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Linda S. Luebbering
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Budget and Planning

TO: Department Directors, Deputy Directors, and Budget Officers
FROM: Linda Luebbering
DATE: July 31, 2014
RE: Fiscal Year 2016 Budget Instructions

The following summarizes Fiscal Year 2016's fiscal outlook and budget instruction highlights. The attached document provides detailed instructions for the completion of your department's budget request. If you have questions, please contact us.

Fiscal Outlook

General revenue collections for Fiscal Year 2014 fell by 1% compared to Fiscal Year 2013 collections. Much of this decline was driven by higher than expected income from capital gains in Fiscal Year 2013. Investors took earnings in Fiscal Year 2013 to avoid higher federal taxes in Fiscal Year 2014. While overall net individual income tax collections were down (1.5%) in Fiscal Year 2014, there was modest growth in withholding taxes. Also, sales tax collections improved with net collections increasing 2.8%.

Going forward, forecasters expect wage and business growth to accelerate as the economic recovery strengthens in 2014. As is typical, global energy markets and international financial concerns pose key risks to this outlook. We are anticipating growth in general revenue collections of about 5% for Fiscal Year 2015. However, about 10% growth would be needed to fund the appropriated spending level.

The fiscal outlook is further clouded by recent legislative actions; most notably, ten bills were passed at the end of the 2014 session that would reduce total state revenue by an estimated \$425 million annually. While Governor Nixon vetoed these bills, the outcome of the September veto session is unknown. Also, the legislature enacted SB 509 by overriding the Governor's veto during the regular session. The bill would reduce income tax collections, including taxes for pass-through businesses. It will not impact Fiscal Year 2016 as the earliest it will go into effect is Fiscal Year 2017. However, the Fiscal Year 2016 budget should begin to plan for SB 509 and its fully-implemented cost of \$620 million.

Overview of Budget Instructions

Because of this uncertainty, departments are to only request their core budget and any necessary core adjustments at this time. Departments may request mandatory new decision items. However, before doing so, departments should submit a preliminary list of such items to Budget and Planning for review prior to inclusion in the October 1 submission. Discretionary new decision items should not be requested at this time; exceptions must be discussed in advance with Budget and Planning.

Fiscal Year 2015 budget items that were line-itemed vetoed by the Governor will automatically be removed from the core budget for Fiscal Year 2016. Changes, if any, due to the September veto session will be made in the Governor's recommendation cycle. Fiscal Year 2015 budget items that are currently restricted should be included in your Fiscal Year 2016 core budget request unless there is some specific reason to exclude them (planned phase-out, one-time in nature, etc.).

Later this fall, when the budget outlook is more certain, we will be coordinating with departments to update budget requests as appropriate. We may be working with departments on major reductions to the core budget or high priority new decision items.

Key Changes and Reminders

1. **October 1 Submission** – As noted above, departments will only request adjustments to their core budgets plus mandatory items. Mandatory items and any exceptions should be discussed with Budget and Planning prior to submission.
2. **Timely Submission** –
 - Agencies must submit completed budget requests by October 1 as required by state statute.
 - Leasing information must be provided to OA FMDC by September 1 in order for them to have work completed for the October 1 submission.
 - Capital improvement items must be submitted to OA FMDC by September 15.
 - New for this year – for consolidated agencies, information technology requests must be submitted to OA ITSD by September 1. ITSD will review these items and work with Budget and Planning to determine which items to include in the budget request.
3. **Organizational Dues** – Beginning in Fiscal Year 2016, departments will need to request a new appropriation number for any organizational dues which are \$70,000 or more for a single membership. A description of these dues should be included in the Core Request Form under the Core Description. These will also appear as separate line items in the appropriation bills.
4. **Fund Financial Summary Forms** – Please note the following information carefully as incomplete or confusing information about fund balances has resulted in issues with the legislature. To ensure that the Fund Financial Summary forms are accurate, agencies should **not** submit them with the October 1 budget submission. They will be due to House

and Senate Appropriations offices by November 15. Agencies will work with their Budget and Planning analyst through the summer and fall to ensure these forms are complete and accurate. Draft forms are due to Budget and Planning on October 1, separate from the budget submission. Updated forms will be due to House and Senate Appropriations offices within two weeks of the announced Governor Recommendations. Please note the form has changed to provide space to explain revenue source(s) for each fund, cash flow needs, and outstanding projects. Questions on the forms should be directed to Gina Verslues (751-9324). Budget and Planning will be submitting all department Fund Financial Summary forms to the House and Senate on November 15.

5. Core Request Forms – Section 4 of this form has been revised to add a line for expenditure restrictions which will now be listed separately from reverted amounts.
6. Fiscal Year 2015 Pay Plan – The legislature appropriated partial year funding for the one percent annual pay increase. If the pay plan is implemented, additional appropriation authority will be needed in Fiscal Year 2016. A new decision item should be requested as a cost to continue for the Fiscal Year 2015 pay plan. If the pay plan is ultimately not implemented, Budget and Planning will correct the request for the January submission. Additional information is included on page 15 in the attached instructions.
7. Fiscal Year 2015 Expenditure Restrictions – As noted above, items that are currently restricted should be included in the department’s core budget request unless there are specific reasons to exclude them – for example, there is a planned phase-out or the spending is coded as one-time.
8. Supplemental Requests Forms – Departments may request mandatory supplemental items, but these must be reviewed with Budget and Planning prior to being submitted. These requests should be limited to only those items for which a supplemental is essential – the funding cannot wait for the next fiscal year. Agencies should assume release of Governor’s Reserve when determining the supplemental amount. Agencies must submit supplemental requests even if the release of Governor’s Reserve will meet the full supplemental obligation.
9. Approved Reorganizations – Agencies with Fiscal Year 2015 reorganizations must include necessary transfers/reallocations in the October 1 budget submission. Please work with your Budget and Planning analyst to ensure the amounts are accurate and consistent between departments prior to submission.
10. New Reorganizations – Agencies need to consult with Budget and Planning prior to conducting any reorganization within their department or between departments. These actions may require document filings separate from the budget process. Reorganizations must be submitted to Budget and Planning and approved by the Governor prior to making changes to the budget in BRASS; they may also require filing by the Governor under the Reorganization Act of 1974. Reorganizations or transfers of program/functions between departments must be approved by the Governor and submitted to the General Assembly.
11. House Bill Language – Agencies should review current house bill language and consult with Budget and Planning on recommended changes.

12. Web-ready Budget Books – Budget and Planning will post a PDF copy of the department's October budget request and the January Governor's recommended budget on the Internet. If the OA Print Shop prints your budget, they will provide a PDF copy to Budget and Planning, otherwise the department is responsible for submitting a PDF copy to Budget and Planning (Pamela.mcquary@oa.mo.gov). These submissions should include a table of contents.