

BUDGET LETTER

	NUMBER: 03-33
SUBJECT: 2004-05 20-PERCENT REDUCTION/ELIMINATION PROPOSALS	DATE ISSUED: September 5, 2003
REFERENCES: BL 03-18, BL 03-23	SUPERSEDES: 02-21

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Background

While the 2003-04 Budget is balanced and enacted, the State must continue to address the projected remaining funding gap in 2004-05. Many budget solutions incorporated in the 2003-04 Budget provide an ongoing benefit and help narrow the 2004-05 budget gap. However, based on the latest projections, absent further corrective actions, the remaining gap is estimated at \$7.9 billion.

All existing programs provide valuable services to the citizens of the state. However, the reality is that the current fiscal condition of the State can only afford to continue funding for the most critical and essential functions. The programs/functions/departments that provide relatively lesser value must be considered for elimination. Departments and Agencies possess the most critical knowledge about these programs; your evaluation and recommendations are required. All of your proposals will be seriously considered to allow the Administration to form the most informed reduction decisions for the State.

Fully recognizing the cumulative funding and position reductions that departments have experienced in the last couple years, the 2004-05 reduction proposals will not be realistic unless they incorporate one or more of the following:

1. The reduction or repeal of constitutionally or statutorily required activities or programs.
2. The elimination of discretionary programs.
3. Program consolidation.
4. The reorganization of Agencies, departments, boards, commission, and offices (proposed reorganizations that cross Agency jurisdictions must be submitted jointly by the affected Agencies).
5. Restructuring program responsibilities between the State and local government entities.

20-Percent Proposals—Target Applies to Each Agency

Pursuant to Budget Letter (BL) 03-18, this BL contains the instructions (Attachment I) and forms (Attachments II and III) for the Agencies¹ and departments to present proposals for the 2004-05 fiscal year. To allow the Agencies maximum flexibility, the 20-percent target applies to each Agency, not each department. These reductions are intended to be permanent. Agencies must comply with the following:

¹ From here on, "Agency" refers to either an Agency Secretary or a department that does not report to an Agency Secretary. Board and commissions, and constitutional offices are Agencies for the purpose of this BL.

- ❑ The reduction plans must be specific proposals to achieve at a minimum the 20-percent ongoing expenditure reduction level within the Agency.
- ❑ The target applies to each Agency in total, not each department within the Agency.
- ❑ The proposed options must be prioritized within the Agency with the first items on the list being the least disruptive reductions/eliminations.
- ❑ Each Agency must plan ahead and build in sufficient lead-time both for development and implementation.
- ❑ Agencies must submit 20-percent spending reduction plans even if they also provide revenue proposals.
- ❑ Proposals must be both realistic and capable of successful implementation to produce the targeted/estimated savings.
- ❑ **The only entities excluded from these reduction proposals are those in the legislative and judicial branches. Constitutionally required functions/programs are not exempted automatically because a reduced level could be carried out.**

Base for 20-percent Calculation

The 20-percent reduction is based on the amounts in the final 2003-04 Budget total (budget act and non-budget act appropriations) before any statewide amounts (e.g., Control Section 4.10 savings) are distributed to individual items. The following areas are excluded from the base, if approved by Finance Program Budget Manager (PBM):

- **Major one-time expenditures in 2003-04**—A detailed explanation of this type of expenditures must be submitted to Finance PBM no later than September 12th. Approval must be obtained prior to submittal of the reduction plans.
- **Mandatory costs**—A request with sufficient justification must be submitted to Finance PBM no later than September 12th. Approval must be obtained prior to submittal of the reduction plans. These are expenditures that are federally required, court ordered, or constitutionally required and there is no flexibility (e.g., debt service). State-mandated programs and Proposition 98 programs are not automatically exempt from the 20-percent reduction. They are not considered mandatory for the purpose of these reduction plans; legislative proposals to effect reductions will be required.

These reduction plans apply to General Fund and selected non-General funds (departments affected by these non-General funds will be separately notified by your Finance Budget Analyst).

Savings that would not count towards the 20-percent reduction plans

- One-time savings **unless** they are accompanied with ongoing savings that begin after the one-time savings cease. If the ongoing savings are of lower amounts, only the lower amounts will be counted towards the 20-percent reduction plan.
- Across-the-board reductions such as increasing salary savings.
- Fee/revenue increase or fund shift proposals. Agencies are encouraged to provide these proposals, but they will be evaluated separately from the 20-percent spending reduction proposals.

- Annualized savings not achievable in 2004-05. Only the portion of savings that is achievable in 2004-05 will be counted towards the 20-percent plan. Under all circumstances, a 20-percent reduction must be achieved in 2004-05. Therefore, Agencies are strongly encouraged to build in sufficient lead-time and formulate implementation plans to achieve the full year annualized savings in 2004-05 and thereafter.
- Personal Services reductions per BL 03-23/Control Section 4.10.

Deadlines

- **Friday, September 12**—Each Agency to submit request for exclusion from the base to the Finance PBM (see “Base for 20-Percent Calculation” above).
- **Friday, September 26**—Each Agency to submit Attachment II—A listing of reduction concepts by Agency.
- **Friday, October 10**—Submit back-up explanation on each reduction concept. Attachment III or any other reasonable format may be used.

Please submit all materials in both hard copy and electronic form to the appropriate Finance PBM. While formal Budget Change Proposals (BCPs) will not be required with the initial submission, they will be required for all reductions ultimately included in the Governor’s Budget. Throughout the decision process, Finance will provide guidance to Agencies/departments as to which ideas should be developed into formal BCPs, for which a due date will be established later in the process.

If you have any questions, please contact your Finance Budget Analyst.

/s/ Steve Peace

STEVE PEACE
Director

Attachment

2004-05

20-PERCENT PROGRAM REDUCTION/ELIMINATION DETAIL

Agency: _____

Org/Department: _____

Description of Program Option: _____

Priority Number: _____