2013, should be reported on a modified GAAP basis. (Refer to Chapter 8.2.)

14.2 STATE MATCHING REQUIREMENTS FOR FEDERAL FUNDING

State matching requirements for federal funding (RCW 43.88.090(1))

Agencies must provide a list of any state matching requirements for federal grants (both operating and capital) they receive. Include this information in your budget submittal in a table like the sample shown below.

The data includes:

- Federal catalog number
- Activity inventory number for the most significant activity using the grant in the operating budget
- Grant amount shown by federal and state fiscal year
- State match amount required in each of four state fiscal years – 2012-2015.

				Page
		Code	Title	
	AGENCY	XXX	ANY	AGENCY
2013-15 FEDERAL FUNDING ESTIMATES SUMMARY				
DATE: 7-6-12				

CFDA NO.*	Agency/	Federal Fiscal Year	State Fiscal Year	State Match Amounts
	Agency Total			
	FY 2012	6,459,857	6,502,000	175,000
	FY 2013	6,441,000	7,862,000	150,000
	FY 2014	6,925,000	8,485,000	175,000
	FY 2015	7,500,000	9,075,000	250,000
	Department of Commerce			
11.407	Interjurisdictional Fisheries Act			
	Activity # A102			
	FY 2012	5,000,000	4,500,000	50,000
	FY 2013	5,100,000	6,000,000	50,000
	FY 2014	5,500,000	6,500,000	50,000
	FY 2015	6,000,000	7,000,000	50,000
	Department of Interior			
15.605	Sport Fish Restoration Act			
	Activity # A105			
	FY 2012	945,000	1,438,000	125,000
	FY 2013	952,000	1,447,000	100,000
	FY 2014	975,000	1,550,000	125,000
	FY 2015	1,000,000	1,600,000	200,000

14.3 CENTRAL SERVICE AGENCY CHARGE INFORMATION

OFM will determine the maintenance level increment for certain central service agency charges.

OFM will determine the amount to add to each agency’s maintenance level in 2013-15 for the central service agency charges listed below. The carry-forward level will reflect the changes to these charges made in the supplemental budget.

- **Archives and Records Management:** Archives and records management services provided by the Office of the Secretary of State. (Account 006-1)
- **Auditing Services:** Audit and operational costs of the State Auditor’s Office. (Account 483-1)

- **Department of Enterprise Services:**
 - Contract Policy & Oversight: Charges related to funding statewide contract policy and oversight activities. (Account 422-6)
 - Secure File Transfer: Charges related to funding statewide file transfer capability. (Account 419-1)
 - Access/Inside Washington: Charges related to funding the state's Access/Inside Washington web sites. (Account 419-1)
- **Department of Enterprise Services – Human Resources Management System:** System maintenance and other system payments. (Account 419-6)
- **Department of Enterprise Services – Facility and Administration Services:** A variety of services provided to agencies, such as rent (maintenance and operations), utilities, parking and real estate services (lease renewals). (Account 422-6)
- **Department of Enterprise Services – Financing Cost Recovery and Capital Project Surcharge:** Charges related to the construction, renovation and occupancy of certain space owned and managed by the Department of Enterprise Services in Thurston County. One of these charges is for financing cost recovery of construction or major renovation projects of such space; the other is a capital project surcharge to cover some of the costs of capital projects. (Accounts 422-6 and 289-1)
- **Department of Enterprise Services – IT Services:** An enterprise fee to fund several statewide IT systems. (Account 419-6)
- **Department of Enterprise Services – Risk Management:** This office provides statewide risk management services. Agencies are billed based on experience. (Account 546-6)
- **Department of Enterprise Services – Small Agency Client Services:** This office provides certain agencies with payroll, personnel, accounting and budgeting services on a contractual basis. (Account 001)
- **Consolidated Technology Services:** Statewide IT Network Security: Charges related to funding statewide network security. (Account 419-6)
- **Office of Financial Management – IT Policy and Oversight:** Charges related to funding the activities of the Office of the Chief Information Officer. (Account 419-1)
- **Office of Financial Management – HR Policy and Oversight:** Charges related to funding the activities of the Office of the Human Resources Director. (Account 415-1)
- **Legal Services:** Cost of actual legal services provided to state agencies by the Office of the Attorney General. (Account 405-1)
- **Office of Administrative Hearings:** Administrative hearings services provided to state agencies. (Account 484-1)
- **Office of Minority and Women's Business Enterprises:** Standard certification of minority- and women-owned and controlled businesses. (Account 453-1)

Agencies will verify the account split OFM will use when making the incremental increase in these charges in the Governor's budget. OFM will send this information to agencies for verification in the spring.

Notify service agencies about extraordinary service needs

Agencies that anticipate requiring an unusual or extraordinary level of service should contact the appropriate service agency to discuss the anticipated nature and scope of the need. This approach will enable service agencies to include an appropriate estimate and cost of the service to be provided.

Performance level change requests for services must be in both client and provider agency budgets

If a client and service provider agency see a need to increase the type or utilization level of service, both the client and provider agency must include a performance level request for the increase in their budget submittal. This is important to help OFM keep these requests synchronized in the budget.

