

MEMORANDUM

TO: All Agency Heads and Budget Officers

FROM: Larry B. Martin, Commissioner of Finance and Administration

SUBJECT: Fiscal Year 2017-2018 Budget Instructions

DATE: August 15, 2016



In the most recent quarters, economic growth in Tennessee has outpaced the national average and is evident in our strong tax revenue growth. Although fiscal year 2016-2017 is just now underway, Tennessee's economic momentum gives us comfort that the state will continue to experience the revenue growth necessary to fund the already enacted budget.

Fiscal year 2017-2018 will begin in ten months and end in twenty-two months. Economists have warned of possible slowdowns in our national economy during that time period. With that possibility in mind, we are taking a conservative approach in our planning.

Below are the guidelines for developing and submitting your fiscal year 2017-2018 budget request.

Please submit your operating and capital outlay budget requests to the Division of Budget **by Friday, September 30th.**

Cost Increases

All cost increase requests should have justification and a clear linkage to departmental goals. Increases deemed mandatory by state or federal law, court order, or contractual obligations should be clearly identified and given highest priority. Any cost increase requests that are offset by a proposed reduction will be given higher priority and consideration over other cost increase requests. Any cost increase requests not meeting the above criteria should be limited and listed as a lower priority.

Reductions

Please submit a list of reductions that total 2.0 percent of your discretionary base appropriation. Internal service fund programs are also required to submit a 2.0 percent reduction plan.

At a minimum, reductions will be necessary to offset the phase-out of the Hall Income Tax. This past legislative session the General Assembly passed Public Chapter 1064 which eliminates the tax by the year 2022. In fiscal year 2014-2015, collections for the Hall Tax totaled \$303.4 million. Because certain areas of the budget tend to outpace our average revenue growth, it would not be prudent to address tax cuts with revenue growth alone. It's also important that we continue to look for savings and efficiencies throughout state government and bend the curve on government spending.

Reduction plans should be submitted in two parts:

- (1) A 2.0 percent reduction plan that will not affect the over appropriation target; and,
- (2) A list of base reductions that would offset a proposed cost increase request.

Budget Office staff will apprise each agency of the exact base reduction amounts required to achieve this target. Agencies funded from dedicated taxes and fees or departmental revenues should also consider reductions to reduce costs. Internal service fund programs should specify the impact of any funding reduction on agency billing rates.

Capital Outlay

Requests for capital outlay and capital maintenance should include essential and high priority items only. Budget officers of agencies that traditionally submit a capital budget request are receiving separate capital budget instructions. Agencies which do not receive capital budget instructions, but are planning to submit a capital budget request, should contact their Budget Office analyst.

A preliminary fiscal year 2016-2017 work program has already been provided to your staff reflecting all approved adjustments. Later this week, the fiscal year 2016-2017 work programs will be finalized and transmitted to you.

Technical instructions for transmitting your fiscal year 2017-2018 budget requests will be shared with your fiscal officer. If you have any questions about the budget instructions, please feel free to contact your Budget Office analyst. Thank you in advance for your help and cooperation as we begin development of the fiscal year 2017-2018 budget.

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cc: Jim Henry, Deputy Governor, State of Tennessee
Greg Adams, Chief Operating Officer, State of Tennessee