



CHESTER J. CULVER, GOVERNOR
PATTY JUDGE, LT. GOVERNOR

DEPARTMENT OF MANAGEMENT
CHARLES J. KROGMEIER, DIRECTOR

INTEROFFICE MEMORANDUM

TO: DEPARTMENT DIRECTORS
FROM: DICK OSHLO, STATE BUDGET DIRECTOR
SUBJECT: GUIDANCE FOR FISCAL YEAR 2009 BUDGET
DATE: 6/15/2007
CC: HONORABLE GOVERNOR CHET CULVER
HONORABLE LT. GOVERNOR PATTY JUDGE
STATEWIDE ELECTED OFFICIALS
GOVERNOR'S OFFICE STAFF
DEPARTMENT OF MANAGEMENT STAFF

2007 Legislative Session – Great Start

The 2007 legislative session saw major progress on several of the priorities of Governor Culver and Lt. Governor Judge. The General Assembly created the \$100 million Power Fund, significantly moved teacher salaries closer to the goal of 25th in the nation, expanded health care coverage for children and parents, expanded pre-school education, fully funded the projected salary increase costs for state agencies, funded the state reserve funds to the highest levels in the state's history, and reduced the amount of property tax credits appropriated from the previous year's ending balance. This was indeed a great start on an aggressive agenda to improve the quality of life in Iowa.

The ground work has been laid to make additional progress on these and other initiatives and to continue to put our state fiscal house in order. As you know, the state is still working to correct the structural deficit resulting from the 2002 recession, and Governor Culver and Lt. Governor Judge are committed to providing greater transparency to the budget, to keeping our state reserve funds full, and to making further incremental progress each year on building our fiscal resources.

Importantly, significant funding increases are already built into the Fiscal Year 2009 budget assumptions. Obligations already set by the Legislature or by contract for allowable school-aid growth, the Power Fund, salary increases for state employees, and teacher salaries total \$341 million. Even a "typical" 3.5-percent growth in revenues does not fully cover these four major built-ins. In short, more progress is needed on aligning revenues with expenditures.

Fiscal Year 2009 Budget Target

While Fiscal Year 2007 is ending on a positive revenue note with actual collections running ahead of the official estimates of the Revenue Estimating Conference (REC), all national and regional forecasts call for a slowing economy that will eventually result in a period of lower revenues compared to the current year. In April, the REC estimated a three-percent increase for revenues for Fiscal Year 2008 in the General Fund after adjusting for the one-time benefits of an increase in the cigarette tax.

The Governor intends to urge the Legislature to continue to implement various good-budgeting practices. As indicated at the May 22nd Directors Meeting, the Governor has directed the Department of Management to require that each department submit a status-quo net budget request for Fiscal Year 2009. Each department's request will be developed within the level of funding that the Legislature appropriated and the Governor approved for Fiscal Year 2009.

Attachment A provides each department's General Fund budget allocation for Fiscal Year 2009. The Fiscal Year 2009 allocation is the Fiscal Year 2008 appropriation for each department after adjustment for one-time appropriations. You should note that the allocations are made at the department level, rather than at the individual program appropriation level. Departments should consider exercising flexibility to make adjustments at the program level, staying within the total allocation made for Fiscal Year 2009.

Fiscal Year 2009 Results Budgeting Process

Governor Culver and Lt. Governor Judge will use the Results Budgeting process to establish the Fiscal Year 2009 budget. We have formed specific Budget Teams to guide the budget process. To continue progress toward the Leadership Agenda, the Budget Teams will develop Requests for Results (RFRs) for department directors to target departmental offers or proposals. See Attachment B for the membership of the Budget Teams.

Team leaders will be putting the RFRs together for release in July. Elected Officials, the Judicial and Legislative branches are encouraged to participate in the same process. We will be providing training and materials to your budget staff later this summer on how to properly enter information into the budget system reflecting your Fiscal Year 2009 offers later this summer.

Each Request for Results will include:

- A statement of the **result** to be achieved and the **indicators** that will quantify the achievement of the result.
- A **strategy map** that explains what the buying teams determine are the causal factors that produce that desired result.
- **Purchasing strategies** that indicate what types of strategies and characteristics the buying teams are looking for in the offers they receive.

Again, as in previous years, legislation was passed which allows the Executive Branch to continue to use this process. Thus the 75-percent base and restoration requirements in Code Chapter 8.23 do not apply to agencies following the Results Budgeting process.

We encourage each department and fiscal team to work closely with their respective Budget Team to creatively re-allocate funds among new and existing programs. A status-quo budget means status-quo dollars, not status-quo programs. Any amounts above Fiscal Year 2008 levels, such as

built-in increases, unavoidable growth, and fuel costs, will be dealt with in a case-by-case basis. Please be prepared to discuss these issues arising from the status-quo budget restrictions with your Budget Team so that they can be reviewed by the Director of the Department of Management for resolution.

Budget Teams and departments will be expected to provide a list of mandated functions or services that are not currently being provided as well as recommendations of those services that are no longer necessary and should be removed from the department's duties.

Attached to this document are the following documents:

- 1) Attachment A: Chart of the Fiscal Year 2008 General Fund Allocations by department;
- 2) Attachment B: Membership of Budget Teams;
- 3) Attachment C: Results Budgeting Process Guide for Departments; and,
- 4) Attachment D: Timeline for the Results Budgeting Process for Fiscal Year 2009;

Fiscal Year 2009 Infrastructure Requests

It is no secret that the state faces major capital funding needs related to transportation, corrections, at the Iowa Veterans Home and in other program areas. We ask that any new capital requests be submitted for the Rebuild Iowa Infrastructure Fund (Fund 0017) or other capital funds. For planning purposes, it is necessary to have a 5-year capital plan; therefore please include the out-years in your capital requests. Work with your fiscal and policy analysts at the Department of Management if you need to establish the necessary budget units.

Fiscal Year 2009 Information Technology Requests

The Legislature established the Technology Reinvestment Fund during the 2006 Session. We would ask that you submit technology budget requests under this fund (Fund 0943) for Fiscal Year 2009. Please contact your fiscal and policy analyst at the Department of Management if you need to establish the necessary budget units.

Miscellaneous Budget Issues

For Fiscal Year 2009, Code Chapter 8.62 is in effect. Therefore, 50% of reversions from the General Fund operating appropriations can be rolled into FY2009 and used for training and technology needs in FY2009. Any training and technology reversion funding you received in FY2008 from FY2007 needs to be spent by the end of FY2008. Such funding not spent will revert at the end of FY2008.

We appreciate your efforts to comply with the statutory requirement that budgets be loaded in the I3 system by October 1st. If any department or agency believes they will have problems meeting this deadline, please contact your Department of Management fiscal analyst at your earliest opportunity.

Summary

Iowa's budget is headed in the right direction. We hope to build on that momentum and continue support of Governor Culver and Lt. Governor Judge's Leadership Agenda. To continue to align expenditures with available revenues, we will all have to be innovative, collaborative, and results-oriented. As always, we appreciate your efforts to improve government and our budget process and ask that you share any ideas on how to make this process more effective.