



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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August 11, 2020

Honorable Christine Rolfes, Chair
Honorable John Braun, Ranking Member
Senate Ways & Means Committee

Honorable Timm Ormsby, Chair
Honorable Drew Stokesbary, Ranking Member
House Appropriations Committee

Dear Senators Rolfes and Braun and Representatives Ormsby and Stokesbary:

Last month, legislative fiscal staff asked OFM to provide a month-by-month General Fund-State cash balance projection for fiscal year 2021. I'm writing to provide some context and clarification about that projection, which was provided to your staff on July 30, and to give you an update on our efforts to manage the state's finances during this pandemic.

Over the past few weeks, some have speculated that, based on OFM's General Fund-State cash balance projection, the governor is now required by statute to order across-the-board reductions to state agency allotments. However, based on our legal analysis of the application of the statute to the projected cash balance, the across-the-board requirement has not been triggered. The spreadsheet OFM prepared is not a projection of a deficit in a particular fund or account, as required by statute.

Rather, it is a preliminary estimate based on partial information. It does not take into account all the possible fiscal activities that may or will occur, such as any of the actions the governor, OFM and agencies have already taken to reduce spending or the possibility that the state will receive additional relief funds from the federal government.

Legal issues aside, I want to stress that we do not see across-the-board cuts as a viable or wise solution, and we are not considering them.

As we have learned from past experience, across-the-board reductions to agency allotments are fraught with practical and legal constraints. For example, because such reductions must be made uniformly, it is impossible to prioritize spending across different programs and agencies. In some cases, reductions cannot be made without making statutory changes or renegotiating contracts.

More importantly, across-the-board cuts would have devastating consequences for many of the services our citizens desperately need during this pandemic. It would make no sense to slash such services at the same time we are distributing hundreds of millions of dollars in federal coronavirus relief funds to assist renters, food banks, local governments and small businesses.

That said, I do not want to downplay the magnitude of the state's fiscal problems. As you know, even after we address the projected shortfall in the current budget, we will still have significant work to do in balancing the state's 2021-23 budget.

I want to assure you that we are taking prudent actions to help manage our short-term problem and lay the groundwork for longer-term solutions. Governor Inslee and OFM have already taken a range of actions to curtail agency spending for FY 2021. For example:

- In April, the governor used his line-item veto authority to trim \$235 million from the 2020 supplemental operating budget approved by the Legislature in March. The vetoes will reduce spending another \$210 million in the state's next two-year budget. Meanwhile, OFM directed agencies to [immediately begin looking for additional ways to reduce spending](#).
- In May, OFM directed agencies to [identify potential savings options of up to 15%](#) in their current budgets. Meanwhile, the governor issued a directive requiring agencies to place a freeze on new hires, personal services contracts, and equipment purchases.
- In June, the [governor directed agencies](#) to begin regular furloughs for state employees and to cancel a scheduled 3% general wage increase for non-represented state employees in Exempt Management Service and Washington Management Service, and for non-represented exempt employees making more than \$53,000 a year.
- In July, agencies were again [directed to look for savings and to move funds to reserve status](#) where possible.

In our 2021-23 budget instructions, we asked agencies to submit proposals that identify reductions equal to 15% of their unprotected Near General Fund maintenance level budgets. Those proposals, which are due next month, will be instrumental in helping us set priorities for the next biennial budget.

As you know, the state occasionally has to manage projected cash deficits in various funds to best serve the public interest. That is what we are doing with the situation we currently face in the General Fund-State appropriations. And, I want to stress, the state does not have a cash flow problem. We have sufficient funds in the state treasury to pay our bills.

The state has substantial reserves that will help us manage this problem in the short run, as will the actions we have taken thus far to reduce agency spending. And while our economic outlook is still precarious, we have recently seen a modest uptick in projected revenue collections, and we remain hopeful that Washington and other states will receive additional assistance from the federal government.

In the meantime, OFM will closely monitor the state's General Fund balance as it continues working with agencies to reduce spending. I look forward to working with you in the weeks and months ahead to address the state's serious fiscal challenges while making sure Washingtonians have the support they need to confront this public health crisis.

Sincerely,



David Schumacher
Director

cc: David Postman, Chief of Staff, Office of the Governor
Charlie Gavigan, Staff Coordinator, House Appropriations Committee
Michael Bezanson, Staff Coordinator, Senate Ways & Means Committee
Nona Snell, Assistant Director for Budget, OFM