

BUDGET LETTER

NUMBER: 15-05

SUBJECT: 2016-17 BUDGET PREPARATION GUIDELINES

DATE ISSUED: May 27, 2015

REFERENCES: BUDGET LETTERS 14-07, 14-08, 14-15 AND 14-18

SUPERSEDES: BL 14-05

TO: Agency Secretaries
 Agency Information Officers
 Department Directors
 Departmental Budget and Accounting Officers
 Departmental Chief Information Officers
 Department of Finance Budget and Accounting Staff
 Department Deputy Director for Legislation

FROM: DEPARTMENT OF FINANCE

NOTE: Budget Officers are requested to forward a copy of this Budget Letter to your facility manager and accounting officer.

The Department of Finance (Finance) is issuing this technical Budget Letter (BL) to assist departments in planning for the 2016-17 budget process. This BL contains guidelines that are applicable to the overall budget process at this time. Other technical instructions will be provided in future BLs. (Attachment I)

Deadlines and Deliverables for Budget Documents due to Department of Finance, unless otherwise noted

July 20, 2015	To request funding for information technology projects in a fall BCP, departments are required to submit Feasibility Study Reports, Special Project Reports, or equivalent documents to the Department of Technology.
August 3, 2015	Capital Outlay Budget Change Proposals (COBCP) and Five-Year Infrastructure Plans for 2016-17, including any adjustments needed to conform to the enacted 2015-16 budget, 2015 Five-Year Infrastructure Plans, and construction escalation.
August 17, 2015	Request approval for late BCP submittal.
September 2, 2015	Regular BCPs, including Budget Bill and Trailer Bill language changes.
September 14, 2015	BCPs requesting funds for legislation chaptered through August 31. If enacted after August 31, then BCPs must be submitted no later than 10 calendar days after the chaptering of the bill.
To Be Determined by Finance Budget Analyst	Enrollment, Caseload, and Population updates and local assistance estimates due, including any associated Budget Bill and Trailer Bill language changes.

<i>Deadlines for Financial Reporting Requirements (2014-15 year-end financial reports) due to State Controller's Office, unless otherwise noted</i>	
July 31, 2015	General Fund, feeder funds (0081, 0084, 0085, 0086, 0089, 0090, 0091, 0094, and 0097), and economic uncertainty funds (0374 and 0375).
August 20, 2015	All other funds.
August 20, 2015	Report of Accounts Outside the Treasury System, Report 14, due to the State Treasurer's Office.
August 20, 2015	Report of Expenditures of Federal Funds, Report 13, due to Finance, Fiscal Systems & Consulting Unit (FSCU).
September 1, 2015	Generally accepted accounting principles information, excluding independently audited financial statements.
October 1, 2015	Independently audited financial statements. If a final financial statement is not available by October 1, a draft can be submitted on October 1, with final following on October 15.

This BL provides instructions and information on the following topics.

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I. GENERAL INFORMATION

The guidelines in this BL apply primarily to BCPs related to state operations and local assistance. A BL for Capital Outlay Budget Change Proposals (COBCPs) guidelines will also be released. Unless specifically identified as COBCPs, the term BCP refers to state operations and local assistance proposals, not capital outlay; however, this BL does include components that require identification for potential facility or capital outlay costs related to state operations and local assistance BCPs.

Budget Development Guidelines: This BL provides guidelines for the technical/procedural preparation of the 2016-17 Governor's Budget. Further instructions related to FI\$Cal processes will be forthcoming.

Budget Preparation Calendar: Budget Calendars in the Budget Analyst Guide will be updated accordingly and will be available at:
<http://www.dof.ca.gov/fisa/baq/budgetcalendars.htm>.

Price Letter Standards: Price Letter Standards for 2016-17 are currently targeted for distribution in early September 2015. The Department of General Services (DGS) published an updated version of its web-based 2014-15 Price Book which lists both the 2014-15 and proposed 2015-16 rates for its services and can be viewed here:
<http://www.dgs.ca.gov/ofs/NewsEvents/PriceBookAnnouncement.aspx>.

