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BUDGET BULLETIN	B-1178	April 21, 2008

TO: ALL DEPARTMENT AND AGENCY HEADS

FROM: Laura L. Anglin

SUBJECT: Spending Reduction/Financial Management Plans for 2008-09

This Bulletin establishes guidelines for the development of Agency Spending Reduction/Financial Management Plans for implementing the enacted 2008-09 budget and maintaining both budget balance and critical program goals. **Agency head-approved Plans should be submitted to each agency's budget examination unit no later than May 16, 2008. Upon submission agency heads should be prepared to meet with me and Executive Chamber staff, if necessary, to thoroughly discuss their Plans.**

Last month, Governor Paterson proposed $800 million in additional spending reductions necessary to protect the State's finances in an increasingly difficult economic and fiscal climate. The enacted Budget relies on these spending reductions, which include recurring across-the-board cuts to State Operations and local assistance programs, to help maintain budget balance in 2008-09 and to mitigate out-year deficits.

These reductions are not optional: maintaining budget balance demands that these savings targets be met. Implementing these reductions will be a major focal point of budget execution for 2008-09, and ensuring that they recur will be a key guideline for developing future budgets. Pursuant to Budget Reform, the State is required to submit a multi-year financial plan. In that plan, the State has disclosed significant budget gaps in the 2009-10 fiscal year and in subsequent years, making the achievement of recurring savings essential.

Managing this Budget will necessarily require a serious commitment and an extraordinary effort by the management and staff of your agency, the Division of the Budget and the Executive Chamber. We will need to have your full cooperation in that effort.

Agencies' Spending Reduction/Financial Management Plans should involve delivering core programs more efficiently and eliminating non-core functions and non-essential spending. The demands of the current fiscal climate, combined with the start of Governor Paterson's Administration, provide an opportunity to take a fresh look at what we do and how we do it and the return on investments in programs and services.

Financial Management Plans should also be consistent with the Priorities for Agency Results that are included in the periodic Reports to the Director of State Operations. To the extent possible, Financial Management Plans should also include financial and performance measures. The Division of the Budget will work with you, the Director of State Operations and Program Staff to continue work toward developing a suitable set of financial and performance measurements for each agency.

Financial Management Plans for 2008-09: Guidelines

Authorized agency-specific cash disbursement amounts and initial FTE levels which will be adjusted in accordance with your Plan will be communicated to agencies directly by each agency's budget examination unit. These limits will serve as the basic parameters for the 2008-09 Spending Reduction/Financial Management Plans.

In general, the Plan must be a comprehensive document that describes how the agency will balance three policy objectives:

- Managing within the 2008-09 fiscal limitation that is set for each agency;
- Preserving and furthering progress toward significant policy/program goals to the maximum extent possible; and
- Determining the optimal approaches to ensure the spending reductions recur in 2009-10 and the subsequent fiscal years.

Agencies should consult extensively with their examination units, and with their deputy secretaries in the Executive Chamber regarding preservation and furtherance of progress on policy goals, in the course of developing their Plans. The Plan must address the following:

<u>All Spending Categories</u>. For both short- and longer-term planning purposes, all agency programs and operations should be scrutinized to identify opportunities to eliminate less essential activities and spending on non-essential items, increase efficiency and improve outcomes. Your Plan should identify fundamental cost-saving changes and recurring savings. **Proposals for recurring savings, for the current year and 2009-10 and beyond, are a mandatory component in each agency's plan.**

<u>State Operations – Generally</u>. The agency-wide General Fund <u>and</u> Special Revenue-Other cash disbursement amounts that will be provided to you reflect an across-the-board savings of 3.35% of the Budget recommendations for State Operations. These cash savings are a critical element of the Financial Plan for 2008-09 and beyond. To provide flexibility in attaining required savings, State Operations appropriations were not reduced to reflect these cash savings amounts in the enacted Budget. **However, achieving recurring savings in each agency is mandatory.**

Agencies will be given wide latitude to propose means of achieving the savings in personal service and nonpersonal service. However, we expect that agencies will balance their personal service and nonpersonal service actions so as not to disproportionately impact either.

State Operations – Personal Service. As part of meeting the State Operations savings goals on a recurring basis, it is expected that agencies will propose increased attrition savings and reduced staffing levels. A substantial increase in the workforce occurred in 2007-08 to meet certain critical needs, and additional hiring has been authorized by the enacted Budget to support specific initiatives. In the current fiscal circumstances, further workforce growth must be constrained. To assist in our statewide workforce planning**, each agency's Plan must include a staffing plan** that reflects the agency head's assessment of how to reduce personal service spending and use staff resources most effectively. This assessment should include a review of all positions in all jurisdictional classifications. In addition, the agency's Plan must address how the filling of jobs will be managed and controlled to ensure that personal service savings are achieved.

