




STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

Date: July 31, 2020

To: Agency Heads

From: Melissa McCaw, Secretary 

Re: Guidance for Agency Budget Requests for the FY 2022 and FY 2023 Biennium

On behalf of the Office of Policy and Management and the Office of the Governor, thank you and your staff for your work this past year, including during the exigent circumstances of the public health emergency. This has been a rather unusual year in state government and we continue to appreciate all your experience, dedication and work ethic that enables us to be successful and effective as an administration. Although Fiscal Year 2021 has just commenced, and we are all still grappling with the demands of the pandemic, state statute (C.G.S. §4-77) requires that agencies submit budget requests for the FY 2022 - FY 2023 biennium to OPM not later than September 1.

The upcoming budget development process will likely be challenging in a variety of ways. Overcoming the constraints that the economic downturn has placed on our state budget will consume much of our attention. We are entering a time of restraint in terms of what we can reasonably propose for new initiatives or expenditures. As a result, we will need to be flexible and creative in meeting the needs of the state.

As you move this through the budget development process, it is imperative that you seek to balance the needs of your particular agency with the entirety of the state's budget. The economic impact of the pandemic is expected to greatly reduce key state revenue streams for several years. Our tax revenues are projected to decrease by 11.3% from 2019 to 2022 while expenses are projected to grow 7.2% over the same period, prior to consideration of agency requests. We will not be able to support discretionary increases as our revenue base to support current appropriations is likely to be inadequate. Therefore, as leaders of our state agencies, please be cognizant of this when requesting resources for the upcoming biennium. Your partnership and leadership in exercising fiscal discipline and prudently managing the missions of your respective agencies with reduced resources is key.

Until the onset of the public health emergency, revenue performance was strong and expenditures were generally on track with the budget plan, building on trends over the last two fiscal years that led to relatively large operating surpluses. Our attention to spending controls coupled with strong revenue collections and avoidance of tax rate increases allowed us to stabilize our major pension systems, address our state's borrowing, and build the largest Budget Reserve Fund in state history. This has allowed the Governor to focus on growing our state, instilling confidence and ensuring Connecticut is a place where existing and new businesses and families can thrive. The post-pandemic economic reality, however, is one where revenues may take several years to return to pre-pandemic levels, and stretching our Budget Reserve Fund will be a component of managing near-term budget pressures. Our budget development task therefore demands a deeper commitment to reducing costs, maximizing efficiencies, and coming up with new ideas to improve

our financial situation with more predictability and stability while continuing to deliver high quality services to the state's residents.

With this as a backdrop, the guidance below addresses development of both a baseline budget request for FY 2022 and FY 2023 as well as policy adjustments to that baseline. This guidance memo and software instructions are available at the following link: <https://portal.ct.gov/OPM/Bud-Downloads/Other-Downloads/FY-2022---2023-Biennial-Budget>.

Development of the Baseline (Current Services) Budget for the FY 2022 and FY 2023 Biennium

The first step in the state's biennial budget process is the development of a baseline budget. The baseline budget is based on current appropriations adjusted to reflect changes in funding requirements under existing state and federal laws. Typical adjustments include the impact of reflecting full-year costs or savings for programs that will start or end during the current fiscal year (annualization), legally-required rate changes for rate-based expenditures, anticipated changes in caseload or utilization, funding changes that are contractually required, and the impact of other statutory, federal or legally-required changes that affect expenditure requirements.

This letter establishes guidelines and planning factors to be used for development of the baseline budget for fiscal years 2022 and 2023 as well as operating instructions for using the Automated Budget System software. Questions regarding budget development should be directed to your assigned budget analyst. Under CGS Sec. 4-77, agency budget requests are due to OPM not later than September 1st. Accordingly, **baseline budget requests must be submitted to OPM by September 1, 2020**. Late submissions are unacceptable.

Baseline Operating Budget

Pursuant to CGS Sec. 4-77, agencies are required to submit estimates of expenditure requirements for each year of the upcoming biennium to the Office of Policy and Management. This year, agencies will be preparing submissions for the biennial budget covering fiscal years 2022 and 2023. All estimates of operating budget requirements must be developed and submitted using the Automated Budget System (ABS) software available at the link above.

In accordance with CGS Sec. 4-73, budget requests are developed with program-level detail. The Governor's budget must include the following information for each budgeted appropriation and program:

1. Program budget data, broken down by major object of expenditure (account code), showing federal and private funds,
2. A summary of permanent full-time positions by fund,
3. A statement of expenditures for the last-completed and current fiscal years, and
4. The agency request and Governor's recommendation for expenditures in each year of the ensuing biennium.

