



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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June 10, 2016

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

FROM: David Schumacher
Director

A handwritten signature in blue ink, appearing to be "DS", written over the printed name of David Schumacher.

SUBJECT: 2017-19 OPERATING AND CAPITAL BUDGET INSTRUCTIONS

The state's economy continues its steady, modest growth and is forecast to continue to outperform slow U.S. economic growth over the next two biennia. Employment growth, modest wage growth, and growth in the housing markets are indicators of continuing strength in Washington's economy. State revenue collections have rebounded from the Great Recession at a much slower pace than after previous recessions. As a result, demands on the state's resources — including mandatory caseload and cost growth and spending increases for education and other services — continue to outpace revenue growth. This structural fiscal gap includes continuing costs of major K-12 funding enhancements made in the current biennium, and the final phasing in of legislative commitments to decrease K-3 class sizes in the 2017-19 biennium.

In addition, the state must further increase state funding of K-12 school employee compensation at a cost of several billion dollars next biennium (*McCleary v. State of Washington*). Meeting the state's constitutional duty to fully fund K-12 education is an enormous challenge and the top budget priority. In addition, the state continues to face cost pressures to address state workforce and vendor compensation needs and other policy issues.

Agencies must find ways to manage budgets without increased funding

While meeting the extraordinary funding needs of education in the next biennium may require increased state revenues, state agencies and their local partners should otherwise expect to manage within current projected state resources. Competition for available resources will be intense. While agencies should always strive to reduce costs and find new ways to save resources, these efforts will be especially important over at least the next two biennia. Requests for new funding should be limited and focused on the highest priority services that deliver significant performance improvements and outcomes for the people of Washington.

In reviewing agency budget requests, OFM will ask these questions:

- What strategies and activities will be most effective in achieving agency and statewide goals and priorities?
- Given financial or other constraints, how can we maximize the outcomes of our highest priority services and activities?
- How else can the state meet desired outcomes in a more cost-effective manner?

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 the Governor, 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.

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 – For 2017-19 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 2017-19 budget recommendations.

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” remains a central tenet of the Results Washington management effort.

Compelling budget requests – dos and don’ts

The detailed 2017-19 Budget Instructions contain some changes from prior biennia instructions. The changes are intended to generate more comprehensive and detailed decision packages and to provide better information to the Governor, OFM and the Legislature for decision-making.

Fiscal detail is now required for the ensuing four fiscal years, as OFM and the Legislature have moved to four years of fiscal detail in our budget systems.

We have moved to a Microsoft Word-based decision package template and format. This will enable agencies to more easily provide greater detail and justifications for decision packages, and to facilitate greater use of tables, charts, graphs, maps and other graphics that can help agencies articulate budget requests and expected outcomes more clearly. Agencies are encouraged to limit budget requests and to ensure that those requests are comprehensive and capable of withstanding a highly competitive fiscal environment.

Do:

- Look for ways to save resources.
- Develop options to meet your highest priorities in the most cost-effective manner.
 - How else can we accomplish this?
 - What can we reprogram to meet our needs?
 - How can we reduce the cost?

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- Focus intensely on performance and outcomes.
 - What will the decision package accomplish?
 - Who will be served? At what level?
 - How will we know?
 - What are our performance targets?
 - How likely are the targets to be met?
- Spend your time on the most critical things.
- Look forward to the future, not back to the past.

Don't:

- Request restoration of prior cuts; in most cases, agencies are not entitled to a prior level of funding.
- Request a prior “share” of the budget (there is no such thing).
- Request past unfunded inflationary or other cost increases.
(These are not compelling arguments for limited resources. If resources are needed, make your strongest case based on articulated need, performance, outcomes and results.)
- Request a new program or initiative without a comprehensive and realistic plan to fund its full implementation in the future.
- Try to bury policy-level requests in maintenance level; when in doubt, ask.

As described earlier, we expect enormous pressure on General Fund resources as the McCleary funding commitments are met. 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 2017-19 Budget Instructions are available on OFM's website [here](#).

Agency operating and capital budget requests are due to OFM beginning **September 9**. 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