Chapter 1

Budget Request Basics

1.1 PRIORITIZATION AND IMPROVEMENT DRIVE BUDGET DECISIONS

The state's economy is slowly recovering from its deepest recession in 70 years. Meanwhile, state revenue collections are rebounding at a much slower pace than after previous recessions. As a result, demands on the state's resources through inflation and mandatory caseload and other increases continue to outpace revenue growth. This structural fiscal gap is compounded by the fact the state must continue phasing in legislative commitments to increase K-12 education funding by at least $5 billion over the next two biennia *(McCleary v. State of Washington)*. In addition, the state faces cost pressures to address workforce compensation needs and to meet continuing and emerging policy issues.

The magnitude of the McCleary decision and other budget pressures necessitate a thorough review of budget reduction options along with options to increase state revenues to achieve sustainable spending levels and to articulate to citizens and taxpayers the results and outcomes of difficult budget choices. Further, the state must be prepared to adapt to potential changes in fiscal conditions, even after emerging from the turbulent fiscal crises of the great recession. The 2015-17 biennial budget provides the opportunity for the state to adjust to current fiscal and policy conditions, as well as to prepare for the future.

The best budget proposals link investments to goals and priorities.

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 goals and priorities?
- Which activities are mandatory/core to these strategies?
- Given financial or other constraints, how can we maximize the outcomes of our highest priority services and activities?

State agency strategic plans, 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 across state government. Proposals that make the strongest case will be those that discuss the value and benefits of the services they deliver to achieve positive statewide outcomes for the citizens of Washington.

Strategic framework — focus on results and strategic plans.

Agency budget requests should reflect Governor Inslee's statewide strategic goals articulated through Results Washington and agency-specific strategic plans.

Results Washington – Decision packages must identify the Results Washington statewide goals and outcome measures they are designed to address. Packages should clearly articulate how budget requests will achieve implementation of strategies and plans developed by the Results Washington Goal Councils.

Agency Strategic Plans – During the past recession, OFM did not require agencies to submit agency strategic plans with their 2013-15 biennial budget requests. For 2015-17 biennial budget requests, OFM is again requiring agencies to submit strategic plans. Budget decision packages should align closely with agency strategic plans, goals and performance measures.

OFM will work with the Governor using Results Washington goals, outcome measures and action plans – along with agency strategic plans, strategies and performance measures – to prioritize budget purchases within and across agency budgets as we develop the Governor's 2015-17 budget recommendations.

Re-basing and prioritization.

For the 2015-17 biennial budget, OFM is asking agencies to re-base state program budgets to a level below the Maintenance Level budget request for programs not protected from reduction by either state constitutional provisions or by federal law. Agencies with protected programs and activities should continuously evaluate these services for improvements that can be achieved within current funding. But OFM is asking all agencies to identify, describe and prioritize budget reductions equal to **15 percent** of unprotected Near-General Fund Maintenance Level budgets. Decision packages describing these reductions are the first step in a two-step agency budget process.

Summary of **Protected Near-General Fund Programs** (not subject to 15% reductions to ML)	Summary of **Unprotected Near-General Fund Programs** (subject to 15% reductions to ML)
Debt service	Corrections
K-12 basic education programs	Governmental operations
LEOFF and judicial pension system contributions	Higher education
Mandatory state Medicaid Entitlement program	Judicial agencies
	Legislative agencies
	Natural resource programs
	Non-basic K-12 and other education programs
	Non-mandatory human services programs
	Optional State Medicaid program
	Transportation programs in operating budget

OFM is also requiring prioritized budget reduction packages from central service provider agencies and from agencies whose dedicated revenue is derived from, subsidized from, affects or interacts with the General Fund.

Budget reductions identified in the first step of the agency reduction process will result in a re-based Near-GF-S budget, below the levels necessary to sustain currently authorized services and programs as they are currently delivered.