Central service agencies must provide additional information

Central service agencies must provide an agency billing list for the current biennium and for the 2013-15 proposed budget. This list should include the estimated annual amounts to be charged each user agency, and, if a direct staff service, the FTE staff involved with each user agency. In addition, each maintenance or performance level decision package must provide an example of the increased charges to small, medium, and large agencies. This will help OFM evaluate the cost implications of the decision package on other agencies. The total billing amount must be reconcilable to the agency's revenue estimate submitted in the budget.

OFM will provide a formatted spreadsheet and instructions to the central service agencies for their use in preparing this list.

Central service agency amounts are estimates

It should be noted that the central service agency amounts included in client agency budgets are estimates, and the actual billings from the service agencies will be based on services rendered. It is expected that client agencies will pay these billings in a timely manner and in full as they would pay bills from other vendors.

Personnel services charges are not included in the central services agency charges

Personnel services charges are a fixed rate applied to an agency's classified salary base, and unlike the central service agency charges listed above, are not adjusted by OFM. These charges are used to fund many of the statewide human resources services, and are placed in the personnel service funds administered by the Department of Enterprise Services and OFM. Agencies that have classified positions must make payment to these funds. Agencies may be at the rates listed below or less. Agency budgets for the current biennium already assume these levels of charges.

- **Personnel Services Account:** For the 2013-15 biennium, use 0.7 percent (.007) per year of covered salaries and wages.
- **Higher Education Personnel Service Account:** For the 2013-15 biennium, higher education agencies are to use 0.35 percent (.0035) per year of covered salaries and wages.

14.4 ADDITIONAL REQUIREMENTS FOR HIGHER EDUCATION AND TRANSPORTATION AGENCIES

OFM will send separate instruction letters to higher education agencies and transportation agencies that will list additional information requirements that must be included in the budget submittal.

14.5 PUGET SOUND RECOVERY

Agencies have additional reporting requirements to the Puget Sound Partnership (Partnership)

Agencies must follow additional steps in developing and submitting budget requests if any part (including base funding) is devoted to activities or projects to implement any part of the Partnership Action Agenda. These steps, described in more detail below, include:

- Providing specified information in operating decision packages submitted to OFM.
- Providing additional copies of Puget Sound budget requests to OFM and the Partnership
- Consulting with the Partnership
- Reporting to the Partnership the total cost of implementing the Action Agenda

Operating decision packages

All agencies requesting operating budget changes related to Action Agenda implementation must link decision packages to the Action Agenda as follows:

- In the recommendation summary, agencies should include the statement, “Related to Puget Sound Action Agenda Implementation.”
- Agencies should also include in the Narrative Justification under “Other important connections” the applicable strategic initiative, sub-strategies, and near-term actions identified in the Action Agenda, and explain how the request relates to these.
- Decision packages with Puget Sound components of statewide activities should provide detailed information about the Puget Sound portion of the request, including dollar amounts, FTEs, fund sources by fiscal year, and the narrative justification information described above. “Statewide activities” impact multiple geographic areas. Examples include shoreline master plan updates and forest practices regulation.
- Decision packages that include multiple near-term action components should provide detailed information for each near-term action, including dollar amounts, FTEs, fund sources by fiscal year, and the narrative justification information described above.

To facilitate Partnership input to OFM on Action Agenda-related budget requests, please send an e-mail with copies of all Action Agenda-related operating and capital requests to Linda Steinmann at OFM and Rebecca Pittman at the Partnership by your designated budget submittal due date. Contact information is provided below.

Summer 2012 consultation with the partnership

To ensure coordinated budget proposals that align well with the Action Agenda, all agencies requesting operating budget changes that impact the Action Agenda are required (by statute) to consult with the Partnership prior to submitting their budget requests to OFM. Agencies should seek Partnership concurrence in proposed funding levels. Early consultation is recommended, allowing time for agencies to respond to Partnership feedback while meeting budget submittal due dates.

Reporting the total estimated cost to implement the action agenda

Any agency implementing any part of the Action Agenda, including new or ongoing programs and activities, must report to the Partnership on the total estimated 2013-15 biennium cost to implement near-term actions specified in the Action Agenda. Agencies will use the new fiscal fields of the Partnership module in the Results through Performance Management System (RPMS) to provide this information.

While statute requires this information to be submitted by June 1 of even-numbered years, this deadline has been moved to September 10, 2012, to accommodate a revised schedule for adopting the Action Agenda update by the Partnership's Leadership Council. The Partnership will transmit specific instructions to affected agencies in July.

More about the Puget Sound Partnership action agenda and reporting requirements

The Partnership's Action Agenda, anticipated to be updated by early August 2012, guides recovery and protection efforts of federal and state agencies, as well as local and tribal governments in the Puget Sound basin. As part of the budget development process, statute directs state agencies to work closely with the Partnership and OFM on current and proposed activities and projects. As required by RCW 90.71.320, all agencies that implement any portion of the Action Agenda **must provide estimates of their costs to implement Near-Term Actions for the 2013-15 biennium.**

Under RCW 90.71.370(1), by September 1, 2012, the Puget Sound Leadership Council will provide to the Governor and the appropriate legislative fiscal committees recommendations for funding necessary to implement the Action Agenda in the 2013-15 biennium. To accommodate a revised schedule for adoption of the Action Agenda, this deadline has been extended to October 1, 2012.