State Administrative Manual (SAM): The budgeting chapter (Chapter 6000) of SAM is a valuable source of information on the technical aspects of the budget and legislative processes. SAM Chapter 6000 can be accessed on the Internet at:
<http://sam.dgs.ca.gov/Home.aspx>. SAM has **not** yet been updated to reflect FI\$Cal changes. Please use our additional instructions until SAM has been updated. FI\$Cal resources can be accessed here: http://www.dof.ca.gov/FISCal_Resources/view.php

Timeliness and Confidentiality: As always, strict adherence to all schedules and due dates stipulated in this memo and in the attachments is required. **Until release of the Governor's Budget, please remember that all information contained in budget documents used during the Governor's Budget development process is strictly confidential.**

II. BUDGET CHANGE PROPOSALS (BCPs)

Forms

Departments are to use form DF-46 to prepare the narrative portion of non-Capital Outlay proposals. The latest version (February 2015) of the narrative portion of the Budget Change Proposal (BCP) form is available in a Word document.

FI\$Cal Wave 1 and 2 departments will provide all necessary budget information in Hyperion either by keying the data in the system or leveraging the upload templates for data input. Non-Wave 1 and 2 departments will complete the Excel upload templates and electronically submit them to their respective Finance budget analyst. More information will be sent if further template updates are required for the fall process.

Departments may obtain current BCP forms, instructions, and BCP templates (which will be updated again for the 2016-17 cycle) from the Finance website at:

<http://www.dof.ca.gov/budgeting/forms/view.php>. Departments continue to be required to submit Budget Change Proposals in hard copy form with appropriate signatures.

Timeframe

BCPs (including requests for Budget Bill and Trailer Bill language changes, and FI\$Cal templates) must be submitted to Finance no later than **September 2, 2015**, or by an earlier date established by the Finance Program Budget Manager, per instructions to be provided later. (**Exception:** BCPs for chaptered legislation and late requests approved by Finance [see below]). All major COBCPs and the Five-Year Infrastructure Plans for 2016-17, including minor COBCPs, Capital Outlay Concept Papers (COCs), and adjustments that are needed to conform to the enacted 2015-16 budget or required changes to the escalation of construction costs are due by **August 3, 2015**.

BCPs requesting funding for information technology (IT) projects require Department of Technology approval of a Feasibility Study Report (FSR), Special Project Report (SPR), or equivalent document. Pursuant to Government Code section 11545, et seq., the Department of Technology is responsible for approving and overseeing IT projects. Therefore, departments are required to submit electronic copies of FSRs, SPRs, or equivalent documents to the Department of Technology. Per SAM section 4928, each state agency must also submit copies to the Legislative Analyst's Office. Departments are required to submit FSRs, SPRs, or equivalent documents to the Department of Technology no later than **July 20, 2015** (unless otherwise exempted by the Department of Technology), in order for Finance to consider any associated fall funding requests. Comprehensive information for IT project reporting, including instructions to assist departments in meeting Department of Technology reporting requirements, can be found in the *Statewide Information Management Manual* located at: http://www.cio.ca.gov/Government/IT_Policy/SIMM.html.

BCPs requesting funds for legislation chaptered through August 31, 2015, must be submitted no later than September 14, 2015. For bills chaptered after August 31, BCPs must be submitted **no later than 10 calendar days after the chaptering of the bill**. No BCPs for chaptered legislation will be accepted if submitted after the applicable time limit.

The Agency Secretary, or Departmental Director for those departments that do not report to an Agency Secretary, must approve any request for late BCP submittal. These late requests must be submitted in writing to **Todd Jerue**, Chief Operating Officer, Department of Finance, no later than **August 17, 2015**. Requests for late submittal are limited to those issues involving the most exceptional circumstances.

General Guidelines and Procedures for BCPs

1. **BCPs must fully conform to budget policies to be provided in the upcoming Budget Policy BL.**
2. **All information contained in BCPs is strictly confidential until release of the Governor's Budget.** Each department is responsible for maintaining the confidentiality of its respective BCPs until approved for release (usually simultaneously with the release of the Governor's Budget in January). Disapproved BCPs and disapproved versions of BCPs remain confidential working papers and must not be released. Responses to any requests for confidential budget documents under the Public Records Act or pursuant to discovery requests must be coordinated with Finance legal staff.