Current and planned staffing patterns should be evaluated to determine the optimal allocation of numbers and types of staff to specific functions. Lower-priority activities should be considered for elimination or reduced staffing. Situations in which staffing could be shifted from non-essential purposes to achieve savings, increase revenue or improve outcomes in important program areas should also be highlighted.

Any planned new hiring should be closely reevaluated to determine whether it is critical or if it can be modified to yield personal service savings. Additionally, previously anticipated refilling of positions expected to be vacated through attrition should be reassessed and modified wherever possible to reduce the workforce and generate recurring savings. As a rule, hiring should be limited to positions that are critical to the agency's mission or needed to maintain health and safety requirements.

State Operations – Nonpersonal Service (NPS). Significant economies must be achieved to help generate the State Operations savings assumed in the enacted Budget. Spending must be limited to essential needs and all non-essential NPS must be eliminated. All NPS obligations must be approved by the agency head, either as specific transactions or pursuant to a plan approved by the agency head. Spending for technology acquisitions, office equipment and supplies, conferences, publications, travel (particularly out of state travel), and contractual services should be subjected to particular scrutiny, and should not be approved without a compelling reason.

Agencies should include in their Plans the agency head-approved plan for NPS spending, and otherwise notify the Division of the procedures being used to minimize and control NPS expenditures.

Aid to Localities. In general, non-entitlement Aid to Localities programs were subjected to a 2% reduction in the enacted Budget, which is reflected in the cash disbursement limits provided to you. Unlike the State Operations area, the affected local appropriations were reduced in the 2008-09 enacted Budget to reflect the planned cash savings. Given the proportion of the budget represented by local assistance programs, this spending must be closely scrutinized as a source of recurring savings for this year and beyond. To this end, opportunities to eliminate or reshape local assistance programs or achieve efficiencies in program administration should be identified and advanced wherever appropriate. The assumptions behind spending projections for essential programs, including caseload and utilization levels, also should be reexamined and verified or adjusted as appropriate.

Capital Projects. All projects "in the pipeline" should be examined with respect to need, scope and consistency with this Administration's program and fiscal priorities. Non-essential projects at an appropriate stage of development should be identified for possible deferral or cancellation. Decisions to advance projects will be based on considerations including health, safety, the need to support essential services and long-term program plans, and the responsible preservation of State assets. Agencies should implement Commissioner level approval processes to ensure that capital projects will not be advanced during 2008-09 without such a justification.

Plan Document: Submission on or before May 16

Using the attached format as a general guideline, the specific form of each agency's Plan should be determined jointly by the agency and its Budget examination unit. At a minimum, however, each plan must include:

- A detailed plan (narrative and tables) for achieving the total savings that are assumed for the agency in the 2008-09 Financial Plan, with specific attention to each of the above spending categories and to producing recurring savings;
- A staffing plan that reflects the agency head's recommendations for managing the workforce such that savings are achieved, to the maximum extent possible, through the redeployment and reduction of staff through attrition;
- A narrative describing the agency's proposed process for reviewing/approving NPS spending;
- A narrative describing how the agency will implement or modify priority initiatives in 2008-09 such that they can be accommodated within the agency's cash disbursement and reduced FTE targets;
- An identification of the underlying assumptions incorporated within the Plan (e.g., assumed adoption of new regulations, a Federal government action, securing cooperation from another State agency, etc.);
- An evaluation of the risks attendant to your Plan and the approach by which the agency will manage such risks;
- A plan or framework for continuing the identified 2008-09 savings in 2009-10 through 2011-12;
- An identification of other savings opportunities that might be used if needed to generate additional savings in 2008-09;
- Identification of areas that will be examined more closely during 2008-09 as potential sources of savings and opportunities for operational improvements in the future; and
- A plan and format for monthly reporting on: actual spending vs. planned spending for each major category (State Operations, local assistance and capital); FTE levels; and key strategic and performance metrics.

Please begin discussions immediately with the appropriate Budget Division staff and submit two copies of your Agency's Plan to the responsible Budget examination unit no later than May 16, 2008. Your discussions and the resulting Plan submission should be considered Confidential Policy Advice to the Budget Director, with the understanding that upon approval such plans are subject to public release.

Questions

Questions on this Bulletin should be directed to your agency's Budget examination unit. Please do not hesitate to ask for guidance if you have questions about the format or substance of these Plans.

Note: This Bulletin applies to the 2008-09 fiscal year and supersedes all previous Budget Bulletins regarding spending plans and limitations.

Attachment