

BUDGET LETTER

SUBJECT: GOVERNMENT EFFICIENCIES REDUCTIONS	NUMBER: 24-24
REFERENCES: CONTROL SECTION 4.05, 2024 BUDGET ACT	DATE ISSUED: August 16, 2024
	SUPERSEDES: N/A

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

FROM: DEPARTMENT OF FINANCE

Budget officers are requested to forward a copy of this budget letter to departmental Human Resources, Labor Relations, Business Services, and Information Officers.

This Budget Letter (BL) provides departments with instructions to implement the Control Section (CS) 4.05 reduction required in the 2024 Budget Act for the development of the 2025-26 Governor's Budget.

Note: Departments must allocate CS 4.05 reduction adjustments based on the CS 4.05 Government Efficiencies Reductions Workbook (Workbook) provided by the Department of Finance (Finance). Finance Budget Analysts will provide departments a pre-populated Workbook electronically by August 21, 2024.

Deadlines and Deliverables	
On or before September 9, 2024 (Monday)	CS 4.05 Government Efficiencies Reductions Workbook (see Attachment I for an example), adjustments in Hyperion, and supporting documentation due to Finance Budget Analysts. Where applicable, departments must receive concurrence from Agency and include Agency on submission of this drill.

I. Background

CS 4.05, as included in the 2024 Budget Act, provides Finance authority to reduce departmental budgets to capture state operations savings of up to 7.95 percent in fiscal year 2024-25, and ongoing, to achieve savings of over \$2.1 billion in 2024-25. The Budget includes CS 4.05 to capture ongoing savings to address the anticipated General Fund deficit in 2024-25 and future fiscal years. Pursuant to CS 4.05, departmental appropriations will be adjusted to capture savings through the Budget Executive Order process.

CS 4.05 requires Finance to report to the Legislature by January 10, 2025 (as part of the 2025-26 Governor's Budget), the total savings associated with CS 4.05 reductions, including the funding source and magnitude of savings achieved.

II. General Instructions

Finance has calculated the savings required for each department as required by CS 4.05. Required savings are based on authorized expenditures as of the 2024 Budget Act. Finance Budget Analysts will provide departments a Workbook electronically **by August 21, 2024**, identifying required savings by General Fund and all other funds, which must be completed and submitted to Finance as noted below. Departments must:

1. Identify areas for reduction beginning in 2024-25 to achieve the required ongoing savings provided in the Workbook.
2. Schedule the associated reductions to the proper item(s) of appropriation.
3. Submit the Workbook, Hyperion adjustments, and any related supporting documentation to Finance Budget Analysts no later than **September 9, 2024**. As identified in the "Deadlines and Deliverables," Agency must be included on all department submissions to indicate Agency concurrence.

This information is necessary to complete the Budget Executive Order and provide scheduling information to the State Controller's Office (SCO) pursuant to CS 4.05. If a department fails to complete all these steps within the deadline, Finance will schedule the adjustments and, in such instances, departments may not have an opportunity to request further changes.

Please refer to the instructions in Section IV CS 4.05 Government Efficiencies Reductions Workbook to determine and schedule reductions.

III. Government Efficiencies Reductions Tool Kit

Attachment II of this BL provides a list of approaches and methods departments should consider when implementing the required budgetary reductions.

It is vitally important that state government is efficient, effective, and only expends funds that are necessary for the critical operation and security of the state. As such, all state entities must take immediate action to reduce expenditures and identify all operational savings achieved. These immediate actions may include, but are not necessarily limited to, the actions identified on Attachment II.

Pursuant to the 2024 Budget Act, budgetary reductions must be ongoing. However, Finance acknowledges it may take time to implement ongoing reductions expected of departments. Therefore, savings in the 2024-25 fiscal year may be achieved through a combination of one-time and ongoing reductions to achieve the required savings, with the expectation that savings in 2025-26 are achieved entirely through permanent reductions. Required reductions specified in each department's workbook exclude one-time and limited-term funding that expires before the 2028-29 fiscal year.

IV. CS 4.05 Government Efficiencies Reductions Workbook

Checklist

Utilize the CS 4.05 Checklist worksheet to verify accurate completion of the Workbook, the

associated Hyperion entries, and the Baseline Budget Adjustment (BBA Excel Upload Template), if used. Prior to submission, departmental accounting management must approve the scheduled items and programs to ensure proper posting to SCO's system.

Workbook Summary

This worksheet summarizes targeted savings by fund type, any approved exclusions, and total required savings after exclusions. Cells within this worksheet are formula-driven, calculated using data from worksheets 1 and 2, and *cannot be changed*.

Utilize the Workbook Summary to identify total reductions required on worksheets 3 and 4. **Negative** numbers represent savings/required reductions.

Sheet 1: Fund Allocation

Review the required savings as determined by Finance on the Fund Allocation worksheet. The General Fund totals are preset and cannot be changed. Use negative numbers to allocate the required non-General Fund savings to the department's authorized special funds and nongovernmental cost funds as appropriate. Bond funds, federal funds, and reimbursements are excluded from this drill and should not be reduced. **Negative** numbers represent savings/required reductions.

The total savings allocated on the Fund Allocation tab must match the required savings provided by Finance on the Fund Allocation worksheet. Any approved changes must be accounted for on the Exclusions and Worksheet Summary worksheets.