If a state agency submits an amount different from the amount identified in the October 1, 2012, funding recommendation for its portion of Action Agenda implementation, the agency and Partnership must jointly identify the amount and reason for the difference, and submit this information to OFM.

Summary timeline

Event	Deadline
Partnership instructions to agencies for reporting the total estimated cost to implement the Action Agenda	July 2012
Action Agenda adopted, with sub-strategy ranking	Early August 2012
Partnership consultation/feedback to agencies on budget requests	Summer 2012
Agency budget submittals to OFM; Agencies e-mail Puget Sound decision packages/capital project requests to OFM and Partnership	August/September 2012
Agency submittal of total estimated cost information for near-term actions to Partnership via RPMS	September 10, 2012
Partnership funding recommendations and gap analysis to OFM	October 1, 2012

Contact information

If you have any questions about these requirements, please contact the following individuals:

Rebecca Pittman, Finance Director
Puget Sound Partnership
360-464-1218
Rebecca.Pittman@psp.wa.gov

Linda Steinmann, Budget Assistant to the Governor
Office of Financial Management
360-902-0573
LindaSt@ofm.wa.gov

Reference

Puget Sound Partnership Action Agenda Update Website

Check here for the final, adopted Action Agenda

http://www.psp.wa.gov/action_agenda_2011_update_home.php

14.6 OTHER BUDGET REPORTS AND DATA

Update agency descriptions

Agency descriptions and missions must be published as part of the budget document. We will send agencies a template in July that contains the most recent agency description and mission statements. Agencies wanting to make changes should return the updated template to Laurie Lien at ofm.budget@ofm.wa.gov no later than their agency budget due date.

Confirm updated second-year expenditure estimates

In September, OFM will ask agencies to review and confirm estimates of second-year (FY 2013) expenditures and revenues. These estimates, along with FY 2012 actual expenditures (as of CAFR Phase II), will be used for fund balancing for the 2013-15 budget proposal.

Instead of asking agencies to develop the estimates and submit them through BDS, OFM will develop expenditure estimates based on this formula:

Expenditure Authority - First Year Actuals - Reserve - Unallotted.

We will also use allotments as the basis for revenue estimates. For General Fund-State, we will use the appropriations as the estimates and will not be sending these to agencies for review.

For other funds, calculated estimates will be sent to agencies for review in mid-September, shortly after CAFR Phase II close. Agencies will have approximately two weeks to review and confirm or modify the estimates. **Agency comments are due to OFM by September 30.**

Appendix A-1

AGENCY BUDGET SUBMITTAL DATES

No later than September 5, 2012

080	Office of the Lieutenant Governor	190	Board of Industrial Insurance Appeals
082	Public Disclosure Commission	205	Board of Pilotage Commissioners
086	Governor's Office of Indian Affairs	220	Board for Volunteer Firefighters
087	Commission on Asian Pacific American Affairs	227	Criminal Justice Training Commission
090	Office of the State Treasurer	228	Traffic Safety Commission
095	Office of the State Auditor	305	Department of Veterans Affairs
099	Commission on Salaries for Elected Officials	315	Department of Services for the Blind
100	Office of the Attorney General	340	Student Achievement Council
101	Caseload Forecast Council	341	LEOFF Plan 2 Retirement Board
104	Economic and Revenue Forecast Council	351	School for the Blind
110	Office of Administrative Hearings	353	Center for Childhood Deafness and Hearing Loss
116	Washington State Lottery	355	Department of Archaeology and Historic Preservation
117	Gambling Commission	390	Washington State Historical Society
118	Commission on Hispanic Affairs	395	Eastern Washington State Historical Society
119	Commission on African-American Affairs	406	County Road Administration Board
120	Human Rights Commission	407	Transportation Improvement Board
124	Department of Retirement Systems	410	Transportation Commission
126	State Investment Board	411	Freight Mobility Strategic Investment Board
135	Innovate Washington	460	Columbia River Gorge Commission
140	Department of Revenue	462	Pollution Liability Insurance Program
142	Board of Tax Appeals	467	Recreation and Conservation Funding Board
147	Office of Minority and Women's Business Enterprises	468	Environmental and Land Use Hearings Office
160	Office of the Insurance Commissioner	471	State Conservation Commission
165	Board of Accountancy	701	Treasurer's Transfers
167	Forensic Investigations Council	705	Treasurer's Deposit Income
185	Horse Racing Commission	740	Contribution to Retirement Systems

No later than September 7, 2012 (Due date for Local Fund Statements)