Agencies are then asked to submit budget requests for funding building off of this lower budget base. Decision packages requesting incremental funding above the new base budget level must be submitted in ranked priority order, including both proposals to restore identified reductions necessary to achieve the lower base budget, as well as any new funding requests for services or enhancements not currently provided. (See Appendix A-3 for detailed instructions.)

Efficiencies.

Improving the efficiency and streamlining the operations of state government is an expectation Governor Inslee has of all agencies. "Fostering a Lean culture that drives accountability and results for the people of Washington" is a central tenet of the Results Washington management effort.

Agencies should include savings from process improvements and efficiencies in their budget reduction decision packages when: 1) already implemented operational changes will provide cost savings to maintenance level budgets next biennium; or 2) when agencies are confident that yet-to-be implemented efficiency efforts will achieve real cost savings without reducing current state service levels to the public.

Without appropriate care, state budget "efficiency savings" can become unallocated, non-specified budget cuts which lack the essential review of potential consequences to programs and services. Agencies committing to efficiency reductions in their re-based budget submittals must be sure such reductions can be implemented without service impacts (true cost savings achieved through efficiency improvement), or must be clear to highlight what service level impacts will result from the budget reduction (proposed reduction to a lower-priority activity or service).

1.2 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 2015-17 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 (BDS) 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 2014 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.)*

  As described earlier, we expect enormous pressure on General Fund resources for at least the next two biennia as the McCleary funding commitments are met. In addition to submitting budget reduction decision packages, agencies should severely limit requests for new or expanded programs or for new policy initiatives.

  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? How do activities connect to agency strategic plans and the statewide goals and plans of Results Washington?

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.)* For 2015-17, OFM is requiring agencies to submit prioritized decision packages reducing unprotected Near-General Fund maintenance level budgets by **15 percent** (protected NGF-S programs exempted). It is critical that these decision packages thoroughly describe the impacts of these reductions by agency activities and services, and that subsequent budget restoration and enhancement requests are identified and described by activity.

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, please 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
406 County Road Administration Board
407 Transportation Improvement Board
411 Freight Mobility Strategic Investment Board

1.3 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 few 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.

Additional requirements for transportation agencies and higher education institutions.

Additional requirements for transportation agencies can be found in the transportation budget instructions addendum. Additional requirements for higher education institutions can be found in the higher education budget instructions addendum.

Required Budget Submittal Components

TAB A
- ❑ Agency Organization Chart
- ❑ Agency Activity Inventory Report - *BDS report (Chapter 2 and Chapter 10.1)*
- ❑ Performance Measure Incremental Estimates Report - *BDS report (Chapter 10.2)*
- ❑ Indirect Cost Allocation to Activities Description *(Chapter 2.3)*
- ❑ Agency Strategic Plan

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 1.2)*

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 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)*
- ❑ Additional Federal Receipts Reporting Requirements *OFM Template (Chapter 14.3)* NEW!
- ❑ Non-Budgeted Local Fund Summary (B10) - *OFM template (Chapter 14.1)*
- ❑ Puget Sound Action Agenda: List of Decision Packages and Capital Project Requests *(Chapter 14.4)*
- ❑ JLARC Audit Responses *(Chapter 1.4)*

TAB E

- ❑ Specified documents as required for Information Technology-related decision packages (Chapter 12), Central Services fund split information (Chapter 13.3), Extraordinary Risk Management decision package and Enterprise Risk Management updates (Chapter 13.5)
- ❑ Electronic Decision Package Confirmation (Appendix A-5) NEW!

- ❑ Updated agency descriptions: return completed template to Laurie Lien at: ofm.budget@ofm.wa.gov. *(Chapter 14.5)*
- ❑ Indirect Cost Allocation. Send an electronic copy of indirect cost allocation to activities information to Linda Swanson at: ofm.budget@ofm.wa.gov *(Chapter 2.3)*

How many copies must we submit?

