

CERTIFICATION OF ENROLLMENT

**ENGROSSED SUBSTITUTE HOUSE BILL 1242**

Chapter 386, Laws of 2005

59th Legislature  
2005 Regular Session

BIENNIAL BUDGET--PRIORITIES--REVIEW OF AGENCY REQUESTS

EFFECTIVE DATE: 7/24/05

Passed by the House February 14, 2005  
Yeas 95 Nays 2

FRANK CHOPP

**Speaker of the House of Representatives**

Passed by the Senate April 14, 2005  
Yeas 43 Nays 0

BRAD OWEN

**President of the Senate**

Approved May 11, 2005.

CHRISTINE GREGOIRE

**Governor of the State of Washington**

CERTIFICATE

I, Richard Nafziger, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **ENGROSSED SUBSTITUTE HOUSE BILL 1242** as passed by the House of Representatives and the Senate on the dates hereon set forth.

RICHARD NAFZIGER

**Chief Clerk**

FILED

May 11, 2005 - 9:10 a.m.

**Secretary of State  
State of Washington**

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**ENGROSSED SUBSTITUTE HOUSE BILL 1242**

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Passed Legislature - 2005 Regular Session

**State of Washington                      59th Legislature                      2005 Regular Session**

**By** House Committee on Appropriations (originally sponsored by Representatives Linville, Jarrett, Miloscia, Tom, Haigh, Sommers, Pettigrew, Pearson, Clibborn, Kristiansen, O'Brien, Orcutt, Quall, Morris, Lantz, Wallace, Kagi, Grant, Morrell, Chase, Springer, Lovick, Kessler, Dunshee, Appleton, P. Sullivan, Kilmer, Hunter, Upthegrove, Williams, Roberts, Dickerson, Sells, Eickmeyer, Nixon, Kenney and Ormsby)

READ FIRST TIME 02/11/05.

1            AN ACT Relating to focusing the state budgeting process on outcomes  
2 and priorities; amending RCW 43.88.090 and 43.88.030; adding a new  
3 section to chapter 43.88 RCW; and creating a new section.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5            NEW SECTION.    **Sec. 1.** A new section is added to chapter 43.88 RCW  
6 to read as follows:

7            The legislature finds that agency missions, goals, and objectives  
8 should focus on statewide results. It is the intent of the legislature  
9 to focus the biennial budget on how state agencies produce real results  
10 that reflect the goals of statutory programs. Specifically, budget  
11 managers and the legislature must have the data to move toward better  
12 statewide results that produce the intended public benefit. This data  
13 must be supplied in an impartial, quantifiable form, and demonstrate  
14 progress toward statewide results. With a renewed focus on achieving  
15 true results, state agencies, the office of financial management, and  
16 the legislature will be able to prioritize state resources.

17            **Sec. 2.** RCW 43.88.090 and 1997 c 372 s 1 are each amended to read  
18 as follows:

1 (1) For purposes of developing budget proposals to the legislature,  
2 the governor shall have the power, and it shall be the governor's duty,  
3 to require from proper agency officials such detailed estimates and  
4 other information in such form and at such times as the governor shall  
5 direct. The governor shall communicate statewide priorities to  
6 agencies for use in developing biennial budget recommendations for  
7 their agency and shall seek public involvement and input on these  
8 priorities. The estimates for the legislature and the judiciary shall  
9 be transmitted to the governor and shall be included in the budget  
10 without revision. The estimates for state pension contributions shall  
11 be based on the rates provided in chapter 41.45 RCW. Copies of all  
12 such estimates shall be transmitted to the standing committees on ways  
13 and means of the house and senate at the same time as they are filed  
14 with the governor and the office of financial management.

15 The estimates shall include statements or tables which indicate, by  
16 agency, the state funds which are required for the receipt of federal  
17 matching revenues. The estimates shall be revised as necessary to  
18 reflect legislative enactments and adopted appropriations and shall be  
19 included with the initial biennial allotment submitted under RCW  
20 43.88.110. The estimates must reflect that the agency considered any  
21 alternatives to reduce costs or improve service delivery identified in  
22 the findings of a performance audit of the agency by the joint  
23 legislative audit and review committee. Nothing in this subsection  
24 requires performance audit findings to be published as part of the  
25 budget.