106	Economic Development Finance Authority	515	Fruit Commission
148	Housing Finance Commission	521	Hardwoods Commission
346	Higher Education Facilities Authority	522	Hop Commission
356	Life Sciences Discovery Fund Authority	524	Puget Sound Gillnet Salmon Commission
412	Materials Management and Financing Authority	525	Potato Commission
500	Apple Commission	526	Strawberry Commission
501	Alfalfa Seed Commission	528	Mint Commission
502	Beef Commission	529	Red Raspberry Commission
503	Blueberry Commission	530	Seed Potato Commission
505	Bulb Commission	532	Turf Grass Seed Commission
506	Asparagus Commission	533	Tree Fruit Research Commission
507	Cranberry Commission	534	Wine Commission
508	Canola and Rapeseed Commission	535	Grain Commission
510	Dairy Products Commission	545	Beer Commission
512	Dry Pea and Lentil Commission	599	Health Care Facilities Authority

No later than September 10, 2012

001	State Revenues for Distribution	215	Utilities and Transportation Commission
005	Federal Revenues for Distribution	225	Washington State Patrol
010	Bond Retirement and Interest	235	Department of Labor and Industries
011	House of Representatives	240	Department of Licensing
012	Senate	245	Military Department
013	Joint Transportation Committee	275	Public Employment Relations Commission
014	Joint Legislative Audit and Review Committee	300	Department of Social and Health Services
020	Legislative Evaluation and Accountability Program Committee	303	Department of Health
035	Office of the State Actuary	310	Department of Corrections
037	Office of Legislative Support Services	350	Office of Superintendent of Public Instruction
038	Joint Legislative Systems Committee	354	Workforce Training and Education Coordinating Board
040	Statute Law Committee	357	Department of Early Learning
045	Supreme Court	360	University of Washington
046	Law Library	365	Washington State University
048	Court of Appeals	370	Eastern Washington University
050	Commission on Judicial Conduct	375	Central Washington University
055	Administrative Office of the Courts	376	The Evergreen State College
056	Office of Public Defense	380	Western Washington University
057	Office of Civil Legal Aid	387	Arts Commission
075	Office of the Governor	405	Department of Transportation
076	Special Appropriations to the Governor	461	Department of Ecology
085	Office of the Secretary of State	465	State Parks and Recreation Commission
102	Department of Financial Institutions	477	Department of Fish and Wildlife
103	Department of Commerce	478	Puget Sound Partnership
105	Office of Financial Management	490	Department of Natural Resources
107	Health Care Authority	495	Department of Agriculture
163	Consolidated Technology Services	540	Employment Security Department
179	Department of Enterprise Services	699	Community and Technical Colleges
195	Liquor Control Board	707	Sundry Claims

Appendix A-2

SAMPLE DECISION PACKAGE - ADDENDUM

Agency:	240 Department of Licensing
Decision Package Code/Title:	PL-DC Enhanced Driver License
Budget Period:	2007-09
Budget Level:	PL - Performance Level

Agency Recommendation Summary Text

Implementation of an Enhanced Driver License and identity card (EDL/ID) was authorized by the Legislature in the approved 2007-2009 Biennium budget. \$8,872,000 in funding was provided for EDL/ID implementation. This funding was authorized based on Department estimates of the costs for creating a license capable of satisfying federal requirements under the Western Hemisphere Travel Initiative (WHTI). The estimate addressed costs that were known at that time. This supplemental request provides an additional \$4,135,000 in funding to address necessary implementation costs to conform to these federal requirements. The increased costs are due primarily to a significant shortening of the timeframe for delivery of the EDL/ID product from May of 2008 to January of 2008, the resulting costs associated with hiring staff for the implementation of the EDL/ID several months sooner, and increased technology development costs to meet the delivery timeframe. (Highway Safety Fund-State)

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
106-1 Highway Safety Fund-State	131,000	4,004,000	4,135,000
Total Cost	131,000	4,004,000	4,135,000
Staffing	<u>FY 2008</u>	<u>FY 2009</u>	<u>Annual Average</u>
FTEs	3.4	18.4	10.9

Package description

Background

Prior to development of last year's Border Crossing Security decision package, the Department had been exploring means to improve the process of validating foundational identity documents for the issuance of driver licenses and identity cards. Driver licensing staff lacked appropriate technology that could help them quickly detect fraudulent or altered documents, and federal authorities did not have a sufficient level of confidence that the current Washington driver license would be reliable as an alternative to a U.S. passport or other approved document for purposes of re-entry to the United States.

The Legislature recognized the importance of increasing the security of the border through the use of highly reliable, secure and convenient travel documents that in turn preserve and encourage travel, trade and cultural exchange with British Columbia. The leadership that Washington State has demonstrated has also been recognized around the nation. Several states, including Texas, New York, Arizona, Vermont and Ohio have expressed interest in the Washington model as a template for their own

development of enhanced driver license and identity card (EDL/ID) documents that will satisfy federal requirements: <http://buffalo.bizjournals.com/buffalo/stories/2007/07/23/daily2.html>.

Vermont recently reached an agreement with the federal Department of Homeland Security (DHS) to develop an EDL/ID, citing the work being done in Washington State: http://www.dhs.gov/xnews/releases/pr_1187646614580.shtm.