Sheet 2: Exclusions

Given that reductions included in the 2024 Budget Act must be achieved statewide, exclusions must be narrow in scope. Generally, exclusions may be considered if they are related to directly providing a mission-critical public benefit or service, supported by Proposition 98 resources, public safety, or 24-hour care. The savings provided by Finance are based on budgeted state operations expenditures in the 2024 Budget Act and reflect the exclusion of one-time and limited-term funding, federal funds, bond funds, capital outlay, local assistance, Pro Rata and Statewide Cost Allocation Plan costs, and select other spending categories. Departments may not request exclusions associated with these funding sources.

Departments must provide to Finance the methodology for calculating exclusions, if applicable, as approved by Agency. Enter any proposed changes to the amount or distribution of required savings between General Fund and other funds on the Exclusions worksheet. Exclusions must be entered as **positive numbers**.

Departments must provide justification for each requested change and must receive concurrence from Agency **prior to submission of this drill** on Monday, September 9, 2024. Finance will review and provide final approval for any requested exclusions.

Sheet 3: Reductions

Identify the programs or areas associated with the proposed savings. The total sum of these reductions should equal the total adjustments identified on the Workbook Summary worksheet and be entered as **negative numbers**.

Departments should describe the planned reductions, including comments regarding affected programs, services, vacant or temporary/limited-term positions, and necessary statutory or regulatory changes, where applicable. Indicate if programs or activities proposed for reduction are discretionary or statutorily mandated. Describe where changes are one-time or ongoing, where applicable. The purpose of this information is to allow Finance to evaluate impacts to the department and programs.

Reductions to public-facing benefits and services should be avoided. **Departments should not implement layoffs of permanent, authorized positions to achieve required savings.**

Sheet 4: Expenditure Adjustments

Provide the unique appropriation item information (BU, Reference, Fund, Item, Program, Category, and Fund Class) for each expenditure adjustment to be entered into Hyperion. Enter categories based on planned reductions for Current Year expenditures. If adjustments to categories for Budget Year expenditures are needed, please contact your Finance Budget Analyst.

Departments must use valid appropriation items when scheduling adjustments. Finance publishes an [Active Item List](#) on its website for reference. Invalid items and program combinations cannot be processed by SCO and lead to significant delays and additional workload for departments. Typically, only those item and program combinations displayed in the 2024 Budget Act or an amendment to the 2024 Budget Act are valid.

To correctly classify funds and reduce errors, Sheet 4: Expenditure Adjustments includes a drop-down list of all funds by fund number as well as all applicable adjustment categories to select from rather than keying in manually. The fund classification will auto-populate based on the fund/category selected; federal funds and bond funds are classified as non-governmental cost funds. While this process should help minimize errors, departments must verify each fund classification by reconciling it to the [Uniform Codes Manual](#). If a fund does not appear in the drop-down list, please contact your Finance Budget Analyst prior to submission.

Total adjustments must be entered as **negative numbers**.

Crossties

Utilize this worksheet to verify all adjustments within the Workbook agree. The formula-driven crossties on this worksheet must all reflect "0" and cannot be changed.

V. Instructions—BRs in Hyperion and BBA Upload Templates

General Information

After completing the Workbook, departments are required to complete a BBA Budget Revision (BR) in Hyperion for the CS 4.05 Government Efficiencies Reductions. Adjustments in Hyperion must correspond to the adjustments listed on Sheet 4: Expenditure Adjustments. If uploading to Hyperion, departments must use the latest BBA Upload Template.

Departments must use the following for the BR created:

1. Use the standard naming conventions to provide a unique BR name (for example, 2222-XXX-BBA-2025-GB).
 - a. **REMINDER:** To improve coordination and reduce system kick outs, departments and Finance Budget Analysts should use BR sequencers that match the last three digits of the BR identifier in Hyperion. For example, BR identifier: BR 0010 with BR Name: 2222-010-BBA-2025-GB. See [Budget Request Naming Convention in Hyperion](#) for additional information.
2. For purposes of this BL, the BR Title **must** be "Section 4.05 Government Efficiencies Reductions."
3. For purposes of this BL, please set BBA Type to "**Issue Specific Adjustment.**"
4. For departments using the BBA Excel Upload Template, use the drop-down menu to select the appropriate BU, Request ID, Version, and Year.

Baseline Adjustment Type

Departments **must** select BBA type "**Issue Specific Adjustment**" from the drop-down menu in the Baseline Adjustment Type tab.

Baseline Adjustments (Expenditures)

Using the drop-down menus, specify the Item, Enactment Year, Program, and Category for each unique adjustment. **Reductions to expenditure authority must be entered as negative numbers and scheduled in 2024-25 (current year), 2025-26 (budget year), and ongoing.**

Distributed Administration Costs

Departments that distribute administrative costs may need to reflect that distribution. To properly reflect the in-and-out nature of distributed administrative costs, a three-entry approach is required:

1. Program 9900100-Administration (negative adjustment) to show the negative total being distributed to a particular program(s).
2. Program 9900200-Administration - Distributed (positive adjustment) and Category 5342500-Indirect Distributed Cost to reflect total distributed cost.
3. The program (negative adjustment) that pays for the distributed cost with Category 5342500-Indirect Distributed Cost.

This process ensures the distributed administration costs show in the program total.

If you have any questions regarding this BL, please contact your Principal Program Budget Analyst.

/s/ Jennifer Whitaker

Jennifer Whitaker
Program Budget Manager