26 (2) Each state agency shall define its mission and establish  
27 measurable goals for achieving desirable results for those who receive  
28 its services and the taxpayers who pay for those services. Each agency  
29 shall also develop clear strategies and timelines to achieve its goals.  
30 This section does not require an agency to develop a new mission or  
31 goals in place of identifiable missions or goals that meet the intent  
32 of this section. The mission and goals of each agency must conform to  
33 statutory direction and limitations.

34 (3) For the purpose of assessing ((program)) activity performance,  
35 each state agency shall establish ((program)) quality and productivity  
36 objectives for each major ((program)) activity in its budget. The  
37 objectives must be consistent with the missions and goals developed  
38 under this section. The objectives must be expressed to the extent

1 practicable in outcome-based, objective, and measurable form unless an  
2 exception to adopt a different standard is granted by the office of  
3 financial management and approved by the legislative committee on  
4 performance review. Objectives must specifically address the statutory  
5 purpose or intent of the program or activity and focus on data that  
6 measure whether the agency is achieving or making progress toward the  
7 purpose of the activity and toward statewide priorities. The office of  
8 financial management shall provide necessary professional and technical  
9 assistance to assist state agencies in the development of strategic  
10 plans that include the mission of the agency and its programs,  
11 measurable goals, strategies, and performance measurement systems.

12 (4) Each state agency shall adopt procedures for and perform  
13 continuous self-assessment of each (~~(program and)~~) activity, using the  
14 mission, goals, objectives, and measurements required under subsections  
15 (2) and (3) of this section. The assessment of the activity must also  
16 include an evaluation of major information technology systems or  
17 projects that may assist the agency in achieving or making progress  
18 toward the activity purpose and statewide priorities. The evaluation  
19 of proposed major information technology systems or projects shall be  
20 in accordance with the standards and policies established by the  
21 information services board. Agencies' progress toward the mission,  
22 goals, objectives, and measurements required by subsections (2) and (3)  
23 of this section is subject to review as set forth in this subsection.

24 (a) The office of financial management shall regularly conduct  
25 reviews of selected activities to analyze whether the objectives and  
26 measurements submitted by agencies demonstrate progress toward  
27 statewide results.

28 (b) The office of financial management shall consult with the  
29 higher education coordinating board and the state board for community  
30 and technical colleges in those reviews that involve institutions of  
31 higher education.

32 (c) The goal is for all major activities to receive at least one  
33 review each year.

34 (d) The office of financial management shall consult with the  
35 information services board when conducting reviews of major information  
36 technology systems in use by state agencies. The goal is that reviews  
37 of these information technology systems occur periodically.

1 (5) It is the policy of the legislature that each agency's budget  
2 (~~proposals~~) recommendations must be directly linked to the agency's  
3 stated mission and program, quality, and productivity goals and  
4 objectives. Consistent with this policy, agency budget proposals must  
5 include integration of performance measures that allow objective  
6 determination of (~~a program's~~) an activity's success in achieving its  
7 goals. When a review under subsection (4) of this section or other  
8 analysis determines that the agency's objectives demonstrate that the  
9 agency is making insufficient progress toward the goals of any  
10 particular program or is otherwise underachieving or inefficient, the  
11 agency's budget request shall contain proposals to remedy or improve  
12 the selected programs. The office of financial management shall  
13 develop a plan to merge the budget development process with agency  
14 performance assessment procedures. The plan must include a schedule to  
15 integrate agency strategic plans and performance measures into agency  
16 budget requests and the governor's budget proposal over three fiscal  
17 biennia. The plan must identify those agencies that will implement the  
18 revised budget process in the 1997-1999 biennium, the 1999-2001  
19 biennium, and the 2001-2003 biennium. In consultation with the  
20 legislative fiscal committees, the office of financial management shall  
21 recommend statutory and procedural modifications to the state's budget,  
22 accounting, and reporting systems to facilitate the performance  
23 assessment procedures and the merger of those procedures with the state  
24 budget process. The plan and recommended statutory and procedural  
25 modifications must be submitted to the legislative fiscal committees by  
26 September 30, 1996.

