



**STATE OF CONNECTICUT**  
**OFFICE OF POLICY AND MANAGEMENT**

Date: September 6, 2016  
 To: Agency Heads  
 From: Benjamin Barnes, Secretary  
 Subject: Budget Adjustments (Policy Options) for FY 2018 and FY 2019 Biennium

As we begin a new budget development process for the FY 2018 and FY 2019 budgets, I must first acknowledge the tough reductions you've begun to implement in FY 2017. These will allow Connecticut state government to adapt to the state's new economic reality while restoring fiscal strength and confidence. Thank you for your efforts and dedication. We should remain confident that we can make important changes to state government as necessary to live within our means. We are doing just that right now, and unfortunately we will have to redouble our efforts in the coming year.

Rising costs for pensions and health care, and wage increases if required as a result of collective bargaining, will increase spending by more than \$1.1 billion in FY 2018 over FY 2017. **This growth in fixed costs, coupled with flat revenue growth, means that cuts to agency spending will be necessary.** As a result, we will not be able to provide all of the services and programs that many have come to expect. Planning for the next budget biennium must therefore reflect these challenging circumstances.

**Outyear General Fund Estimates**  
(in millions of dollars)

	Budgeted	Projected		
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Total Revenue (incl. 2017 policy changes)	17,753.7	17,717.8	18,159.1	18,678.0
Increase / (Decrease) Over Prior Year		(35.9)	441.3	518.9
<u>Projected Areas of Fixed Expenditure Growth (Relative to Prior Year)</u>				
Debt Service		275.2	(44.7)	198.0
Teachers' Retirement System		259.2	45.0	46.9
State Employee Fringe Benefits and OPEB Costs		204.2	62.6	72.5
Medicaid and Other Entitlements		<u>128.4</u>	<u>129.3</u>	<u>143.4</u>
Total Fixed Areas of Growth (vs. Prior Year)		867.0	192.2	460.8
Collective Bargaining Increase Placeholder (Historical)		260.0	130.0	130.0
Surplus / (Shortfall) of Revenue vs. Fixed Costs and CB Increases		(1,162.9)	119.1	(71.9)

Most Executive branch agencies have identified core services and assessed the level of agency activity that could be supported within available FY 2017 funding. Based on your program prioritization, agency plans for living within available resources—some of which incorporated headcount reductions—are being implemented. As noted in my June memo, agencies may need to further reduce, or perhaps cease delivering altogether, certain programs or services, and additional headcount reductions may be necessary.

With this as a backdrop, the guidance below supplements the information provided in my August 5<sup>th</sup> memorandum and provides guidelines for preparing policy adjustments (budget options) to your agency's FY 2018 and FY 2019 baseline budget request. This guidance memo and software instructions are available at the following link:

<http://www.ct.gov/opm/cwp/view.asp?a=2961&Q=583460&PM=1&opmNav=|>

As always, budget options requiring legislative action are acceptable, and agencies should be prepared to identify relevant statutory changes that would support reduction proposals.

### ***Budget Options – Due October 7, 2016***

Budget options represent the fiscal outcome of policy changes to the requested budget for the upcoming biennium. All agencies are required to submit reduction options, as per the guidance below. For a limited number of agencies, an intensive and interactive process of developing budget options may take place. Agencies invited to take part in this process will be notified directly; these agencies must submit options in accordance with the instructions below and will also have an opportunity to engage in more detailed discussions about potential policy and budgetary changes.

### ***Reduction Options***

Agencies are required to submit realistic and achievable reduction options that will result in reductions to the agency's baseline budget request. Because of the need to reduce expenditures below current levels in order to remain in balance, and to ensure all aspects of state government are operating in the most efficient and effective manner possible, this guidance applies to all agencies, including those that are industry-funded. **Agencies should prepare options that would result in a 10 percent reduction from the FY 2017 baseline, exclusive of entitlements and formula-based municipal aid.** OPM is committed to working with agencies to identify potential areas for reduction.

To the extent that your baseline budget request includes annualization of reductions implemented in FY 2017, agencies may include such savings toward their 10 percent reduction target. The goal is for the requested budget, inclusive of baseline adjustments and policy options but exclusive of entitlements and formula-based municipal aid, to be 10 percent less than the FY 2017 appropriation, after holdbacks have been annualized. Agencies with entitlements and formula-based municipal aid should also submit responsible proposals for restructuring and reducing such appropriations independent from any other 10 percent reduction proposals.

I strongly encourage you to be creative in considering alternative service delivery models, updates to your practices and procedures, cross-agency collaborations, and other new ways to do business. Agencies should also give thought to any potential mergers and program

consolidations that might merit consideration. If you identify potential savings that may be applicable across state government, I ask that you contact me, Deputy Secretary Susan Weisselberg, or Executive Budget Officer Paul Potamianos so that the appropriate budget analyst(s) can be assigned to follow up as necessary.

### ***Reallocation Options***

Reallocation options provide an opportunity for an agency to propose shifting resources between appropriations and programs in order to address higher priority needs, as well as to realign funding to accounts that better support particular program activities. These options are “zero-based” in nature. An agency should submit a reallocation option if a need to consolidate or shift resources between programs or accounts has been identified. Reallocations to offset the potential loss of revenue or federal funds should be clearly identified in your submission.

### ***Revenue Options***

Agencies may submit revenue options where the cost/benefit is clearly advantageous to the state. To the extent possible, revenue options should be proposed within available resources; any request for appropriations or positions necessary to secure additional revenue should be made sparingly, recognizing the need to constrain expenditure growth and the general economic conditions. If state expenditures are required in order to receive increased revenue, your submission must provide detailed cost projections in addition to revenue estimates.

### ***Expansion Options***

Given the need to reduce expenditures to live within available resources in FY 2018 and FY 2019, agency expansion requests cannot be accommodated. If you have identified new needs that must be met, it is expected that you will seek to reallocate funds within current resources.

### ***Guidance and Assistance***

For technical questions related to the budget option software, please contact Scott McWilliams at [scott.mcwilliams@ct.gov](mailto:scott.mcwilliams@ct.gov). For questions regarding budget or policy issues, please contact your assigned OPM budget analyst.

### ***Submission***

**All reduction, reallocation and revenue options must be submitted to OPM’s Budget and Financial Management Division not later than October 7, 2016.** The submittal should include one original and two additional hard copies of the Agency Summary and printouts of each of the individual FY 2018 and/or FY 2019 requested options (including backup documentation). Additionally, agencies are to provide a complete copy of their submission to the legislature’s Office of Fiscal Analysis.

As always, the Governor and I thank you for your support and look forward to working with you to ensure that the citizens of the state continue to receive core governmental services at the best possible cost.

c: Governor Malloy  
Lieutenant Governor Wyman  
Agency Fiscal Officers  
Neil Ayers, Office of Fiscal Analysis