



STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0285

DAVE GOETZ
COMMISSIONER

August 18, 2008

MEMORANDUM

TO: All Agency Heads and Budget Officers

FROM: M. D. Goetz, Jr., Commissioner

SUBJECT: Fiscal Year 2009-2010 Budget Instructions

The Budget Office is sending instructions for submitting budget requests for fiscal year 2009-2010 to all state agency Budget Directors. As you prepare your budget request, consider the following:

- (1) The deadline for submitting the budget request is Wednesday, October 1, for both operating budget and capital budget requests. The budget development timetable requires that there be no exceptions to the deadline.
- (2) Because of current economic conditions, we must assume that we may undercollect state revenue estimates in the current year, lowering the base for projecting 2009-2010 revenues. Further, we assume that revenue growth in fiscal year 2009-2010 will be moderate, if the economy is recovering at that time. While the current-year budget is based on the assumption of 2.2 percent growth in sales tax revenues, sales tax collections for the last seven months have not grown but have declined 1.1 percent, compared with the same period of the previous year. If we assume that sales tax collections show no growth in the current fiscal year, compared with last year, and that all other tax collections meet budgeted estimates, the general fund undercollection would be \$175 million. Therefore, for 2009-2010 planning purposes, I am requiring that you submit a 3 percent base reduction contingency plan as part of your budget request for 2009-2010.
- (3) Slow revenue growth and budget requirements for next year will necessitate that we limit improvement requests to mandatory increases for existing programs and preserve available revenues for our most important priorities – education, economic development, and health care.

(4) Base requests will be presented in several phases in the October 1 request, as described below. The Budget Instructions provide directions for submitting base reduction plans. These reduction plans must be recurring and should focus on reducing personnel, departmental and program administrative overhead costs, and program operating costs. Emphasis should be on reducing actual personnel expenditures, professional services contract expenditures, and fixed operating costs. These targeted reductions should reflect department-wide program priorities which will allow you to continue providing services. Base reduction plans shall not have a negative effect on the overappropriation; that is, reduction plans shall produce recurring general fund savings that will not reduce the amount of reversion to the general fund, because this reversion already is anticipated in the budget.

Agencies funded by dedicated taxes and fees or departmental revenues also should consider budget reductions to offset any improvement requests. Any such agencies wishing to submit reduction plans should do so in the electronic format provided by the Budget Office.

(a) Normal No-Growth Base Request - The normal no-growth base request for 2009-2010 should not exceed the 2008-2009 recurring work program amount for both the state appropriation and total allotment. Justify your base request program by program, and include performance measures. Fully estimate departmental revenues available in order to minimize the state appropriations required. Any state appropriation reduction resulting from departmental revenue growth should be reflected in this normal no-growth base request.

(b) Position Reduction Shortfall in 2008-2009 - Agencies must submit base reduction plans for 2009-2010 which offset the amount by which the agency fell short of the 2008-2009 general fund reduction requirement in the statewide 5 percent personnel reduction amendment. Each state agency will be advised by the Budget Office of the agency's general fund shortfall amount. Position reductions may not include layoff of individuals who applied for the voluntary buyout program but were not accepted. For 2008-2009, agencies also should make plans to achieve savings to offset the 2008-2009 personnel reduction shortfall.

(c) 3 Percent Base Reduction Contingency Plan - Each agency shall submit a 3 percent base reduction contingency plan. The 3 percent reduction plan is to be calculated from a base comprised of the recurring 2008-2009 general fund state appropriation less the above position reduction shortfall base reduction. Reductions must be recurring. Held harmless are the Basic Education (BEF) formula and pre-kindergarten appropriations, the statutory requirement for the hazardous waste remedial action fund; constitutional and statutory salaries and benefits of judges, legislators, the 31 district attorney general positions, and the 31 public defender positions; the three indigence programs in the Court System; the Post-Conviction Defender program; Tax Relief program in the Comptroller's Office; and Cover Tennessee Health-Care Programs.

MDC:BB

Office at 741-4806.

If you have any questions about the Budget Instructions, please feel free to contact the Budget

assistance with the budget process throughout the past year. Financial management. I thank each of you for your response to our many requests for

(9) Your perspective is crucial to executive budget development, legislative enactment, and adjustments, on September 5.

(8) We intend to provide you a preliminary 2008-2009 Work Program, reflecting approved Capital Budget Coordinator, at 532-9227.

(7) Budget Officers of agencies that traditionally submit a capital budget request are receiving separate capital budget instructions. Agencies which do not receive capital budget instructions, but are planning to submit a capital budget request, should call John Carr, the

(6) Contractual Services – During the budget process, we will review contract services by agency. State agencies will be asked to develop plans for a 3 percent reduction in the value of contracts for personal services and professional services. During the budget process, after you submit your budget request, the Budget Office will provide a format for submission of the 3 percent contract reduction plan.

(b) Improvements Requiring New Funds – These should be your lower priority improvement requests. As stated above, agencies should limit these requests to mandatory increases for existing programs. We expect that recurring revenues will be available only for mandatory increases in existing programs and for education, economic development, and health care requirements.

(a) Improvements Offset by Base Reductions – The improvements offset by base reductions should be your highest priority improvement requests.

(5) Limit improvement requests to mandatory items – those required by state or federal law, court order, and contractual obligations. Justify the improvement requests and explain how they support your agency's strategic plan. Improvement requests for state-funded general fund programs are to be identified in one of two categories: (a) improvements which you will fund by off-setting base reductions in other less-essential programs; and (b) other improvements for which you will need new funds. Provide the usual justification and performance measures for all improvement requests, as explained in the detailed Budget Instructions.

(d) Base Reductions to Offset Improvement Requests – Each agency shall submit an additional general fund base reduction plan to offset the general fund cost of any requested program improvements. Improvement requests for the BEP and pre-kindergarten program are held harmless from this base reduction.