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**TO:** Department Directors, Deputy Directors, and Budget Officers  
**FROM:** Dan Haug, State Budget Director   
**DATE:** July 20, 2018  
**RE:** Fiscal Year 2020 Budget Instructions

The following summarizes the Fiscal Year 2020 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**

Fiscal Year 2018 general revenue collections grew by 5.0% compared to Fiscal Year 2017 collections, which increased 2.6% from Fiscal Year 2016. Growth of 4.2% was needed to meet the budgeted revenue estimate. The most promising news from Fiscal Year 2018 was the 5.6% growth in gross individual withholding tax collections. Sales tax collections were moderate with 2.3% growth in net collections for the fiscal year, and net corporate income tax collections increased by 6.1% in Fiscal Year 2018.

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 2019 follows this pattern, growth in collections could slow to a more moderate amount. However, because FY 2018 finished above estimate, net general revenue collections could decline by about (0.5%) and still meet the Fiscal Year 2019 budgeted revenue estimate.

Going forward, forecasters expect wages to accelerate as the labor market runs at or past full employment in 2018. 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 2020 budget will also need to consider the implications of the federal tax reform and SB 509 (2014). The federal tax reform made multiple changes to the federal tax code and because Missouri conforms with many pieces of the federal code, Missouri's tax code was also subsequently changed. The federal tax reform nearly doubled the standard deduction while concurrently eliminating the personal and dependent deductions, both at the federal and state

levels. SB 509 (2014) will reduce state income tax collections by phasing-in a top rate reduction and income exemption for pass-through businesses. The first reduction to the income tax rate and the first phase-in of pass-through business income occurred during tax year 2018. The second reduction to the income tax rate and the second phase-in of the pass-through business income will occur during tax year 2019. This will affect both FY 2019 and FY 2020 general revenue collections. In addition, growth in FY 2019 has the potential to trigger the third round of tax cuts from SB 509 (2014), further impacting FY 2020 collections.

### **Overview of Budget Instructions**

Departments may request mandatory and priority FY 2020 new decision items.

#### **Key Changes and Reminders**

1. **October 1 Submission** – Submit budgets no later than October 1.
2. **Timely Submission** –
  - Completed budget requests due to B&P by October 1 as required by state statute.
  - Leasing information due to DFMDCC by September 1.
  - Information technology requests from consolidated agencies due to OA ITSD and B&P by September 1.
  - Capital improvement items due to DFMDCC 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 hearing for each department.
4. **Program Description Forms** – Beginning in 2019, Program Description Forms will be included on a public website and will be searchable by agency and program name. Departments should provide a PDF copy of each Program Description Form to ITSD by October 15.
5. **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.
6. **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 legal settlements. The General Assembly's intent was to allow the Governor's Reserve amounts to be transferred for this purpose. B&P and the OA Division of General Services will work with departments throughout the fiscal year to identify appropriation amounts to transfer for this purpose.

7. Fiscal Year 2020 Pay Plan – The legislature appropriated partial year funding for the Fiscal Year 2019 pay increase. A new decision item should be requested as a cost to continue for the Fiscal Year 2019 pay plan. Additional information is included on page 18 in the attached instructions.
8. Capital Improvements – The Fiscal Year 2020 capital improvement bill will be submitted as a biennial bill. Agencies should work with DFMD to determine which, if any, requests for new projects will be submitted in the Fiscal Year 2020 request.
9. 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.
10. 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.
11. 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. It is generally unacceptable to reallocate funds between PS and EE. 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.
12. 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 the General Assembly within two weeks of the announced Governor Recommendations. Submit your forms to B&P within that time frame and B&P will provide the General Assembly Appropriations staff with a complete set of the updated forms.
13. General Assembly FFS information – As was done in previous fiscal years, the House Appropriations Committee has requested a separate spreadsheet with certain information from the Fund Financial Summary (FFS) forms. (The template for this spreadsheet is attached to the budget instructions.) This spreadsheet should be completed both after the FFS forms have been completed for the November 15 submission to the General Assembly and after the FFS forms have updated with Governor Recommendations. Submit an electronic copy to Budget and Planning and B&P will submit a comprehensive set of the worksheets to the House and Senate Appropriations staff. Any questions about this spreadsheet should be directed to your House Appropriations analyst.
14. Approved Reorganizations – Include any transfers/reallocations related to Fiscal Year 2019 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 and/or making BRASS changes. The Governor must approve and submit to the General Assembly any departmental reorganizations or program/function transfers. Reorganizations may require document filings separate from the budget process. Changes may also require filing by the Governor under the Reorganization Act of 1974.
16. House Bill Language – Review current House Bill language and discuss any changes for FY 2020 with B&P.
17. Flexibility Requests/Reports – Flexibility Request Forms should be completed to continue flexibility received for FY 2019 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.