



FY 2012 BUDGET INSTRUCTIONS

Department of Finance & Management
Budget & Management Division

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A. FY 2012 Budgets

These budget instructions offer guidance in preparing responses to the serious budgetary challenges facing us in FY 2012 and beyond. They ask for a response to FY 2012 funding targets set at a decrease of 6% from FY 2011 General Fund and ARRA levels. This 6% reduction also applies to Internal Service Funds. Your FY 2011 General and Special Fund levels have been adjusted for the labor contract and retirement savings required by 2010 Act 156 Sec. B.1101(a), and the Challenges for Change savings set forth in 2010 Act 68. Responses must be approved by the Agency Secretary and Commissioner or the exempt head of your Department or Office, and **must be submitted electronically to the Governor, through the Secretary of Administration using the mail folder (adm-budget@state.vt.us) by October 18, 2010.** (See the FY 2012 Budget Development Timetable on page 10 for a complete list of due dates.)

1. Funding Levels:

Your FY 2012 General Fund targets, reflecting a 6% reduction from your adjusted FY 2011 appropriations, are an attachment to these instructions. Special and Tobacco Funds must be level funded, based on your adjusted FY 2011 appropriations. **Federal funding should be conservatively estimated, cognizant of current Federal actions and prospects. There should be no federal funding from the American Recovery and Reinvestment Act budgeted for FY 2012. Unexpired ARRA receipts from prior fiscal years should be handled as excess receipts and not appropriated again in the FY 2012 budgets.**

All FY 2012 programs, services and activities must be designed to be affordable within these reduced funding levels.

Contact your assigned Budget & Management Analyst for details about the additions and subtractions included in establishing these funding levels.

We need to add this note of caution: that depending on how the overall budgetary picture unfolds, **we may have to revisit funding targets.** Further FY 2011 and 2012 adjustments may be necessary based upon revisions to the consensus revenue forecast at the next scheduled Emergency Board meeting in January, 2011.

2. "Pressures" in FY 2012:

There may be many routine expenditure pressures that must be covered within your funding targets. While there will essentially be no COLA or step increases for FY 2012, except for those new hires who start at step 1 during the remainder of FY 2011 and during FY 2012, there may be general inflation; specific cost centers experiencing elevated price increases; other contractual increases; growing caseloads and workload demands; and reductions in federal funding.

a. Cost of salary roll-out in FY 2012

BDS has already restated your salary calculations for the 3% reduction in pay and the suspension of steps for FY 2012.

b. Health care and dental premium costs and other benefit rates:

We have centrally installed the benefit rates on the Budget Development System (BDS) for FY 2012 benefit calculations. We have not yet determined a new retirement rate; at this time, assume no change in that rate. We will notify you promptly when the retirement rate has been determined.

3. Response to funding levels:

a. Submissions due October 18, 2010:

Your submissions are due and must be submitted electronically to the Governor, through the Secretary of Administration using the mail folder (adm-budget@state.vt.us) by October 18, 2010. Please contact Linda Morse at 828-2376 to schedule meetings with Commissioner Jim Reardon at your earliest convenience. Responses must be approved by the Commissioner or the exempt head of your Agency, Department or Office.

A major focus of your additional documentation should be an explanation of the elimination and/or changes in programs, services, staffing and activities that will be needed in order to function within the FY 2012 funding levels assigned, as defined above.

b. Restructuring and Reductions:

Please itemize the restructuring, elimination and reductions in programs, services, staffing, activities, etc. necessary to meet the FY 2012 targets.

In developing your budget, elimination and/or reductions to on-going programs will be necessary to achieve base savings sufficient to place the budget on a sustainable path for the future. Any combination of proposals may be considered.

Any elimination and major reduction in programs and services that you propose should receive special attention in your response, as should any required changes in statute, rule and organization, and other legislative actions.

You will probably have to propose reductions in certain areas in order to accommodate increased expenditures in others. Do not propose reductions that you are not able to defend or savings you will not be able to achieve. Simply passing off programs or responsibilities to other entities or levels of government is also neither constructive nor acceptable.

Preference should be given to the elimination of entire program(s) and/or service(s) rather than across-the-board reductions that jeopardize the stability and sustainability of multiple programs and/or services.