3. **The appropriate Agency Secretary must approve BCPs (including COBCPs).** Departments proposing changes which involve other departments or other departments' funds must obtain and attach written concurrence and/or comments on the proposed change from the affected department(s) Director(s) or designee(s) prior to submitting the BCP to Finance. **The BCP cover page requires each department's Chief Information Officer to review and sign all BCPs with IT components prior to submission to Finance.** BCPs that do not have the appropriate approval and, when applicable, concurrence and/or comments, will be returned without consideration.
4. **Funding for chaptered legislation that does not contain a specific appropriation must be absorbed or requested in a BCP or other budget request.**
5. BCPs requesting funds from a special or bond fund must be accompanied by an updated fund condition statement or by a statement of fund availability from the department administering the fund (if different from the requesting department). Bond-funded BCPs must also cite the specific bond measure and relevant chapters and sections for proposed funding (i.e., "bond pot").
6. **Departments must provide a well-written, complete BCP.** Departments must not rely on providing subsequent back-up material to respond to Finance's inquiries to provide needed justification for the request. There is not sufficient time to explain and refine every proposal through a question and answer process. BCPs that are incomplete by virtue of failing to provide relevant, critical, and substantiating information in written form may be returned to departments without analysis at the discretion of Finance. When applicable, **departments' BCPs must include any proposed provisional, trailer bill, reversion, or reappropriation language.** In the case of provisional and trailer bill language, the BCP must effectively justify the need for this language and the programmatic implications associated with it. For proposed reappropriation and reversion language, the BCP must clearly identify the relevant budget acts, items of appropriation, and funds proposed for reappropriation and reversion, as well as the appropriate timeframes for encumbrance and liquidation.
7. **BCPs must include all appropriate documentation, workload statistics, and code citations or they will be returned without consideration.** If a proposed change is funded through redirection, both the positive and negative changes must be reflected. BCPs proposing redirections must include a statement of the immediate and future impact on the program from which the resources will be redirected. When submitting a BCP that affects more than one program or subprogram, fiscal detail for each program/subprogram affected must be included. All program information must be consistent with the display in the Governor's Budget.
8. BCPs must be assigned an individual priority number and address a single issue. (Priority must be indicated by sequential numbering, with No. 1 being the highest priority.) Multiple issues may not be consolidated as a single priority. However, BCPs that address a single issue, but impact multiple programs, divisions, or units, may be consolidated.
9. BCPs must describe the methods of calculation and sources of data for all numbers used. Departments are encouraged to consult with their Finance Budget Analysts on analytical approaches, data sources, and content of the written BCPs prior to submission to Finance.

10. BCPs requesting new positions and/or programs must include both a narrative explanation and fiscal detail addressing the impact these new positions/programs will have on the facility needs of the department. **BCPs that do not include this information will not be considered. Salaries and retirement rates should be as of July 1, 2015. Retirement rates can be found in Control Section 3.60 of the upcoming 2015 Budget Act.**
11. BCPs must include a description of how the proposal is consistent with the department's strategic plan by identifying the objective(s) the BCP will support. The justification must articulate the compelling need for this proposal and its intended objectives.
12. Each BCP must include a discussion of alternative ways (other than the one being proposed and the status quo) to address the identified problem. **Submittals that do not meet this criterion will be rejected.**
13. Attachment II provides a list of designated lead agencies responsible for the coordination of specified subject areas/programs.

III. POSITION RELATED GUIDELINES

Requests for New Positions—The Administration's policy is to continue to contain the growth in authorized positions. Requests for new positions generally will be limited to redirections of existing positions. When requesting new positions, departments are required to clearly establish the long and short-term benefits to be gained by increasing personnel as opposed to other possible alternatives (e.g., automation, workload readjustments). Other alternatives that have been considered must also be identified and analyzed. BCPs requesting new positions must effectively justify why a redirection is not possible. If new positions are approved, positions will be budgeted at the mid-step, unless evidence is provided justifying a higher level for hard-to-fill classifications or based on the department's hiring practices. Finance must approve the establishment of any position above mid-step of the respective salary range.

IV. CAPITAL OUTLAY BUDGET CHANGE PROPOSALS

Major Capital Outlay Budget Change Proposals (COBCPs)

The General Guidelines and Procedures for BCPs described above also apply to COBCPs. COBCPs and Five-Year Infrastructure Plans (including requests for Budget Bill language changes) must be submitted to Finance per instructions to be provided later, no later than **August 3, 2015**, or by an earlier date established by the Finance Program Budget Manager. The BL with more specific instructions, including FI\$Cal related instructions, and due dates for submitting five-year infrastructure plans, COBCPs, and COCPs will be forthcoming.

Changes for any other reason may be deferred to the 2017-18 capital outlay budget cycle. The capital outlay process is described in SAM sections 6801, et seq. and is available at: http://www.documents.dgs.ca.gov/sam/SamPrint/new/sam_master/rev428/chap6000/6801.pdf

COBCPs and departmental Five-Year Infrastructure Plans are required to be submitted to the Legislature with the Governor's Budget pursuant to Government Code section 13100, et seq. Detailed information on the submission of Five-Year Infrastructure Plans and COBCPs for the 2016-17 fiscal year will be provided in an upcoming BL.