27 (6) In reviewing agency budget requests in order to prepare the  
28 governor's biennial budget request, the office of financial management  
29 shall consider the extent to which the agency's activities demonstrate  
30 progress toward the statewide budgeting priorities, along with any  
31 specific review conducted under subsection (4) of this section.

32 (7) In the year of the gubernatorial election, the governor shall  
33 invite the governor-elect or the governor-elect's designee to attend  
34 all hearings provided in RCW 43.88.100; and the governor shall furnish  
35 the governor-elect or the governor-elect's designee with such  
36 information as will enable the governor-elect or the governor-elect's  
37 designee to gain an understanding of the state's budget requirements.  
38 The governor-elect or the governor-elect's designee may ask such

1 questions during the hearings and require such information as the  
2 governor-elect or the governor-elect's designee deems necessary and may  
3 make recommendations in connection with any item of the budget which,  
4 with the governor-elect's reasons therefor, shall be presented to the  
5 legislature in writing with the budget document. Copies of all such  
6 estimates and other required information shall also be submitted to the  
7 standing committees on ways and means of the house and senate.

8 **Sec. 3.** RCW 43.88.030 and 2004 c 276 s 908 are each amended to  
9 read as follows:

10 (1) The director of financial management shall provide all agencies  
11 with a complete set of instructions for submitting biennial budget  
12 requests to the director at least three months before agency budget  
13 documents are due into the office of financial management. The  
14 director shall provide agencies and committees that are required under  
15 RCW 44.40.070 to develop comprehensive six-year program and financial  
16 plans with a complete set of instructions for submitting these program  
17 and financial plans at the same time that instructions for submitting  
18 other budget requests are provided. The budget document or documents  
19 shall consist of the governor's budget message which shall be  
20 explanatory of the budget and shall contain an outline of the proposed  
21 financial policies of the state for the ensuing fiscal period, as well  
22 as an outline of the proposed six-year financial policies where  
23 applicable, and shall describe in connection therewith the important  
24 features of the budget. The biennial budget document or documents  
25 shall also describe performance indicators that demonstrate measurable  
26 progress towards priority results. The message shall set forth the  
27 reasons for salient changes from the previous fiscal period in  
28 expenditure and revenue items and shall explain any major changes in  
29 financial policy. Attached to the budget message shall be such  
30 supporting schedules, exhibits and other explanatory material in  
31 respect to both current operations and capital improvements as the  
32 governor shall deem to be useful to the legislature. The budget  
33 document or documents shall set forth a proposal for expenditures in  
34 the ensuing fiscal period, or six-year period where applicable, based  
35 upon the estimated revenues and caseloads as approved by the economic  
36 and revenue forecast council and caseload forecast council or upon the  
37 estimated revenues and caseloads of the office of financial management

1 for those funds, accounts, sources, and programs for which the forecast  
2 councils do not prepare an official forecast, including those revenues  
3 anticipated to support the six-year programs and financial plans under  
4 RCW 44.40.070. In estimating revenues to support financial plans under  
5 RCW 44.40.070, the office of financial management shall rely on  
6 information and advice from the transportation revenue forecast  
7 council. Revenues shall be estimated for such fiscal period from the  
8 source and at the rates existing by law at the time of submission of  
9 the budget document, including the supplemental budgets submitted in  
10 the even-numbered years of a biennium. However, the estimated revenues  
11 and caseloads for use in the governor's budget document may be adjusted  
12 to reflect budgetary revenue transfers and revenue and caseload  
13 estimates dependent upon budgetary assumptions of enrollments,  
14 workloads, and caseloads. All adjustments to the approved estimated  
15 revenues and caseloads must be set forth in the budget document. The  
16 governor may additionally submit, as an appendix to each supplemental,  
17 biennial, or six-year agency budget or to the budget document or  
18 documents, a proposal for expenditures in the ensuing fiscal period  
19 from revenue sources derived from proposed changes in existing  
20 statutes.