Please consider whether any proposed reductions can begin in FY 2011, so that the programmatic changes will be in effect for the entire FY 2012. Please use the FY 2011 Budget Adjustment for this purpose.

Your responses will be reviewed by Finance & Management and the Secretary of Administration. Please be sure your proposals reflect your considered judgment and can be explained as the most constructive response to these funding levels.

c. Restoration of Programs, Services, Etc.:

Finally, list the order in which you would restore programs, services, etc. if your funding were to increase, and explain your rationale for the prioritization of your list.

Agencies and Departments may shift funding among programs and organizational units to best accomplish their mission and goals, as long as impacts are clearly identified.

d. Budget Development System (BDS):

Final BDS instructions have been issued and can be found on the Finance & Management website at:

http://finance.vermont.gov/sites/finance/files/pdf/training_manuals/BDS_instructions.pdf

e. Additional Detail in EXCEL or WORD:

Please provide additional detail and backup to your submission in an EXCEL or WORD document addressing the following three issues:

- Upward pressures
- Reductions needed to meet funding targets
- Priority of restoration; rationale of prioritization

A simple format for your response would be the following:

Funding target: \$

Upward pressures that you face, including the increased due to inflation, growing caseloads, reduced federal funding etc.; and changed or expanded programs, services, activities:

- | | | |
|------|------|-------------|
| 1. | \$\$ | Explanation |
| 2. | \$\$ | Explanation |
| Etc. | | |

Reductions or eliminations or revisions in programs, services, activities necessary to meet target - Please be very specific as to program / service impact.

- | | | |
|------|------|-------------|
| 1. | \$\$ | Explanation |
| 2. | \$\$ | Explanation |
| Etc. | | |

Restoration of programs, services, etc. if funding level improves. Rank in order of priority (i.e., 1= first thing to restore / add if more funding is made available):

- | | | |
|----|------|-------------|
| 1. | \$\$ | Explanation |
| 2. | \$\$ | Explanation |

Etc.

4. Final Budget Submission:

The due date for final budgets will be communicated to you at a later date.

Final budgets must be submitted via the BDS in an Agency Submitted Version "Type B". Additional materials must be submitted electronically to the Governor, through the Secretary of Administration using the mail folder (adm-budget@state.vt.us).

5. Information technology projects or activity:

The 2009-2010 Legislature made some important changes to the enabling language related to the Department of Information and Innovation. In the past, DII has had to review and approve any information technology activity with a cost in excess of \$150,000. The term activity is defined elsewhere in the statute and has been interpreted broadly as intended. Beginning with the budget for FY 2012, the threshold for project approval has been reduced to \$100,000 (and later revisions to Bulletin 3.5 will reflect this change), and in addition, the Legislature now is requiring all projects with a cost of \$100,000 or more to be identified and submitted as part of the overall DII budget submission. It is critical that your budget submissions clearly identify each and every IT related project or activity that is valued at \$100,000 or more. This is also a good time to clarify once again that in order to determine whether the threshold has been reached, departments should be including all related costs, which include any vendor contracts or reasonable estimations of those costs, third party software, hardware and internal personnel costs. In the past, this requirement has been interpreted, incorrectly, to only include costs over and above staff and related third party and/or software/hardware costs. Our expectation based on this new requirement as set forth in statute is that any such activity or project meeting or exceeding the threshold that is NOT reported as part of the unified presentation by DII may not be funded at all by the Legislature.

If you have questions about whether an activity or project for which you are planning to expend funds meets the criteria to report those projects to DII, you should contact DII Commissioner David Tucker at 828-4141.

6. New positions:

No new positions will be considered or approved in the FY 2012 budget process. However, recommendations for the transfer or conversion of existing positions may be included for consideration.

7. Strategic Overview / Program Profile / Performance Information:

To meet the form of budget requirement in 32 VSA §307(c), your final FY 2012 budget submission must include a strategic overview / program profile / performance information. Instructions for developing this report are included on the form as a separate tab and they are attached (Attachment A).