Minor COBCPs

COBCPs for minor capital outlay projects for 2016-17 must be submitted to Finance no later than **August 3, 2015**, or by an earlier date established by the Finance Program Budget Manager. Detailed information on the submission of Minor COBCPs for the 2016-17 fiscal year will be provided in an upcoming BL. Please note that the dollar limit for each minor capital outlay project has been adjusted to \$634,000 for most agencies and \$872,000 for departments within the Resources Agency, per Public Contract Code sections 10108 and 10108.5, respectively.

V. INFORMATION TECHNOLOGY

Line-item display in the Governor's Budget

Although "information technology" is not currently displayed as a separate line in the Request by Category in Hyperion, departments must report these costs in a manner that distinguishes the department's internal costs from consolidated data center costs. Specific information will be provided to departments in the near future as to which account category code (5346XXX) to use to report IT costs.

Departments are required to inform the Office of Technology Services (OTech) of: (1) all activities and any significant changes in IT services anticipated; and (2) the IT equipment that will be included in their budget, but obtained from the data center. Failure on the part of the department to inform the OTech could have an adverse impact on OTech's ability to support the services or the procurement.

VI. FINANCIAL REPORTING REQUIREMENTS

The following schedule applies to the 2014-15 year-end financial reports for submittal to the State Controller's Office (SCO):

July 31, 2015—General Fund, feeder funds (0081, 0084, 0085, 0086, 0089, 0090, 0091, 0094, and 0097), and economic uncertainty funds (0374 and 0375).

August 20, 2015—All other funds.

The Report of Accounts Outside the Treasury System, Report 14, must be submitted to the State Treasurer's Office and a copy to the State Controller's Office.

The Report of Expenditures of Federal Funds, Report 13, must be submitted to Finance, FSCU on or before **August 20, 2015**.

Departments are responsible for both the accuracy and timeliness of the year-end reports. **Government Code section 12461.2 authorizes the SCO to withhold any or all operating funds from a department if that department fails to submit complete and accurate financial reports within 20 days of the prescribed due dates.** Therefore, departments should plan carefully to meet year-end reporting deadlines. To assist with this process, CALSTARS departments are reminded of the availability of sample task lists, checklists, year-end training sessions, and individualized assistance through the CALSTARS Hotline: phone (916) 327-0100 or e-mail: hotline@dof.ca.gov.

The CALSTARS Training Schedule can be accessed at: <http://www.dof.ca.gov/accounting/calstars/training/view.php> and the Procedures Manual

at: <http://www.dof.ca.gov/accounting/calstars/faq/cpm/php>. Departments may also contact Finance, FSCU for assistance at (916) 324-0385 or via e-mail at: fscuhotline@dof.ca.gov.

VII. PRO RATA ASSESSMENTS AND SWCAP ALLOCATIONS

Pro Rata assessments and SWCAP (Statewide Cost Allocation Plan) allocations will be available in **late September 2015**. Guidelines will be provided in a separate BL. For an overview of Pro Rata and SWCAP, please refer to the Finance Pro Rata and SWCAP website at: <http://www.dof.ca.gov/fisa/proswcap/proswcap.htm>.

VIII. BASELINE BUDGET ADJUSTMENTS (EXPENDITURES)

Baseline Budget Adjustments (BBAs) are changes to costs of currently authorized services in the budget necessary to maintain the current level of service. BBAs will be used to make baseline expenditure adjustments in Hyperion for past year, current year, budget year, and out years through budget year plus four. There are 12 baseline adjustment types in Hyperion that can be used to make baseline expenditure changes (listed below). A separate BL will be issued to describe the 12 types of BBAs, as well as provide information for the upload template.

- Salary Adjustment
- Benefit Adjustment
- Retirement Rate Adjustment
- Budget Transparency Calculations
- Carryover/Reappropriation
- Legislation with Appropriation
- Lease Revenue Debt Service Adjustment
- Pro Rata
- SWCAP
- Miscellaneous Baseline Adjustments
- Statutory COLAs
- Other

IX. BASELINE BUDGET ADJUSTMENTS FOR REVENUES, TRANSFERS, AND LOANS

Baseline revenues, revenue transfers, loans, and loan repayments will be collected for past year, current year, budget year, and out years through budget year plus four. These baseline adjustments must be authorized under current law or policies. For transfers, loans, and loan repayments, the appropriate authority must be cited in the description of the adjustment. A separate BL will be issued to provide reporting instructions for baseline revenues, transfers, loans, and loan repayments.