Current situation

Since adoption of ESHB 1289 (RCW 46.20.202) by the 2007 Legislature, the Department has worked closely with federal, state and private partners to implement the provisions of the statute. As a result of these efforts and negotiations, the Department has determined that its EDL/ID business model requires funding beyond that originally appropriated. The primary reasons for increased funding are the following:

- A shift in timing of EDL/ID implementation from May 2008 to January 2008, to coordinate with Western Hemisphere Travel Initiative (WHTI) land and sea rule implementation, and by agreement with DHS.
- Addition of DHS requirements to include additional checks and balances in the applicant screening and qualification process, to better ensure the integrity and reliability of the process and the EDL/ID.
- Modification of the Department's deployment plans for the number of offices and staff authorized to issue EDL/ID by increasing public access at ten (10) more licensing offices throughout the state, for a total of twenty-one (21) offices.

Negotiations with DHS were ongoing through the spring of 2007. In order to maximize the security and integrity of the document, as well as to protect the privacy of document applicants, several additional features of both the document and the document issuance process were agreed upon. These include the use of radio frequency identification (RFID) tags and machine readable zones (MRZ) on the document, and attenuating sleeves to ensure privacy during shipment of the document to the customer. The issuance process will include separation of duties in field offices between foundational document intake and document review. In addition, the issuance process will include a one-on-one interview between the applicant and specially trained Department staff.

Proposed solution

These factors caused the Department's business model for EDL/ID implementation to change, resulting in the increased costs for:

- Recruitment and training of additional field staff to conduct applicant interviews.
- The compressed implementation schedule increased costs for information system software development, testing, and deployment.
- Integration of DHS requirements for EDL/ID design features, security features to deter forgery and counterfeiting, and DHS and DOL system use. Such features include the use of RFID tags, MRZs, and attenuating sleeves.
- The Department's need to raise public awareness of the EDL/ID purpose and use, its availability, its security and privacy protection, and its benefits for expediting border crossings between the United States, Canada, Mexico, the Caribbean, and Bermuda by land and sea.
- Modification of licensing office facilities to ensure the privacy of the applicant interview and qualification process.

In addition, the Department recognizes the need to expand the number of licensing service offices that would have the capability to offer EDL/ID to customers. The current level of funding will allow an initial deployment to eleven offices; funding included in this package will allow further deployment to ten additional offices. This expanded deployment will significantly increase our geographic coverage statewide; ensuring that over 97 percent of our customers will have an EDL/ID location within 50 miles of their home, as well as increased coverage in population centers to improve our ability to meet anticipated demand. The following two charts illustrate the proposed geographic coverage of the initial deployment and the planned additional deployment.