8. Budget Development Form and Interdepartmental Transfer / Federal Receipts Form:

32 VSA §307(b) requires as part of the budget submission detailed information concerning:

- (1) The specific special funds used as receipts in the budget (BDS Report SRO5).
- (2) Explanations of interdepartmental transfers, including which Department is the source. **If your funding is reliant on interdepartmental transfers, be sure to coordinate with the source Department.** Do not assume that both Departments have the same expectations. Written funding agreements are a good idea.
- (3) Budgeted positions (BDS Report CRO3L).
- (4) Changes in program funding levels and associated policy changes in the requested budget.

The BDS can provide information to satisfy the first and third of these requirements; Departments will need to supply documentation on the second and fourth.

Documentation on Interdepartmental Transfers (and Federal receipts) should be prepared on the attached %~~Interdepartmental~~ and Federal Receipts+forms (Attachment B). The %~~Budget Development Form~~+outlining changes from your FY 2011 appropriation, to your FY 2012 request is found in Attachment C.

9. Grants, gifts, loans, things of value:

32 VSA § 5 requires that **all new grants, gifts, loans or things of value** with a value over \$5,000 received by the State must be accepted in accordance with the procedure in § 5: submission to the Joint Fiscal Office through the Governor. (Form AA-1 is the administrative vehicle for this submission.) **Including these items in the budget is not a substitute for this process.** However, once duly accepted, grants (on-going revenues and expenditures) should, of course, be budgeted in subsequent years.

Please note that items of \$5,000 or less may be accepted, with notice to the Secretary of Administration and the Joint Fiscal Office (see 32 VSA Sec 5(a)(3)).

B. FY 2011 Budget Adjustment

We will not use the budget adjustment to build base spending. We will utilize the FY 2011 revenue forecast approved by the Emergency Board in January, 2011. The budget adjustment process may be considered for extraordinary needs that we have not already identified, and for internal funding changes that cannot be accommodated by administrative means (i.e., appropriation transfers, excess receipts, etc.).

The first recourse in solving budget issues is to redirect resources within your existing funding. Please bring to our attention any significant issues you mean to handle in that way, identifying the problem and your solution, and whether Budget Adjustment action (e.g., transfer of funding between appropriations) is required. Any requests for additional spending will have to meet a very high standard of necessity. Prior to consideration of a request, expenditure patterns at the

requesting department will be reviewed by your Budget and Management Analyst to ascertain expenditure rates that could have mitigated the need for the request.

We may be using the Budget Adjustment for funding and programmatic changes that can be implemented prior to FY 2012. Please bring to our attention any opportunities to trim funding, reduce or restructure and eliminate program activities in FY 2011, to ease the transition to reductions required by the significant funding constraints of FY 2012 and future fiscal years.

Further FY 2011 adjustments may be necessary based upon revisions to the consensus revenue forecast at the next scheduled Emergency Board meeting in January, 2011.

Notification of budget adjustment proposals, including those that would amend language with or without fiscal implications, should include a description of the causes of increased or decreased expenditures or receipts, the related actions already taken to contain increased spending, and the proposed remedy. Please consider for possible use against your needs any amounts you may have carried forward from FY 2010 to FY 2011. Your request should cite all specific sections of the FY 2011 Appropriations Act that are affected and include draft language of the changes required.

Your requests for inclusion in the Budget Adjustment must be submitted electronically to the Governor, through the Secretary of Administration using the mail folder (adm-budget@state.vt.us) by October 18, 2010. Responses must be approved by the Commissioner or the exempt head of your Agency, Department or Office.

We encourage requests for transfers of appropriations or expenditure of "excess receipts" that you can anticipate, that (1) represent on-going expenditures that have repeatedly been handled as excess receipts; or (2) for large amounts, to be presented for the FY 2011 Budget Adjustment. While administrative solutions (i.e., approval by the Commissioner of Finance & Management) remain available for such items that you cannot now predict, we want to utilize the Budget Adjustment more fully for the review and approval process and most certainly for sizeable and potentially controversial transfers or increased expenditures.

New grants should be submitted for approval per 32 VSA § 5. We will send them to the Joint Fiscal Committee separately; **do not include them in the Budget Adjustment as proposed changes to appropriations.**

C. Executive Fee Bill

In our 3-year cycle, the focus of the Executive Fee Bill this year will be in the functional areas of ~~general government, labor, general education, commerce and community development and transportation~~. Other than for emergency situations, only these areas of State government will be considered for inclusion in the Fee Bill. Changes in fee legislation might include: new fees, changes to existing fees, reauthorization or termination of fees, re-designating the funds into which the fees are deposited, and clarifications in current statutory authorities to charge and retain fees. Any changes you propose should be designed so that no additional adjustments would be needed at least for three years, when your opportunity to change fees will again occur.

