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TO: ALL DEPARTMENT AND AGENCY HEADS

FROM: Carole E. Stone *CS*

SUBJECT: Financial Management Plans and Guidelines for Fiscal Year 2004-05

This Bulletin provides direction to agencies for continued cost containment and the development of savings proposals for 2004-05 and beyond, to assist in achieving short and longer-term budget balance. **The Financial Management Plans described by this Bulletin must be submitted to your budget examination unit by October 5, 2004.**

Overview

As you know, the 2004-05 Budget passed by the Legislature left the State with a projected current-year Financial Plan imbalance of \$670 million, and a 2005-06 gap of \$5 billion to \$6 billion. Additionally, the 2006-07 gap could be more than \$7 billion. Although the Governor's veto actions reduced these imbalances by over \$200 million in each of the three years, more than \$400 million in additional savings must be achieved to reach balance in 2004-05, and to begin closing the still-remaining gaps in the following years.

These structural budget gaps must be addressed decisively if we are to preserve the gains made since 1995 in the fiscal and economic condition of the State and continue to be responsive to real needs for essential governmental services.

Agencies' Financial Management Plan proposals should be based on rethinking and redefining core programs, delivering those programs at lower cost, and eliminating non-core functions. Actions proposed should serve as a transition to larger reductions required in the 2005-06 Executive Budget necessary to restore structural budget balance.

Agencies' Financial Management Plans: Guidelines

At a minimum, agencies' plans must address the following types of savings:

- **Administrative Restructuring or Elimination of Functions:** The current fiscal challenges demand that we meet an even higher standard in justifying and allocating

resources to existing functions. Minor efficiencies, while desirable, will not restore structural balance. It is necessary to identify fundamental cost-saving changes to agency functions. Accordingly, agency heads must analyze operations, assign priority rankings to activities and identify lower-priority functions that might be eliminated. Innovative approaches to streamlining functions should also be developed. As always, maintaining health and safety should be a priority.

- **Maximizing Federal Aid and other non-General Fund Resources:** Agencies are asked to identify all feasible means of increasing the amount of Federal aid. Exploration of such initiatives should include consideration of realigning responsibilities within and among State agencies and other levels of government, and restructuring programs and services where such changes might increase the level of Federal funding or other non-General Fund resources.
- **Statutory Changes:** While agency plans should begin with a focus on proposals that can be implemented at the Executive's administrative discretion, agencies are also expected to identify savings opportunities that require statutory authorization. As part of the State's overall Fiscal Management Plan, such proposals may be presented to the Legislature for action in the current year – both to achieve 2004-05 savings and to maximize savings in subsequent years.
- **Administrative and Other Efficiencies:** Agency heads are expected to continue their previously established controls to limit expenses to only those that are absolutely essential to delivery of core agency services. As previously stipulated in Budget Bulletin B-1167, this should include but not be limited to restrictions on personal service (continue the hiring freeze and minimize overtime and other personal service costs); travel (only necessary travel permitted); printing and mailing costs (rely on Web publication in lieu of hard copy); contracts (defer or eliminate non-critical contracts); and other NPS costs (reduce or eliminate conferences, equipment purchases, and all non-mission-critical NPS expenses).

The above list is illustrative; agency proposals should not be constrained by these examples, but should reflect the fullest use of each agency's creativity, expertise and managerial skills. All proposals should be discussed with your budget examination unit throughout the development process.

Please begin discussions immediately with the appropriate Budget Division staff and submit your agency's plan, identifying and valuing proposals, to your budget examination unit no later than October 5, 2004. Your discussions and the submission should be considered Confidential Policy Advice to the Budget Director.

Questions on this Bulletin should be directed to your budget examiner.

PLEASE NOTE: This Bulletin supersedes Budget Bulletin B-1167.