



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

Date: September 5, 2008

To: All Agency Heads

From: Robert L. Genuario, Secretary
Office of Policy and Management

Re: Budget Options – Note changes to process

OVERVIEW

On July 25th, Governor Rell initiated the process for her FY2010-FY2011 Biennial Budget submission to the General Assembly in February. In reference to the national economic climate, Governor Rell stated in her letter to agency heads “There is no doubt that our financial situation will require considerable belt-tightening this year and in the upcoming biennium.” As evidenced by the Governor’s decision to initiate allotment rescissions at the start of this fiscal year in order to address the FY’09 shortfall, it is vitally important that you take these words to heart.

Despite the national economic downturn, unlike many of our neighboring states, Connecticut was fortunate to have ended the last fiscal year with a small surplus and with \$1.38 billion in the Budget Reserve Fund. As you know, we began the new fiscal year with a projected deficit approaching \$150 million and allotment rescissions were implemented in the first quarter. OPM will be closely monitoring the situation in the weeks and months ahead for signs of further trouble. The enacted rescissions did not exhaust the Governor’s authority under CGS 4-85 and it is possible that additional rescissions will have to be implemented if our projections for the fiscal year worsen.

The Office of Fiscal Analysis has recently estimated the potential for General Fund current services budget gaps of over \$725 million in FY’10 and \$1 billion in FY’11. Without corrective action, taken together these two shortfalls would completely drain the Budget Reserve or Rainy Day Fund of its current \$1.38 billion balance, and still require an additional \$400 million of spending cuts and/or revenue increases to get into balance. A number of factors contribute to the projected gap between revenues and expenditures in the next biennium. In addition to revenue streams that are slowing down or in some cases actually declining, the FY’09 budget that was passed by the General Assembly relied heavily on one-time revenues and spending that was “pre-funded” in that it utilized surplus from prior years. Since these one-time items are not expected to be available in future years, this creates further problems for the next biennium. Lastly, the unbudgeted costs of implementing legislation that was passed in previous legislative sessions further contribute to the gaps.

Given this background, it will be difficult if not impossible to provide funding for all of the items that will be requested in the agency current services budgets. In her July 25th letter to agency heads, Governor Rell stated “Until such times as economic conditions improve, my goal is to consolidate our gains and become more efficient and effective

with taxpayer dollars.” These words should guide your thought process in terms of developing budget options for the biennium. Natural or current services growth in revenue is no longer expected to cover current services growth in expenditures. Reducing unnecessary or lower priority spending in order to preserve higher priority programs is essential.

We are initiating this process earlier than we have in past years in recognition of the difficult nature of this assignment. Governor Rell is relying upon your full cooperation in putting forth your best ideas for streamlining operations, prioritizing programs and reducing unnecessary expenditures in your agency. To this end, a series of meetings will be scheduled with Governor Rell, OPM staff and selected agencies to review and discuss their budget submittals. These meetings are scheduled to begin in mid-October after your reduction, re-allocation and revenue options have been submitted. Agency heads should be prepared to discuss all components of their submittals in the context of their statutory mandates and agency priorities.

Reduction Options

In order to insure that the Governor has a complete set of alternatives that will allow her to shape policy decisions to reflect her priorities and remain within available revenues, agencies are required to submit reduction options totaling **10%** of their 2009-10 current services budget request. Agencies should begin by identifying their highest priorities and the programs necessary to support these. Programs and activities that fall outside of these areas should be given serious consideration in your reduction options review process. Agencies should also look at issues of efficiency and effectiveness during this process. Is there a more efficient way to deliver these services? Are the services provided effective in addressing the program’s goals? What are the goals? How do we measure results? Can the agency demonstrate the effectiveness of the program? It is strongly recommended that you involve your OPM budget analyst in your internal review process.

In preparing your reduction option submittal, I would also like you and your staff to give thought to any potential mergers and program consolidations that might merit consideration at this time. If, in your discussions, areas of potential savings are identified in other state agencies, I would ask that you contact Deputy Secretary Mike Cicchetti at 418-6501 or the Executive Budget Officer John Bacewicz at 418-6444, so that the appropriate budget analyst is contacted for the necessary follow-up to occur.

Reallocation Options

Reallocation options provide an opportunity for an agency to propose shifting resources between programs in order to address higher priority needs. These options are “zero-based” in nature. An agency that has identified a need to shift resources between programs in this manner should submit a reallocation option. Reallocating agency resources to offset the potential loss of federal funds would be appropriate.

Revenue Options

Agencies are encouraged to submit revenue options where the cost/benefit is clearly beneficial to the state. Please be aware that appropriations made to secure additional revenue still count toward the expenditure cap.

Expansion Options

As in the past, no expansion options involving either the operating or capital budgets, including the pickup of federal funds, should be submitted unless prior approval of the concept has been received from the Secretary or Deputy Secretary of OPM.

No such requests, which outline the concept of the expansion option, should be submitted to the Secretary until after your agency has complied with the requirement to submit reduction options. If your reduction option submittal is made prior to the deadline of October 14th, you may submit a proposed expansion request, in written form, to the Secretary. All such requests shall be reviewed in relation to the quality of your agency reduction option submittal and the overall condition of the projected state budget. Once approval to submit is obtained, additional information regarding your option submittal will be provided.

Expansion options that will require a capital outlay should be accompanied by a companion capital budget option request. Requests for state match funding to access federal funding for a new or expanded program will be considered under the expansion options process.

SUBMISSION

Agencies are to submit their reduction, re-allocation and revenue option packages to OPM by October 14, 2008. The submittal should include: one original and two additional hard copies of the Agency Summary and the individual FY 2009-10 or FY 2010-11 Requested Options (including backup documentation and proposed legislation). Additionally, agencies are to provide a complete copy of their submission to the Office of Fiscal Analysis. Additional information will be provided at a later date regarding the deadline for any expansion options.

xc: Fiscal Officers