Table I – Initial Deployment of EDL/ID to Eleven Offices

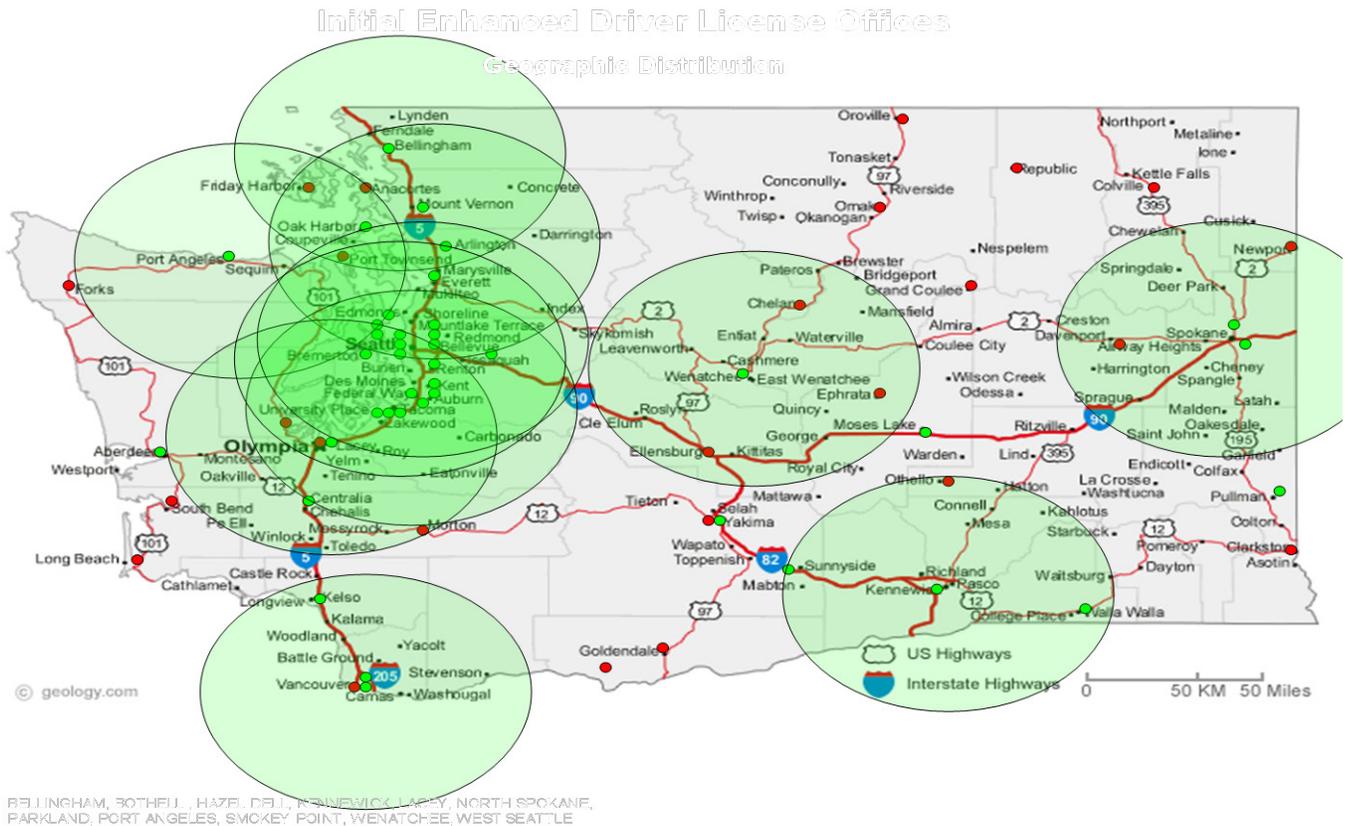
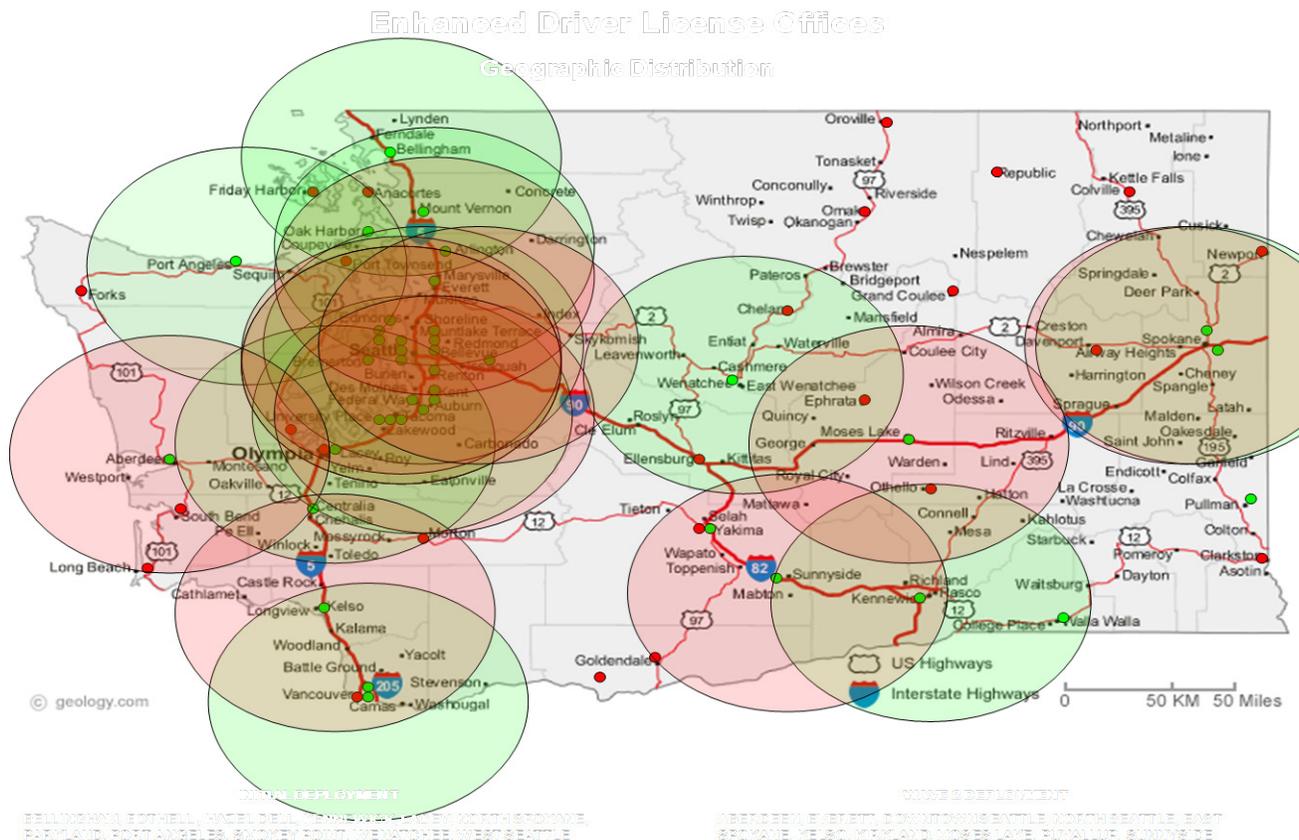


Table II – Proposed Deployment of EDL/ID to Ten Additional Offices



NARRATIVE JUSTIFICATION AND IMPACT STATEMENT

What specific performance outcomes does the agency expect?

Effective January 2008, the Department will implement the use of an enhanced drivers license and identification card (EDL/ID) as alternate documents in compliance with the Western Hemisphere Travel Initiative (WHTI) requirements for land and sea border crossing.

