




Office Memorandum

Date: December 16, 2009

To: Executive Branch Agencies, Boards and Commissions

From: Jim Schowalter, 
State Budget Director

Subject: FY 2010-11 Supplemental Budget Preparation

The November Forecast released at the beginning of this month projects lower than expected revenues. The result is a projected \$1.2 billion budget deficit, or roughly 3.8% of biennial spending. Although the Governor's supplemental budget is typically reserved for emergency spending and other high priority initiatives, this news necessitates a broader look at expenditure reduction options. Since general fund expenditures largely fall into two major categories – operations (12%) and grant/aid programs (85%) – it is essential that both be used to balance the FY 2010-11 budget.

Operating Hold Back

At his press conference on December 2, 2009, the Governor ordered state agencies to begin holding back 3 percent of unspent operating funds for the remainder of the biennium.

Agencies should immediately take steps to reduce operating expenditures and reserve these funds for possible use in solving the state's current budget shortfall. Given the long-term structural nature of Minnesota's budget shortfall, agencies should be looking for options that permanently reduce expenditures rather than one-time solutions.

In order to facilitate compliance with this directive, Minnesota Management & Budget (MMB) requests the following steps by each agency. At the Governor's direction, the priority areas of military, veterans and core state public safety programs are exempt from the hold back.

- STEP 1: Identify your agency's unspent operating funds (generally this means funds intended to be spent in the object code 1 and 2 series) for the remainder of FY 2010 and all of FY 2011 and calculate the 3 percent hold back. This exercise should be done for all funds except Constitutionally-dedicated funds, federal funds and internal service funds.
- STEP 2: Consult with your assigned Executive Budget Officer no later than **Wednesday, December 23, 2009**, to obtain concurrence on these targets. Please provide the base used to make the 3 percent calculations as well as rationale for any adjustments made to this base.
- STEP 3: Take immediate steps to hold back operating funds sufficient to meet the targets agreed to in STEP 2.

STEP 4: Submit a memo to MMB by **Wednesday, January 6, 2010**, outlining your agency's implementation plan to reach the hold back targets, including details on staffing or other operational changes being made.

Program Reduction Options

Although the operating hold backs outlined above will be significant, they will not be sufficient to resolve the entire budget shortfall. Additional reduction options are needed for consideration by the Governor as he considers his recommendations to the Legislature.

To that end, agencies are also asked to submit reduction proposals equal to 6 percent of their unspent program budgets (generally this means funds intended to be spent in the object code 4 and 5 series) for the remainder of FY 2010 and all of FY 2011. This exercise should be done for all funds except Constitutionally-dedicated funds, federal funds and internal service funds. Commissioners who administer internal service funds should submit separate plans showing options for reducing rates beginning in FY 2011.

One-time reduction options are helpful, but agencies must submit options that will yield savings in the current biennium as well as comparable savings in the FY 2012-13 biennium. The only activities exempt from this exercise are the Governor's priority areas of military, veterans and core state public safety programs.

Program reduction options must be submitted to MMB by Wednesday, January 13, 2010, along with an implementation plan showing how the target level of savings can be accomplished.

Submissions should also include the base used to make the 6 percent calculations as well as rationale for any adjustments made to this base. Agencies should also describe the programmatic impact that would result from each of the options you forward.

While MMB plans to treat the operating hold back and program reduction options submitted by agencies as preliminary draft budget proposals, which are protected nonpublic data under M.S. 13.605, agencies should anticipate receiving similar requests from legislative committees. Please be helpful and constructive in assisting legislative committees as they develop budget options.

Questions regarding this memo should be directed to your assigned Executive Budget Officer.