June 13, 2014

TO: Agency Directors
               Presidents, Higher Education Institutions
               Boards and Commissions

FROM: David Schumacher
               Director

SUBJECT: **2015-17 OPERATING AND CAPITAL BUDGET INSTRUCTIONS**

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 that 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 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 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.

For the 2015-17 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. In addition, 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.

OFM also is requiring prioritized budget reduction packages from central service provider agencies and from agencies whose dedicated revenue is derived from or subsidized by 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. Detailed instructions are outlined in Appendix A-3 of the Budget Instructions.

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

The 2015-17 Budget Instructions are available on OFM's website at 2015-17 Budget Instructions.

Agency operating and capital budget requests are due to OFM beginning **September 11**. For your specific agency due date, see Appendix A-1 of the Budget Instructions.

Thank you for your assistance. We look forward to working with you and your staff on this challenging budget.

cc: Agency Budget Officers