As noted above, the baseline request includes estimated expenditure requirements for each combination of fund, program, SID, and account category. The request must include FY 2020 actual (unaudited) expenditures, FY 2021 budgeted expenditures, and FY 2022 and FY 2023 requested appropriations for all appropriated funds. Both the FY 2022 and the FY 2023 requests are based on a series of proposed adjustments to the funding level established by the FY 2021 appropriation (Public Act 19-117, as amended by Public Act 19-1 of the December Special Session), which are detailed below.

Technical Adjustments to the Baseline

1. Personnel Cost Projections

- The starting point for personnel costs is the current year (FY 2021) appropriation.
 - Contractually-required increases for each settled bargaining unit are reflected in the ABS software. Funding for potential settlement of unsettled contracts as well as any adjustments due to agreements that are reached prior to presentation of the Governor's budget in February 2021 will be handled centrally by OPM.
 - In order to facilitate the calculation of increases due to collective bargaining, the system will automatically calculate General Wage Increase (GWI) and Annual Increment (AI)/Exception increases based on the assumptions outlined in the previous bullet, as well as your agency's roster.
 - There are 27 bi-weekly pay periods during FY 2022. Accordingly, an adjustment should be requested to reflect the cost of that 27th payroll in FY 2022 only. Generally, that adjustment should be approximately 1/26th (3.846%) of the annual cost for employees paid on a bi-weekly basis.
 - The calculations noted above apply to both Personal Services accounts as well as any wage accounts in Other Current Expenses appropriations.
- 2. Inflation**
- Do not budget for inflation unless such adjustment is statutorily required. Provide a statutory cite if an inflationary adjustment is requested.
 - Do not request inflationary adjustments on commodity purchases.
- 3. Municipal Aid**
- Reflect the statutory level for formula-based municipal aid. Any changes in funding for formula-based municipal aid will be handled as policy adjustments during the budget option process.
 - Non-formula aid should be consistent with FY 2021 funding unless a negative adjustment is required based on caseload or other factors.
 - Funding for Town Aid Road grants should not be included in the biennial budget request. This will be handled centrally by OPM as a policy option.
- 4. Rate-Based Programs**
- Include rate changes required under existing statute. Do not include discretionary rate changes; these may be considered as policy adjustments (budget options).
- 5. Caseload Adjustments**
- For caseload or utilization-based expenditures, adjustments to baseline spending may be requested based on anticipated changes in caseloads or utilization. For accounts where both a caseload/utilization and a unit cost or rate factor is proposed, the utilization factor should be applied before the cost/rate factor. If you are unsure about requesting these increases, contact your assigned budget analyst to discuss potential adjustments.
- 6. Annualization and Other Adjustments**
- Include an annualization adjustment, if needed, for any new or expanded programs funded during FY 2021.
 - Include a negative annualization adjustment where there are decreased costs for programs that will expire or be reduced during or after FY 2021.
 - Include an adjustment for any new programs not funded during FY 2021 but which are required by current law to begin in FY 2022 or FY 2023. Operating costs for new buildings that are scheduled to open during the biennium may also be requested. Do not request funding for new or discretionary programs; these may be considered as policy adjustments.
 - Funding should not be requested for programs currently funded through non-appropriated resources (e.g., pickups of expiring federal funds); these may be considered as policy adjustments.
- 7. Equipment**

- For General Fund agencies, only equipment that does not meet the requirements for disbursement under the Capital Equipment Purchase Fund (CEPF) should be requested as part of the agency's operating budget (Fund 11000, SID 10050). Equipment that meets CEPF requirements may also be requested but should be coded to CEPF (Fund 12052, SID 40255) as a funding source. CEPF should not be requested in the capital budget request module.
- Legislative branch agencies and agencies funded from the Special Transportation Fund and industry funds should continue to reflect equipment needs as part of their operating budget requests.
- All agencies must supply descriptions of items to be purchased, quantity and unit cost information, and detailed explanations and justification to support the requested funding level for each year of the biennium.

8. Workers' Compensation Costs

- Agencies with Workers' Compensation Claims appropriations should request funding based on projected payouts, but should not request inflationary increases. Provide documentation to your assigned analyst regarding assumptions used for the request. OPM will centrally apply medical and indemnity inflation adjustments if warranted.

9. Fringe Benefit Recovery Rate

- Please refer to Comptroller's memorandum 2020-09 regarding the fringe benefit recovery rate in developing your budget for the 2022-2023 biennium. This information is available at: <https://www.osc.ct.gov/2020memos/numbered/2020-09.pdf>.