X. MISCELLANEOUS

All budgets must be submitted in the FI\$Cal required program format, no exceptions.

Rounding Rules

In order to minimize rounding problems departments are required to have zeros in their last three digits for current year and budget year. Amounts of 500 and above should be rounded to one thousand; amounts below 500 should be rounded to zero. For example \$2,222,222 should be entered as \$2,222,000 and \$4,500 as \$5,000, in Hyperion. This applies to both expenditures and revenues.

Merit Salary Adjustment

Government Code section 13308.05 also includes funding for Merit Salary Adjustments (MSAs) in their definition of a workload budget. However, savings result when positions return to the bottom step after staff promotions or departures, which are then available to pay for the costs of MSAs. Therefore, departmental budgets may already have sufficient funding for this purpose and no workload budget adjustments will be made.

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

/s/ Veronica Chung-Ng

Veronica Chung-Ng
Program Budget Manager

Attachments

**ADDITIONAL TECHNICAL GUIDELINES TO BE ISSUED IN FUTURE BUDGET LETTERS OR
VIA E-MAIL NOTES**

Subject Title	Target Release Date	Last Instructions Issued	SAM/Internet Reference
Rollover Rules and Instructions in Hyperion	June	Not Applicable	
Baseline Budget Adjustments	July	Not applicable	
Statewide Policies	July	BL 14-11	
Budget Policy	July	BL 14-12	
Past Year Expenditures and Revenues	July	BL 14-16	
Salaries and Wages Spreadsheet (Authorized Positions and Cost Estimates)	July	BL 14-21	6415, et seq., 6429, 6448, 6521
Employer Retirement Contribution Rate Adjustment	July	BL 14-25	
Employee Compensation	July	BL 14-26	
Budget Transparency Calculations	TBD	Not Applicable	
Price Letter	September	BL 14-22	http://www.dgs.ca.gov/ofs/Pricebook.aspx
SWCAP/Pro Rata	September	BL 14-24	8752-8758 http://www.dof.ca.gov/FISA/PROSWCAP/Proswcap.htm
Submission of Budget Materials to the Legislature and the Legislative Analyst's Office	December	BL 14-30	

Note: Technical in person training to departments will be provided in August.

COORDINATION OF INFORMATION

For BCPs dealing with the topics listed below, lead agencies or departments have been designated. Departments seeking funding for programs in these areas must coordinate the development of all related budget components, including BCPs, with the appropriate lead agency or department.

Topic	Lead Department	Contact	Phone
AIDS	Department of Public Health /Office of AIDS	Brian Lew	449-5939
Mental Health Services Fund (3085)	Finance	Carla Castañeda	445-6423
Toxics			
Hazardous Waste Control Account (Fund 0014)	Toxic Substances Control	Sara Benson	324-2993
Toxic Substances Control Account (0557)			
Unified Program Account (0028)	Cal-EPA	Jim Bohan	327-5097
Proposition 65 (Safe Drinking Water and Toxic Enforcement Act of 1986)	Office of Environmental Health Hazard Assessment	Susan Villa	327-8044
Environmental License Plate Fund (Fund 0140)	Resources Agency	Pat Kemp	653-9709
Perinatal Services	Health Care Services	Kathleen Dong	319-9263
Temporary Assistance for Needy Families (TANF) Block Grant, including CalWORKs and TANF MOE	Social Services	Brian Dougherty	657-3750
Proposition 99 (Tobacco Tax and Health Protection Act of 1988)	Finance	Jamey Matalka	445-6423
Public Resources Account (Fund 0235)	Resources Agency	Pat Kemp	653-9709
Proposition 98 (Classroom Instructional Improvement and Accountability Act)	Finance	Lisa Mierczynski	445-0328
Proposition 117 (California Wildlife Protection Act of 1990)	Resources Agency	Pat Kemp	653-9709
Motor Vehicle Account (Fund 0044)	Finance	Jaci Thomson	322-2263
Petroleum Violation Escrow Account (Fund 0853)	Energy Commission	Mark Hutchinson	654-6718
Employee Compensation/Employer Retirement Contribution Rate Adjustments	Finance	David Munoz	445-3274
State Penalty Fund (0903)	Finance	Brendan Murphy	445-8913
Natural Resources Infrastructure Fund (0383)	Resources Agency	Pat Kemp	653-9709
Health Insurance Portability and Accountability Act (HIPAA)	Health and Human Services Agency	Elaine Scordakis	651-8066
1991 Realignment	Finance	Lee Scott	445-6423
2011 Realignment	Finance	Chi Lee	445-6423