Your fee changes should be consistent with your budget proposals and any fee changes that would create differences from revenue projections based on current fee or charge structures need to receive specific approval from your Budget and Management Analyst.

Please be sure that ALL fee change proposals are forwarded to our office for inclusion in the Fee Bill, even if the associated programmatic changes were to occur in different pieces of legislation. They may ultimately be rejoined in the other legislation, at the Legislature's discretion.

Proposals should cite the existing statute, showing exactly how it needs to be changed, and provide a strong rationale for the necessity of the change. Any revenue impact should also be clearly shown.

32 V.S.A. §605(d)(2) specifies the justifications deemed acceptable in support of fee requests, and which should accompany the requests. The prime consideration is an analysis or discussion of the relationship between the revenue to be raised by the fee or the change in the fee, and the cost or the change in the cost of the service, product or regulatory function supported by the fee. The underlying premise is that, normally, fees are tied to costs of service; other justifications may be advanced, but they must be clearly supported and grounded in policy considerations. Please contact your Budget Analyst at Budget & Management to discuss any such rationales.

The Legislature has asked that proposals for the Fee Bill be prepared using a specific electronic format which we will send on request. (Contact Otto Trautz at: otto.trautz@state.vt.us to request the format.) **Please submit your proposals to Otto Trautz in the electronic format by October 22, 2010.**

D. Review & Elimination – Excessive & Obsolete Reports

We will continue to bring to the Legislature recommendations to repeal statutory on-going report requirements, where the reports are not playing a useful role in legislative decision-making or in the development of public policy.

E. Appropriations Bill Narrative

Please closely review the verbiage associated with your appropriations or programs in 2010 Act 156 (see Secs. E.100 . E.915) and return a copy of those portions of Act 156, marked up for any changes or deletions. For language to be included in the FY 2012 Appropriations Bill it must be essential. Any other language should be deleted. (Note that Sec. A.102(c) of Act 156 states that unless otherwise specified, language in Act 156 is good for FY 2011.) It is your responsibility to be aware of language from other bills and prior years which may need modification. **Please submit your marked-up narrative portions (hard-copy) to your Budget & Management Analyst by December 6.**

F. FY 2012 Budget Development Timetable

The following set of dates may help you plan your tasks in developing the FY 2012 budget. You will be notified of any changes in due dates.

	Due Date	Deliverable Description and Comments
Calendar Year 2010	Sept. 20	The BDS was opened for Departments use.
	Sept. 28	"Fiscal Year 2012 Budget Process+memo.
	Oct. 1	GF, TF and SF targets sent out via e-mail.
	Oct. 18 (earlier if possible)	Responses to targets due with additional materials submitted electronically to the Governor, through the Secretary of Administration using the mail folder (adm-budget@state.vt.us)
	Oct. 18	Budget Adjustment requests submitted electronically to the Governor, through the Secretary of Administration using the mail folder (adm-budget@state.vt.us)
	Oct. 22	Executive Fee Bill requests due on electronic format
	Dec. 6	Narrative sections of Appropriations Bill due at Budget & Management
	The due date for final budgets will be communicated to you at a later date.	Final targets issued by Budget & Management. Final budgets submitted via the BDS in an Agency Submitted Version "Type B". Additional materials submitted electronically to the Governor, through the Secretary of Administration using the mail folder (adm-budget@state.vt.us)
	Jan. 5, 2011	Legislature convenes (VT Constitution, Chapter II, Sec. 7)
	Jan. 15 (on or about)	Emergency Board revenue estimate (32 VSA §305a)
CY 2011	Jan. 25	Governor's budget address deadline (by 3rd Tuesday of the session - 32 VSA §306)
	Jan. 25	Exec Budget Book printed and distributed at budget address. Big Budget Book posted to Finance & Management's website.
	1 week prior to testimony	Strategic Overview / Program Profile / Performance Information, Budget Development Form, Interdepartmental Transfer / Federal Receipts detail - to Appropriation Committees, with copy to Budget & Management