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EXECUTIVE DEPARTMENT
DIVISION OF THE BUDGET
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TO: ALL DEPARTMENT AND AGENCY HEADS
FROM: Laura L. Anglin 
SUBJECT: 7 Percent State Operations Reductions

In accordance with the Governor's recent directive to immediately reduce State Operations spending, this Bulletin establishes guidelines for the development of agency approaches to reducing State Operations projected 2008-09 cash disbursements, as reported in the recent First Quarterly Update to the Financial Plan, by 7%. As noted in the Update, in total these reductions will generate statewide savings of \$630 million to ensure budget balance in the current year. The Financial Plan further anticipates that \$500 million of this savings will be recurring, and thus begin to address the out-year gaps.

This new spending reduction requirement is in addition to the State Operations savings you are already implementing as a result of the Enacted Budget's 3.35% spending reductions. Managing the 2008-09 Budget in light of the worsening fiscal situation will necessarily require a diligent effort by the management and staff of your agency, the Division of the Budget and the Governor's Office. We will need to have your full commitment and cooperation in that effort.

As with our earlier efforts, agencies' 7% savings strategies should focus on delivering core programs more efficiently and eliminating non-core functions and non-essential spending. The work you are now completing pursuant to Budget Bulletin B-1181 to inventory all of your agency programs and assess their relative relationship to the agency's core mission should be helpful in identifying opportunities for savings.

7 Percent Reduction Guidelines:

Your Division of the Budget examination unit will provide you with specific cash amounts that reflect your current cash disbursement estimate, the required 7% savings amount and the resulting revised cash disbursement estimate for 2008-09. These limits will serve as the basic parameters for your initiatives to achieve the 7% savings.

In general, your approach to achieving the required savings must balance the following main objectives:

- Managing within the revised 2008-09 fiscal limitation that is set for each agency;

- Preserving significant policy/program goals to the extent possible, while still identifying opportunities for efficiencies; and
- Determining the optimal approaches to ensure that all, or nearly, all of 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 in the course of identifying actions to achieve the 7% savings. Those actions must address the following:

State Operations – Generally. The agency-wide General Fund and Special Revenue-Other cash disbursement amounts that will be provided to you reflect an across-the-board savings of 7% in State Operations. Agencies will have wide latitude to propose means of achieving the savings in personal service and nonpersonal service. However, agencies must balance their personal service and nonpersonal service actions so as not to disproportionately impact either, and to ensure recurring savings in both categories.

All agency programs and operations should be critically reviewed to identify opportunities to eliminate less essential activities and spending on non-essential items, increase efficiency and improve outcomes. You should identify fundamental cost-saving changes to provide recurring savings.

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. 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 considered.

State Operations – Nonpersonal Service (NPS). Significant NPS economies must be achieved to help generate the State Operations savings required at this time. 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 must be subjected to particular scrutiny, and should not be approved unless it is critical to sustaining the agency's core mission activities.

Aid to Localities. As you know, the Governor and Legislature reached agreement in this week's Special Session on Aid to Localities spending cuts valued at \$427 million in 2008-09 and \$649M in 2009-10. Those cuts are separate and apart from the State Operations savings that are the subject of this Bulletin. Any interactions between the enacted local assistance cuts and State Operations – e.g., opportunities to achieve efficiencies in program administration – should be identified in your discussions with your budget examination unit and Executive Chamber staff.

Report on Agency Savings Initiatives

Given the urgency of the fiscal situation and the need to quickly implement cost savings measures, agencies are not required to submit formal written documents to present their proposals. Instead, your strategies should be developed through meetings and discussions with your budget examination unit and Executive Chamber staff on a continuous basis over the next several weeks. As individual cost savings initiatives are identified and agreed upon, the agency should immediately begin to implement them.

A statewide report on the 7% reductions will be issued as part of the Mid-year Financial Plan Update. The report will include a description of the key initiatives that were developed and implemented to generate the savings, and a listing by agency of the estimated savings to be achieved from those initiatives.

Next Steps/Questions

Please begin discussions immediately with the appropriate Budget Division and Executive Chamber staff. Your discussions and the potential savings initiatives being considered should be treated as Confidential Policy Advice until approved and implemented.

Questions on this Bulletin should be directed to your agency's Budget examination unit.