10. Additional Supporting Information

- Additional data is required in support of certain elements of agency baseline requests:
 - SID descriptions: A description of the purpose, statutory reference, and agency contacts for each budgeted appropriation is required. The software contains a module for submission of this information. Descriptions have been pre-populated by OPM for appropriations that are common across agencies, such as Personal Services, Other Expenses, and Fringe Benefits and Indirect Overhead in industry-funded agencies.
 - Spending plans: Spending plans are required for grant accounts in Purchase of Service (POS) agencies. The software contains a module for submission of this information.
 - Consultant contracts: A listing of all current and proposed consultant contracts is required from all agencies. The software contains a module for submission of this information.
 - Leases: Pursuant to CGS Sec. 4b-23, OPM's Bureau of Assets Management has provided training and directions, under separate cover, for completing your agency's state facilities plan. Completion of all required plan documents is required in order to allow for the review of requested lease costs.

11. Baseline requests should not include:

- Expansions of existing programs or funding for new programs. OPM and the Governor's policy staff will contact agencies for any expansion that may be considered as budget options.
- Reallocations of funding between appropriations. Such revisions should be submitted as budget reallocation options.
- The pick-up of any items funded in FY 2021 from carryforward funds. If there is an unfunded requirement in FY 2022 and/or FY 2023, agencies should strive to accommodate it within the baseline level of funding.
- Pick-up of programs funded via expiring federal or private grants, except where existing law does not permit the cancellation of such expenditures.
- Estimates of expenditures related to the implementation of evidence-based programs pursuant to CGS Sec. 4-77c. This statutory provision applies to the departments of Correction, Children and Families and Mental Health and Addiction Services, and the Court Support Services Division of the Judicial Branch.

12. Actual Expenditures – FY 2020

- FY 2020 actual expenditures were extracted from Core-CT on or about July 17, 2020. Please review the data for completeness and accuracy.

Capital Budget

As capital plans for the next biennium are developed, agencies should keep in mind that the statutory cap on general obligation debt will significantly restrict new bond authorizations. Any requests for additional bonding should reflect only those projects that are essential to be completed over the next biennium. Additionally:

- Agencies must review all unallocated bond authorizations that are in effect as of July 1, 2020, and determine which authorizations should be cancelled.
- Agencies with critical needs that are a part of an ongoing project or program should request additional funds in the appropriate fiscal year via the capital budget application.
- Agencies can request a change in purpose to existing bond authorizations by submitting a language-only request via the capital budget application.

The Automated Budget System includes a module for capital budget requests. **Capital budget requests are due to OPM by September 1, 2020.**

Policy Options – Revisions to the Baseline Budget Request

Following the completion of the baseline budget, policy options that would modify the baseline level of revenue or expenditures will be reviewed for their possible inclusion in the Governor’s final recommended budget. (Note that reallocations of funding between appropriations constitute policy options and should not be submitted as baseline adjustments.) Budget options represent the fiscal outcome of policy changes to the requested budget for the upcoming biennium. **The due date for options is October 2, 2020.**

As in the past, agencies are strongly encouraged to undertake a critical look at existing programs and activities in order to direct resources in ways that continue to improve the services and operations of state government. Agencies are encouraged to hold discussions with their assigned budget analyst regarding potential budget options.

Reduction Options

Based on the April consensus revenue forecast, paired with the outyear expenditure projection issued by the Office of Fiscal Analysis as part of the adopted budget for FY 2020 and FY 2021, General Fund deficits of about \$2.5 billion in FY 2022 growing to more than \$3 billion per year in the biennium thereafter are anticipated. As a result, all agencies, including those that are industry-funded, are required to submit realistic and achievable reduction options that will result in reductions to the agency’s baseline budget request. **Agencies should prepare options that would result in at least a ten percent reduction from the FY 2021 baseline, exclusive of formula-based municipal aid.** Agencies with entitlements and formula-based municipal aid should also submit responsible proposals for restructuring and reducing such appropriations independent of and in addition to any other reduction proposals. OPM is available to consult with agencies to identify potential areas for reduction.

In particular, agencies should be thoughtful about preparing for a potential retirement surge in 2022, and reassess the services we deliver as well as the method of service delivery. To that end, the Office of Policy and Management, collaboratively with the Department of Administrative Services, is engaging a consultant to assist in planning for the continuity of state government following the anticipated retirement wave, including the evaluation and restructuring of state agencies to streamline processes and improve services,

leading lean operational or process improvement initiatives, evaluating models in other states, researching best practices and how other states deliver services, providing recommendations for optimization of Connecticut state government that balances execution difficulty and risk against cost savings opportunities, and proposing new organizational structures by agency, including recommending work rule changes from management.

Agencies are therefore strongly encouraged 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. In particular, agencies should consider how to restructure or eliminate functions and practices as large numbers of staff approach anticipated retirement in 2022. 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 Diamantis, 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 anticipated near-term 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

In recognition of the significant deficit projected for the next biennium which will constrain the ability of the administration to consider any expansions, agencies should not submit expansion options. OPM and the Governor’s policy staff will work with agencies to develop any fiscal estimates related to the administration’s policy initiatives requiring additional resources for the upcoming biennium.