21 Supplemental and biennial documents shall reflect a six-year  
22 expenditure plan consistent with estimated revenues from existing  
23 sources and at existing rates for those agencies required to submit  
24 six-year program and financial plans under RCW 44.40.070. Any  
25 additional revenue resulting from proposed changes to existing statutes  
26 shall be separately identified within the document as well as related  
27 expenditures for the six-year period.

28 The budget document or documents shall also contain:

29 (a) Revenues classified by fund and source for the immediately past  
30 fiscal period, those received or anticipated for the current fiscal  
31 period, those anticipated for the ensuing biennium, and those  
32 anticipated for the ensuing six-year period to support the six-year  
33 programs and financial plans required under RCW 44.40.070;

34 (b) The undesignated fund balance or deficit, by fund;

35 (c) Such additional information dealing with expenditures,  
36 revenues, workload, performance, and personnel as the legislature may  
37 direct by law or concurrent resolution;

1 (d) Such additional information dealing with revenues and  
2 expenditures as the governor shall deem pertinent and useful to the  
3 legislature;

4 (e) Tabulations showing expenditures classified by fund, function,  
5 ((activity,)) and agency((. ~~However, documents submitted for the 2005-~~  
6 ~~07 biennial budget request need not show expenditures by activity));~~

7 ((~~A delineation of each agency's activities, including those~~  
8 ~~activities funded from nonbudgeted, nonappropriated sources, including~~  
9 ~~funds maintained~~)) The expenditures that include nonbudgeted,  
10 nonappropriated accounts outside the state treasury;

11 (g) Identification of all proposed direct expenditures to implement  
12 the Puget Sound water quality plan under chapter 90.71 RCW, shown by  
13 agency and in total; and

14 (h) Tabulations showing each postretirement adjustment by  
15 retirement system established after fiscal year 1991, to include, but  
16 not be limited to, estimated total payments made to the end of the  
17 previous biennial period, estimated payments for the present biennium,  
18 and estimated payments for the ensuing biennium.

19 (2) The budget document or documents shall include detailed  
20 estimates of all anticipated revenues applicable to proposed operating  
21 or capital expenditures and shall also include all proposed operating  
22 or capital expenditures. The total of beginning undesignated fund  
23 balance and estimated revenues less working capital and other reserves  
24 shall equal or exceed the total of proposed applicable expenditures.  
25 The budget document or documents shall further include:

26 (a) Interest, amortization and redemption charges on the state  
27 debt;

28 (b) Payments of all reliefs, judgments, and claims;

29 (c) Other statutory expenditures;

30 (d) Expenditures incident to the operation for each agency;

31 (e) Revenues derived from agency operations;

32 (f) Expenditures and revenues shall be given in comparative form  
33 showing those incurred or received for the immediately past fiscal  
34 period and those anticipated for the current biennium and next ensuing  
35 biennium, as well as those required to support the six-year programs  
36 and financial plans required under RCW 44.40.070;

37 (g) A showing and explanation of amounts of general fund and other

1 funds obligations for debt service and any transfers of moneys that  
2 otherwise would have been available for appropriation;

3 (h) Common school expenditures on a fiscal-year basis;

4 (i) A showing, by agency, of the value and purpose of financing  
5 contracts for the lease/purchase or acquisition of personal or real  
6 property for the current and ensuing fiscal periods; and

7 (j) A showing and explanation of anticipated amounts of general  
8 fund and other funds required to amortize the unfunded actuarial  
9 accrued liability of the retirement system specified under chapter  
10 41.45 RCW, and the contributions to meet such amortization, stated in  
11 total dollars and as a level percentage of total compensation.

12 (3) The governor's operating budget document or documents shall  
13 reflect the statewide priorities as required by RCW 43.88.090.

14 (4) The governor's operating budget document or documents shall  
15 identify activities that are not addressing the statewide priorities.