Department staff will be fully trained and authorized to successfully complete the applicant screening, interview, and citizenship determination processes. The public will have the ability to apply for an EDL/ID at 21 driver licensing offices throughout the state, including ten additional offices that will be capable of EDL/ID issuance by the fall of 2008.

The driver license is a nationally accepted means of identification. The use of the state-issued EDL/ID for border crossing purposes will enable Washington to maintain the level of free trade and tourism that has been of significant benefit to both Washington and British Columbia citizens.

Performance measure detail

Development of the EDL/ID is a new and significant policy initiative for the Department and Washington State. Because of the unique nature and precedent of this initiative, a number of potential performance measures will be tracked to gauge the success of the program. These will include:

- total number of enhanced card applications,
- total percent of applications denied,
- total volumes by office, and
- the type of source documents received that establish EDL/ID eligibility.

The Department will be working closely with the Office of Financial Management and the Legislature to evaluate which measures provide the best information for measuring the success and outcomes of this initiative.

Is this decision package essential to implement a strategy identified in the agency’s strategic plan?

This package addresses the Department’s goal in the 2007-09 strategic plan to improve public safety.

Activity: Improve Public Safety



We . . .

Hire staff; conduct IS system software development, testing and deployment; raise public awareness of the EDL/ID program; modify facilities; and issue EDL/ID cards

OUTPUTS

. . . so that . . .

The department will improve public access to EDL/ID cards & Decrease the potential for fraudulent licenses being issued

IMMEDIATE OUTCOME

. . . so that . . .

We better facilitate secure border crossings between the U.S. & Canada by land and sea

INTERMEDIATE OUTCOME

. . . so that . . .

We improve public safety & facilitate economic trade and tourism

ULTIMATE OUTCOME

State and Federal Initiative Program

Reason for change

The need for additional funding is the outcome of negotiations between the state of Washington and DHS to develop the prototype model for delivering a WHTI compliant document. Since these discussions were still ongoing in the spring of 2007, the costs of components and business processes that were agreed to were not fully captured in the initial Border Crossing Security decision package.

Does this decision package provide essential support to one of the Governor's priorities?

Yes. The proposal supports improved public safety and facilitates economic trade and tourism.

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

Yes. Improved public safety, trade, and tourism contribute to the safety result and economic vitality result.

What are the other important connections or impacts related to this proposal?**Impact on clients and services:**

The applicant interview process for the EDL/ID will require additional personnel and will add an estimated 7 to 30 minutes to the application approval process.

The public will have the opportunity to apply for an EDL/ID in January 2008. By the fall of 2008 the public will have the ability to apply for an EDL/ID in ten (10) more licensing offices throughout the state.

Impact on other state programs:

This will benefit the Washington State Patrol and local and national law enforcement in their efforts to identify and deter fraudulent acquisition of driver licenses and ID cards for illegal purposes. The Department of Health (DOH) will establish a process for the online verification of birth certificates for those persons born in Washington. The Department entered into an agreement with DOH on May 1, 2007 that will allow us to electronically verify the authenticity of WA birth certificates at no cost through December of 2008. DOH has agreed to collect data on volume of inquiries for six months before developing a payment model for DOL to be implemented after December of 2008. The potential costs of this service are unknown at this time.

What alternatives were explored by the agency, and why was this alternative chosen?

The steps taken in this package are necessary to ensure timely implementation and broader public access to the use and benefits of an EDL/ID for land and sea border crossing. This budget package was developed collaboratively after fully negotiating its implementation requirements with our state, federal and private partners. The Department has evaluated alternatives that include curtailed or postponed deployment, and found that these alternatives were not in the best interests of the state's citizens and its commerce.

What are the consequences of not funding this package?

Non-funding will limit the department's capability to deploy the EDL/ID as broadly throughout the state. This could impair the Department's ability to deliver the EDL/ID in an efficient and timely manner, and with the level of convenience and access expected by the public.

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions:

Revenue Calculations and Assumptions:

No additional revenue is associated with this decision package.

Expenditure Calculations and Assumptions:

The additional funding requested in this package is the result of the compressed implementation timeframe, additional document features required by DHS and deployment of EDL/ID capability to additional field offices. Table 3 includes a side-by-side comparison of current appropriation assumptions and requested supplemental appropriation assumptions.

Compressed implementation timeframe

The package that is currently funded in the Department's budget assumed a May 2008 implementation date. During the development of that package the Department did not have a clear indication from DHS regarding the effective date of land and sea rules for WHTI. The state and DHS subsequently agreed to a January 2008 implementation date to adequately prepare for a WHTI implementation date later in the spring. The compressed timeframe creates additional costs in several areas:

- Field office staff that were going to be hired in the spring of 2008 will be hired in the late fall of 2007 so that necessary training can take place before the January 2008 launch.
- Successful implementation of the EDL/ID initiative is highly dependent on information systems changes. Additional contract programmers, department testers and project management capacity are required.
- Washington State is leading the nation in the development of an acceptable alternative document that will satisfy WHTI requirements. In that role, extraordinary demands have been placed on Department resources to negotiate complex and original agreements with federal and international jurisdictions. Funding is included for a three member project implementation team for one year.