Narratives and Measures

CGS Sec. 4-73 requires that budget requests be developed with program-level detail. The statute requires that the following narrative information be provided for each budgeted program:

1. The statutory authorization for the program,
2. A statement of program objectives,
3. A description of the program, including a statement of need, eligibility requirements, and any intergovernmental participation in the program,
4. A statement of performance measures by which accomplishments toward the program objectives can be assessed, and
5. An explanation of any significant program changes.

Each agency must update its program budget text and the description of agency purpose to make them current; contact your budget analyst if you have questions. The budget narrative text from the budget-in-detail (long narrative) and from the budget summary (short narrative) is available for download at the webpage noted above. **Narratives and measures must be updated and are due to your assigned OPM analyst by November 2, 2020.**

Narratives

Narrative information is required in two different formats for separate budget documents.

1. **Short narrative:** This is a succinct description of the agency's mission and accompanies the main volume of the Governor's recommended budget, often referred to as the "budget summary." Text is typically bulleted, and each bullet begins with "To (verb)" followed by a brief description of the agency's purpose.
2. **Long narrative:** This document is used as a component of the budget-by-program, often referred to as the "budget-in-detail." The long narrative consists of several elements:
 - a. Description of overall agency mission (essentially the same description of agency mission as is used for the short narrative, although somewhat expanded descriptions may be accepted); and
 - b. For each separate budgeted program, the following is provided:
 - i. Statutory reference(s) applicable to the program;
 - ii. Statement of Need and Program Objectives. This is a brief statement that begins with "To (verb)" and identifies the goals of the program. E.g., "To regulate...," "To provide...," "To administer...;" and
 - iii. Program Description: A narrative explanation of the program.

Measures

Measures are a means by which the reader can assess program accomplishments. Performance information can help policymakers address a number of questions such as whether programs are contributing to their stated goals, well-coordinated with related initiatives, and targeted to those most in need of services or benefits. Agencies are strongly encouraged to present a limited set of objective, quantifiable measures that demonstrate program outcomes rather than presenting input or process measures. Output or outcome measures describe whether anyone is better off as a result of the expenditure of taxpayer funds, and focus on results and accomplishments rather than on inputs. Examples of less-desirable input or process measures include the number of beds or slots operated or funded by the program, the percentage of capacity at which a program operates, or the number of hearings held or the number of contracts processed by an administrative unit.

A limited set of well-thought out, results-oriented measures of program accomplishments is more powerful than input or process metrics and helps the reader understand what the state realizes from its investment. Ideally, measures will be identified for each distinct program category described in the narrative. Measures supported by peer-reviewed research findings, where available, are preferable. If a program does lend itself to an objective, quantifiable means of presenting accomplishments, the agency may elect not to provide measures for that program.

Performance-Informed Budget Review

All budgeted agencies are reminded of the requirement to report, utilizing the results-based report format developed by the accountability subcommittee of the Appropriations Committee, information and analysis for each program administered by the agency as required by CGS Sec. 2-33b. Such reports are due on or before October 1, 2020. See https://www.cga.ct.gov/current/pub/chap_016.htm#sec_2-33b.

Guidance and Assistance

Operating budget: For technical questions related to the budget request software, please contact Israel Bonello at israel.bonello@ct.gov. For questions regarding budget or policy issues, please contact your assigned OPM budget analyst.

Capital budget: For questions regarding budget or policy issues, please contact Steve Kitowicz at steven.kitowicz@ct.gov or Brian Tassinari at brian.tassinari@ct.gov.

Submission

1. Follow the submission instructions in the attachment.
2. **Baseline operating and capital budget requests are due by September 1, 2020.** Please provide a copy of your operating and capital submission to the Office of Fiscal Analysis.
3. **All reduction, reallocation, and revenue options must be submitted not later than October 2, 2020.** The submittal should include the Agency Summary and printouts of each of the individual FY 2022 and/or FY 2023 requested options (including backup documentation). Additionally, agencies are to provide a complete copy of their submission to the legislature's Office of Fiscal Analysis.
4. **Narratives and measures are due by November 2, 2020.**
5. Performance-informed budget information should be separately submitted by October 1, 2020, to OPM, OFA, and the committees of cognizance in accordance with the requirements noted in Sec. 2-33b of the General Statutes.

Attachment – Automated Budget System Instructions

xc: Governor Lamont
Lieutenant Governor Bysiewicz
Agency Fiscal Officers
Neil Ayers, Office of Fiscal Analysis