With the exceptions noted below, all agencies must submit **six (6) complete copies** of their operating budget submittal documents to OFM. OFM will forward copies to the appropriate House and Senate fiscal committees and other recipients. *(See Appendix A-4.)*

Operating:

- The **Department of Social and Health Services** must submit four (4) additional copies, for a total of ten (10) complete copies.
- The **Health Care Authority** must submit one (1) additional copy, for a total of seven (7) complete copies.
- **Higher education institutions** must submit two (2) additional copies, for a total of eight (8) complete copies. OFM will forward the additional copies to the Student Achievement Council and the Council of Presidents' Office.
- The **Department of Transportation** must submit four (4) additional copies, for a total of ten (10) complete copies. **All other transportation agencies** must submit one (1) additional complete copy, for a total of seven (7) complete copies.

Capital:

- All agencies submitting capital budget proposals must submit eight (8) copies, except **Higher Education** must submit nine (9) copies.

What are the format requirements?

For all agency budget submittals to OFM:

- Number all pages.

- Reduce oversized materials by photocopier whenever possible. What does this mean? If legible, use 8-1/2 by 11 paper.
- 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.

Electronic submittal of decision packages.

Agencies are now required to provide electronic copies of each decision package in their budget request as part of the submittal process. Agencies may accomplish this in one of two ways:

1) If an agency posts its request to its public facing website, provide the URL where it may be found.
2) Absent a public posting, forward copies via e-mail to OFM.Budget@ofm.wa.gov.

Regardless of the method used, documents must conform to your agency's ADA accessibility compliance policy.

See Appendix A-5 for a sample confirmation form.

What is the submittal address?

Office of Financial Management
300 Insurance Building
3rd Floor - North
PO Box 43113
Olympia, WA 98504-3113

When is the budget submittal complete?

Your budget submittal is complete when:

1. The required number of hard copies are received by OFM,
2. Budget Development System (BDS) data is successfully released to OFM, and
3. Electronic submittal of decision packages pursuant to Appendix A-5 is verified.

OFM needs both the budget notebooks and the system data to begin analysis of agency budgets. All are due to OFM no later than the dates listed in Appendix A-1.

Note: Occasionally agencies need to amend their official budget request. The submittal requirements outlined above apply to all official revisions or amendments.

1.4 OTHER GENERAL PREPARATION REQUIREMENTS

Biennial budget process is the best opportunity for consideration of major initiatives.

Ordinarily, supplemental budgets 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, meet its highest priority goals, and contribute to desired statewide goals and outcomes.

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 detailed in the OFM Fund Reference Manual 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 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 DOH 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 General Fund-Federal TANF. (DSHS only). 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 via the Bill Analysis and Tracking System (BATS), consistent with the agency budget submittal due dates. Agency request legislation instructions will be provided in a letter to agency directors from the Governor's Office, mid to late June. 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 requires 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 on June 17, 2014.

Budget program or subprogram structure changes recommended by OFM must obtain approval from the Legislative Evaluation and Accountability Program (LEAP) Committee as required by the State Budgeting, Accounting, and Reporting Systems Act (Chapter 43.88 RCW). 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 budget submittal.

RCW 43.88.090(1) requires agencies to 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."

See http://www1.leg.wa.gov/JLARC/AuditAndStudyReports/Pages/default.aspx for JLARC audits and studies. Agencies also should be prepared to provide information to JLARC.

1.5 USING THE BUDGET DEVELOPMENT SYSTEM

The Budget Development System (BDS) is a budget submittal tool that facilitates budget development. The system allows an agency to 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 in the submittal.

Here are key features of BDS that support development of the 2015-17 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.
- For agencies with one activity, decision package amounts are automatically applied to that activity.

- Agencies will use the Results through Performance Management (RPM) system to submit the performance measure targets for the ensuing biennium.

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 DES Solutions Center at (360) 407-9100 or SolutionsCenter@des.wa.gov. Training classes or self-guided tutorial lessons are also available. Training information and registration are available at Training resources. Information on SPS, BDS and other BASS products is available at http://bass.ofm.wa.gov/BASSLogon_pr/logon.aspx, or for Fortress users at https://fortress.wa.gov/ofm/bass/BASSLogon_pr/logon.aspx.