16 (5) A separate capital budget document or schedule shall be  
17 submitted that will contain the following:

18 (a) A statement setting forth a long-range facilities plan for the  
19 state that identifies and includes the highest priority needs within  
20 affordable spending levels;

21 (b) A capital program consisting of proposed capital projects for  
22 the next biennium and the two biennia succeeding the next biennium  
23 consistent with the long-range facilities plan. Inasmuch as is  
24 practical, and recognizing emergent needs, the capital program shall  
25 reflect the priorities, projects, and spending levels proposed in  
26 previously submitted capital budget documents in order to provide a  
27 reliable long-range planning tool for the legislature and state  
28 agencies;

29 (c) A capital plan consisting of proposed capital spending for at  
30 least four biennia succeeding the next biennium;

31 (d) A strategic plan for reducing backlogs of maintenance and  
32 repair projects. The plan shall include a prioritized list of specific  
33 facility deficiencies and capital projects to address the deficiencies  
34 for each agency, cost estimates for each project, a schedule for  
35 completing projects over a reasonable period of time, and  
36 identification of normal maintenance activities to reduce future  
37 backlogs;

38 (e) A statement of the reason or purpose for a project;

- 1 (f) Verification that a project is consistent with the provisions  
2 set forth in chapter 36.70A RCW;
- 3 (g) A statement about the proposed site, size, and estimated life  
4 of the project, if applicable;
- 5 (h) Estimated total project cost;
- 6 (i) For major projects valued over five million dollars, estimated  
7 costs for the following project components: Acquisition, consultant  
8 services, construction, equipment, project management, and other costs  
9 included as part of the project. Project component costs shall be  
10 displayed in a standard format defined by the office of financial  
11 management to allow comparisons between projects;
- 12 (j) Estimated total project cost for each phase of the project as  
13 defined by the office of financial management;
- 14 (k) Estimated ensuing biennium costs;
- 15 (l) Estimated costs beyond the ensuing biennium;
- 16 (m) Estimated construction start and completion dates;
- 17 (n) Source and type of funds proposed;
- 18 (o) Estimated ongoing operating budget costs or savings resulting  
19 from the project, including staffing and maintenance costs;
- 20 (p) For any capital appropriation requested for a state agency for  
21 the acquisition of land or the capital improvement of land in which the  
22 primary purpose of the acquisition or improvement is recreation or  
23 wildlife habitat conservation, the capital budget document, or an  
24 omnibus list of recreation and habitat acquisitions provided with the  
25 governor's budget document, shall identify the projected costs of  
26 operation and maintenance for at least the two biennia succeeding the  
27 next biennium. Omnibus lists of habitat and recreation land  
28 acquisitions shall include individual project cost estimates for  
29 operation and maintenance as well as a total for all state projects  
30 included in the list. The document shall identify the source of funds  
31 from which the operation and maintenance costs are proposed to be  
32 funded;
- 33 (q) Such other information bearing upon capital projects as the  
34 governor deems to be useful;
- 35 (r) Standard terms, including a standard and uniform definition of  
36 normal maintenance, for all capital projects;
- 37 (s) Such other information as the legislature may direct by law or  
38 concurrent resolution.

1 For purposes of this subsection (~~((3))~~) (5), the term "capital  
2 project" shall be defined subsequent to the analysis, findings, and  
3 recommendations of a joint committee comprised of representatives from  
4 the house capital appropriations committee, senate ways and means  
5 committee, legislative transportation committee, legislative evaluation  
6 and accountability program committee, and office of financial  
7 management.

8 (~~((4))~~) (6) No change affecting the comparability of agency or  
9 program information relating to expenditures, revenues, workload,  
10 performance and personnel shall be made in the format of any budget  
11 document or report presented to the legislature under this section or  
12 RCW 43.88.160(1) relative to the format of the budget document or  
13 report which was presented to the previous regular session of the  
14 legislature during an odd-numbered year without prior legislative  
15 concurrence. Prior legislative concurrence shall consist of (a) a  
16 favorable majority vote on the proposal by the standing committees on  
17 ways and means of both houses if the legislature is in session or (b)  
18 a favorable majority vote on the proposal by members of the legislative  
19 evaluation and accountability program committee if the legislature is  
20 not in session.

21 NEW SECTION. **Sec. 4.** If specific funding for the purposes of this  
22 act, referencing this act by bill or chapter number, is not provided by  
23 June 30, 2005, in the omnibus appropriations act, this act is null and  
24 void.

Passed by the House February 14, 2005.  
Passed by the Senate April 14, 2005.  
Approved by the Governor May 11, 2005.  
Filed in Office of Secretary of State May 11, 2005.