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Sarah H. Steelman
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Daniel D. Haug
Director
Budget and Planning

TO: Department Directors, Deputy Directors, and Budget Officers
FROM: Dan Haug, State Budget Director
DATE: July 26, 2017
RE: Fiscal Year 2019 Budget Instructions

The following summarizes the Fiscal Year 2019 fiscal outlook and budget instruction highlights. Detailed instructions for the completion of your department's budget request are in the attached document. If you have questions, please contact your assigned Budget and Planning analyst.

Fiscal Outlook

General revenue continues to remain tight. Fiscal Year 2017 general revenue collections grew by 2.6% compared to Fiscal Year 2016 collections, which increased 0.9% from Fiscal Year 2015. However, growth of 6.1% was needed to meet the budgeted revenue estimate. The most promising news from Fiscal Year 2017 was the 4.5% growth in gross individual withholding tax collections. Sales tax collections were moderate with 2.4% growth in net collections for the fiscal year and net corporate income tax collections declined by 1.7% in Fiscal Year 2017.

Missouri is similar to other states in seeing significant swings in revenue growth/decline. Capital gains and tax policy have driven some of that volatility with continued national policy and global economic challenges contributing to this situation. If Fiscal Year 2018 follows this pattern, growth in collections could again be modest. Net general revenue collections would need to grow by about 4.2% to meet the Fiscal Year 2018 budgeted revenue estimate.

Going forward, forecasters expect wages to accelerate as the labor market runs at or near full employment in 2017. As is typical, domestic and international financial concerns as well as geopolitical issues pose key risks to this outlook. Uncertainty about national policy, the Puerto Rico debt crisis, and the British exit from the European Union all pose downside risk to the U.S. and Missouri economies.

The Fiscal Year 2019 budget will also need to consider the implications of SB 509 (2014) as provisions of the bill reduce income tax collections, including taxes for pass-through businesses. The first reduction to the income tax rate and the first phase-in of pass-through business income will occur during tax year 2018. This will affect both FY 2018 and FY 2019 general revenue collections. In addition, growth in FY 2018 has the potential to trigger the second round of tax cuts from SB 509 (2014); further impacting FY 2019 collections.

Overview of Budget Instructions

Departments may request mandatory FY 2019 new decision items and may also submit preliminary proposals for new funding requests for high-priority, non-mandatory programs.

Key Changes and Reminders

1. October 1 Submission – Submit budgets no later than October 1. As noted above, discuss decision items with Budget and Planning (B&P) prior to the October submission.
2. Timely Submission –
 - Completed budget requests due to B&P by October 1 as required by state statute.
 - Leasing information due to DFMD C by September 1.
 - Information technology requests from consolidated agencies due to OA ITSD and B&P by September 1.
 - Capital improvement items due to DFMD C by September 15.
3. Web-ready Budget Books – Each department must provide B&P with a PDF copy of the department's October budget request and the January Governor's recommended budget. The PDF copy must include a table of contents as well as be bookmarked and searchable to allow easier online access to the information. The PDF, bookmarked copy of the budget request with the Governor's Recommendations must be provided to B&P prior to the first budget hearings for each department.
4. FY 2018 Restrictions – Do not core cut the FY 2018 expenditure restrictions in the October budget submission. Any action on these items will be reflected in the Governor's Recommendations.
5. Senior Services Protection Fund – Core cut any appropriations from the Senior Services Protection Fund should in the FY 2019 department request.
6. Information Technology Requests –The General Assembly has asked to have all information technology decision items included in the OA ITSD budget instead of individual departments' budgets. These requests should be submitted to ITSD and B&P by September 1. Departments are expected to have representation at the OA budget hearings to answer questions about the specific new decision item requests. OA ITSD will provide the impacted departments with the hearing information.
7. Legal Expense Fund Appropriations – Most departments were appropriated \$1 out of the General Revenue Fund in order to enable transfers from department core budgets to the Legal Expense Fund to pay for settlements. B&P will provide a core form for department use for the department budget request. Any changes to these appropriations will be made in the Governor's Recommendations.
8. Fiscal Year 2019 Pay Plan – Do not include any pay plans in the department request. The Governor's Recommendation will include any new pay plan recommendations.
9. Capital Improvements – The Fiscal Year 2019 capital improvement bill will be submitted as an annual (off-year) bill. Agencies should work with DFMD C to determine which, if any, requests for new projects will be submitted in the Fiscal Year 2019 request.

10. Supplemental Requests Forms – Agencies may request mandatory supplemental decision items. Limit these requests to essential items that cannot wait until the next fiscal year. Assume a release of the statutory three-percent reserve when determining the supplemental request amount. Submit the supplemental requests even if the statutory reserve release will cover the entire requested amount.
11. Organizational Dues – Any organizational dues greater than \$70,000 for a single membership must have a separate appropriation number and a separate line in the appropriation bill. Include a description of these dues in the Core Request Form under the Core Description section.
12. Core Reallocations – Any core reallocations should be between the same fund types (GR/Federal/Other) so the net reallocation is \$0 and 0 FTE by fund type. Any exceptions will be rare and must be discussed with your assigned B&P analyst prior to BRASS coding. Also, include a clear description of the reallocation on the “Justification” tab on the BRASS Form. B&P and General Assembly staff need this information for their analysis.
13. Fund Financial Summary Forms (FFS) – **All FFS Forms should be submitted in Excel format. Please review the instructions and do not change the format of the forms.** Submit a draft copy of the forms to B&P separate from the budget submission no later than October 1. B&P will work with agencies to ensure the forms are accurate and complete and will provide the General Assembly Appropriations staff with a copy of all FFS Forms by November 15. Updated forms with the Governor Recommendations are due to B&P within two weeks of the announced Governor Recommendations. B&P will provide the General Assembly Appropriations staff with a complete set of the updated forms.
14. Approved Reorganizations – Include any transfers/reallocations related to Fiscal Year 2018 reorganizations in the October 1 budget submission. Please work with your B&P analyst to ensure the amounts are accurate and consistent between departments prior to submission.
15. New Reorganizations – Consult with B&P prior to conducting any new reorganizations within or between departments. Reorganizations may require document filings separate from the budget process. Reorganizations must be submitted to B&P and approved by the Governor prior to making BRASS changes to the budget; changes may also require filing by the Governor under the Reorganization Act of 1974. The Governor must approve and submit to the General Assembly any departmental reorganizations or program/function transfers.
16. House Bill Language – Review current House Bill language and discuss any changes for FY 2019 with B&P.
17. Flexibility Requests/Reports – Flexibility Request Forms should be completed to continue flexibility received for FY 2018 and to request any new or changed flexibility. As a reminder, each department is responsible for reporting flexibility use to B&P and the House and Senate Appropriations staff. See the budget instructions for more details.