

Date: August 30, 2012

To: Agency Heads, Boards and Commissions

From: Margaret Kelly *MK*
State Budget Director

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Subject: FY 2014-15 Budget Preparation

This is an important budget for the Dayton Administration. For most of you, it is the first chance to participate in and own the process from start to finish. Unlike two years ago, we have the opportunity to focus this budget on the results we want to achieve, not just on budget gaps we need to fill in order to resolve our financial challenges. We aim to lead a budget process that is unlike previous years as well.

The budget we build will provide resources to support our values and priorities: creating jobs and opportunities, developing a tax system that is fair, and delivering efficient, effective services that contribute to Minnesota's high quality of life. Our state has great needs – for excellence in education, quality infrastructure, and a healthcare system that delivers quality care at an affordable cost. This budget process will prioritize strategies that contribute to achieving these outcomes. We will ask what results we can deliver at what cost, and what services we can deliver with the resources we have. This will be different than making incremental changes to historic funding levels.

Our first set of instructions asked you to orient your agency background materials to the high-level statewide outcomes your budget contributes to, and to the results you are achieving. The second set of instructions provided you guidance on using the new budget system which will give this budget a new look and feel in addition to new reporting tools. This final set of instructions provides guidance on preparing budget options for the Governor's review, in order to meet his goal to develop a budget that is accountable for the results we are getting for the money we spend.

For context, we are preparing a budget that needs to address a projected \$1.1 billion structural shortfall in the state's general fund for the next biennium – a shortfall largely unchanged from planning estimates at the end of the 2011 session. This structural deficit is largely due to the fact that we closed the budget gap in the last biennium with one-time savings and shifts. If we include the \$2.4 billion in shifted resources we borrowed from Minnesota's schools in the last budget, the challenge we face is even bigger.

In addition, our economic outlook is uncertain. Recently reported revenue gains have been mostly one-time in nature and are not likely to alter the FY 2014-15 budget outlook. The federal “fiscal cliff” (expiring tax cuts and pending federal spending reductions) could dramatically impact the national economy. These issues are not likely to be resolved by the November forecast or even by the presentation of the Governor’s budget in January.

Financial challenges like these are not new to state government – or to Minnesota’s families, businesses or nonprofits. They do require a different budgeting approach. Trimming around the edges is no longer a viable option, nor is expecting a return to earlier funding levels or the old ways of doing business. We need to do things differently. This administration has already demonstrated our capacity to challenge the status quo to make government work better for Minnesotans. Now we need to build on the accomplishments of these first two years and move toward managing public resources in ways that demonstrate accountability for results.

The attached instructions provide you guidance on developing budget option packages that include both proposed new investments (an optional component) and proposed reductions (a required component). This budget process is designed to acknowledge the reality of our fiscal outlook but not constrain new policies, ideas or initiatives. It is also designed to help us communicate how we are spending the resources we have and what results we are getting for taxpayer dollars.

As you prepare your option packages, the Governor has asked all Agencies to consider these three challenges:

1. What new initiatives would you propose, what results will they achieve, and how will you measure success?
2. What activities do you currently undertake that you would stop doing if you could? How would you reprioritize these resources, for what results?
3. What low-cost or no-cost ideas would you propose?

In your budget option packages, we expect all new budget proposals to include a clear description of the results you expect to achieve, and how they might be funded by reprioritizing less effective activities or programs. We expect no-cost or low-cost ideas in your packages.

In your options for budget reductions, we expect you to show specifically what activities you would discontinue and the impact of the reductions on performance. You may well choose to recommend discontinuing some programs in order to move resources into higher priority efforts that get better results. Across-the-board cuts with no explanation of how these cuts will affect performance won’t be helpful. As you prepare your reduction options, you should also be prepared to communicate what we are getting with the resources allocated in your budget. We expect your reduction proposals to comprise at least five percent of agency expenditures.

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Agency budget options and alternatives should be completed by mid-October – the statutory due date for agency budget submissions. The final calendar for budget review and the parameters for these discussions will be set later. Final budget decisions will be made following the November forecast. Your work now will allow us to identify early options to arrive at budget decisions. I ask that you continue to work with MMB executive budget officers to identify agency priorities and effective budget alternatives and options.

If you have any questions about these instructions please don't hesitate to contact me or your Executive Budget Officer.