Additional document features to satisfy DHS requirements

In order to proceed with development of the EDL/ID the state will be required to incorporate several new document features. Inclusion of these features will satisfy DHS requirements that were developed in the spring of 2007. These features include:

- Development of a unique card design to clearly denote citizenship.
- Inclusion of a radio frequency identification (RFID) tag. This passive vicinity RFIP technology will not contain or transmit any personal data, only a unique reference number provided by DHS and assigned by the Department at time of issuance.
- Inclusion of a machine readable zone (MRZ) on the back of each document. The MRZ will facilitate border crossings at locations that are not equipped to read a reference number off of an RFID tag.

Deployment of EDL/ID capability to additional field offices

Negotiations with DHS also lead to some significant changes in the proposed service delivery model. Initially the Department intended to allow EDL intake at all field offices, then perform processing and acceptance duties at separate locations. To meet DHS requirements, however, the business model has been reconfigured to place specially trained staff in certain locations and to accept and process EDL/ID applications at only those offices. This model will provide a significant level of internal control on the process.

The current level of appropriation will allow the Department to deploy EDL/ID capability to eleven field offices. In order to maximize customer access to EDL/ID documents, resources in this package will enable to Department to deploy EDL/ID capability to ten additional offices around the state. Refer to Tables I and II above for a graphic representation of proposed coverage.

The following tables summarize the comparison of current funding to request funding for project implementation and deployment to ten additional offices.

Table III – Comparison of additional funding requirements / current funding level

	2007-09 Biennial Funding	2007-09 Biennium Projected Expenditures	Difference
FTE			
Driver Services	17.9	26.0	8.1
State & Federal Initiatives	0.0	1.5	1.5
Information Services	3.9	5.3	1.4
Management Support Services	2.4	2.3	0.1
Total	24.2	35.1	11.0
Salaries			
Driver Services	1,412,000	2,301,089	889,089
State & Federal Initiatives	0	250,100	250,100
Information Services	454,000	725,418	271,418
Management Support Services	215,000	213,116	(1,884)
Total	2,081,000	3,489,723	1,408,723
Contracts			
Digimarc Validation Suite	806,400	357,098	(449,302)
Biometrics	2,000,600	1,284,540	(716,060)
Applicant Interview Questions	0	225,000	225,000
Card Design, Software Update, Image Utility	0	183,465	183,465
IS Personal Service Contracts	0	561,820	561,820
Total	2,807,000	2,611,923	195,077
Goods and Services			
Card Production Costs	0	839,000	839,000
Contract Programmers	474,439	1,454,636	980,197
Contingency	263,000	263,000	0
Marketing	0	500,000	500,000
Rent and Improvements	448,091	448,091	0
Other Goods and Services	203,470	485,328	281,858
Total	1,389,000	3,990,055	2,601,055
Equipment			
Document Scanners	484,554	194,925	(289,629)

Handheld Scanners	1,383,446	0	(1,383,446)
Total	1,868,000	194,925	(1,673,075)
Travel	32,000	103,450	71,450
2005-07 Biennium Purchases			(200,000)
Agency Total	8,872,000	11,314,170	2,442,170

Table IV – Future Deployment Costs (10 Offices)

2007-09 Biennium Projected Expenditures	
Salaries and Benefits	\$1,122,540
Hardware/Software	370,834
Facilities	200,000
Total	\$1,693,374

Thus, the total request of \$2,442,170 plus \$1,693,374, or \$4,135,544.

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
A Salaries and Wages	\$547,000	\$1,696,000	\$2,243,000
B Employee Benefits	\$176,000	\$540,000	\$716,000
E Goods and Services	\$1,058,000	\$1,349,000	\$2,407,000
G Travel	\$23,000	\$48,000	\$71,000
J Capitalized Equipment	(\$1,673,000)	\$371,000	(\$1,302,000)
Total	\$131,000	\$4,004,000	\$4,135,000

Six-Year Estimates			
<u>Revenue</u>	<u>07-09 Total</u>	<u>09-11 Total</u>	<u>11-13 Total</u>
Revenue Total	\$0	\$0	\$0
Expenditure Estimates			
106 Highway Safety Fund	\$4,135,000	\$7,901,000	\$7,969,000
Expenditure Total	\$4,135,000	\$7,901,000	\$7,969,000
FTEs	10.9	30.9	30.9

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

Distinction between one-time and ongoing costs:

Initial expenditures for scanning and imaging equipment will be one-time costs, although replacement dollars will be required in future biennia. Staffing costs, card production, and system's, facilities, and equipment maintenance costs will be ongoing.

Budget impacts in future biennia:

Following January 2008 implementation, the Department's needs will include continued funding for information systems maintenance and component replacement, staff salaries, and benefits, and ongoing marketing efforts.

If demand for the EDL/ID exceeds the capacity of the requested deployment to 21 licensing offices, funding for additional staff, equipment, and office capacity will be requested.

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