

BUDGET LETTER

	NUMBER: 04-06
SUBJECT: 2004-05 3-PERCENT REDUCTION/ELIMINATION PROPOSALS	DATE ISSUED: March 30, 2004
REFERENCES:	SUPERSEDES: BL 03-33

TO: Agency Secretaries
Department Directors not under an Agency Jurisdiction

FROM: DEPARTMENT OF FINANCE

Background

Even though the 2004-05 Governor's Budget as proposed in January was balanced, there have been significant changes that may require additional reductions to ensure the Budget continues to be balanced. These changes include: caseload increases, new court case costs, erosion of mid-year savings, April Finance Letters and revenue uncertainty.

As part of the Governor's commitment to bring California back to a sound fiscal foundation, the Administration will enact a budget that maintains expenditures within available resources. It is essential that the upcoming May Revision continues to move toward structural balance. To this end, the Administration is requesting that additional potential budget solutions be developed by Agencies and Departments. Programs and activities that provide relatively lesser value must be considered for elimination or reduction.

Fully recognizing the cumulative program funding and position reductions that departments have experienced in the last few years, the additional 2004-05 reduction proposals should consider 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. Restructuring program responsibilities between the State and local government entities.
5. Evaluating whether remaining funding is sufficient to continue a viable program; otherwise, program elimination should be considered, instead.

3-Percent Proposals—Target Applies to Each Agency

This BL contains the instructions (Attachment I) and forms (Attachments II and III) for the Agencies¹ and departments to present additional reduction proposals for the 2004-05 fiscal year. To allow the Agencies maximum flexibility, the 3-percent target applies to each Agency, not each department. These reductions are intended to be permanent. Agencies must comply with the following:

- The reduction plans must be specific proposals to achieve at a minimum the 3-percent ongoing expenditure reduction level (for state operations and local assistance) within the Agency. The 3-percent can be achieved by any combination of reductions to state operations and local assistance, as determined by the Agency.

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 target applies to each Agency in total, not each department within the Agency. In other words, an Agency may propose to exempt some departments/programs, while others may have a reduction that would exceed three percent, in order to achieve the overall 3-percent target for the entire 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 3-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 branch. Constitutionally required functions/programs are not exempted automatically to the extent that a reduced level could be carried out.**

Base for 3-percent Calculation

The 3-percent reduction is based on the 2004-05 amounts for state operations and local assistance in the 2004-05 Governor's Budget. These include budget act and non-budget act items and apply to non-Proposition 98 General Fund. The only exemptions are expenditures on general obligation and lease-revenue bond debt service and judges' retirement contribution.

Savings that would not count towards the 3-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 3-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 3-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 3-percent plan. Under all circumstances, a 3-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.

Deadlines

- **Wednesday, April 7**—Each Agency to submit Attachment II—A listing of reduction concepts by Agency.
- **Monday, April 12**—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 Program Budget Manager. While formal Finance Letter Requests (FL Requests) will not be required with the initial submission, they will be required for all reductions ultimately included in the May Revision. Throughout the decision making process, Finance will involve the Agencies and provide guidance to Agencies/departments regarding which proposals should be developed into formal FL Requests, including necessary trailer bill language.

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

/s/ Michael C. Genest

MICHAEL C. GENEST
Chief Deputy Director

Attachments

2004-05

3-PERCENT PROGRAM REDUCTION/ELIMINATION DETAIL

Agency: _____

Org/Department: _____

Description of Program Option: _____

Priority Number: _____