



Commonwealth of Virginia
Office of Governor Terence R. McAuliffe

August 9, 2017

MEMORANDUM

TO: All Executive Branch Agency Heads

CC: Cabinet Secretaries, Deputy Secretaries

FROM: Paul J. Reagan, Chief of Staff

SUBJECT: Budget Development Guidance and Process
for the 2018-2020 Biennium

Overview

As we approach the conclusion of Governor McAuliffe's administration, a primary responsibility remaining for the Governor will be the development and submission of his final budget. While this budget will be executed by the next administration, the Governor is committed to making sure that it reflects the priorities needed to continue the core services of government such as public education and his commitment to strengthen Virginia's workforce and grow its economy.

Over the next month, the Department of Planning and Budget (DPB) will issue specific instructions regarding the budget process needed to create the 2018-2020 biennial budget. This process will have several stages: base budget targets, base budget adjustments, technical budget adjustments, and requests for budget decision packages for technology and policy-based initiatives. Your submissions will be reviewed by Governor McAuliffe in the development of his budget.

Base Budget Targets

The first step of the process will be to construct a base budget that reflects continuation of the most significant priorities of state government based on current statute and service levels. You should begin your internal

review process by determining how you will address your highest priority activities and services through allocation of your agency's base budget targets.

As in previous years, you will soon receive the base budget instructions from DPB. DPB will be issuing general fund and nongeneral fund base budget targets that reflect the appropriations provided to each agency in the current fiscal year (Chapter 836, 2017 Acts of Assembly). This target will be provided by program and fund group within each agency.

Your task will be to spread these targeted amounts to the service areas, fund details, and subobject details within each program. During this base budget process, you will be able to move your general fund target within the service areas of each program, but you must stay within the total general fund target for each program and the nongeneral fund target for each fund group within each program. You will have an opportunity to move funds between program areas during the technical amendment stage discussed below.

The deadline for spreading your base budget targets is September 11, 2017.

Base Budget Adjustments

Simultaneous with the process for allocating your base budget target, you will be directed by DPB to submit specific base budget adjustments to reflect changes needed to remove one-time funding that was included in the fiscal year 2018 appropriation used to establish the base budget target, and to fully fund initiatives that were partially funded such as the cost for the continuation of the pay increases that went into effect this summer.

Instructions for completing base budget adjustments will be provided to you by DPB. The deadline for submitting your base budget adjustments is September 11, 2017.

Technical Budget Adjustments

As previously stated, the base budget targets must be spread within the services areas designated by DPB. Technical amendments will allow you to move the base budget target funds across programs, service areas, and subobjects that were not permitted in the base budget process. You may spread the base budget targets for your agency to different program areas to reflect the proper alignment of resources with the highest priority services and activities of your agency.

Your general fund technical adjustments may not increase or decrease your general fund budget; therefore, the net impact of the general fund adjustments should equal zero. You will be bound by the total base budget target amount for the agency plus the base budget adjustments.

Nongeneral fund technical amendments must also net to zero across the agency. If there is a need to increase the nongeneral fund appropriation for your agency beyond the amounts provided in the base budget adjustments, you will need to submit a policy-based decision package stating the need for the increase and the source of the additional nongeneral fund revenue.

The goal of the technical amendment process is to align your budget across your agency's program and service levels to reflect how your agency will execute its budget to fulfill your statutory mission and highest priority services and activities. At the conclusion of these three phases of budget development (base budget targets, base budget adjustments, and technical adjustments), the result should be a budget that aligns your agency's resources with its statutory mission, and its strategic plan that you recently updated. From this alignment, you

should be able to identify the resources required to support your agency's services and activities starting with the highest priorities and ending with any discretionary activities.

Instructions for completing this stage of the process will be issued by DPB over the next several weeks. The deadline for technical adjustments is September 11, 2017.

Budget Decision Packages (Technology and Policy-Based)

Finally, you will be given the opportunity to request funding for the increased cost of services and for new initiatives through submission of budget decision packages. The budget decision package submissions will allow you to request additional funding beyond the revised base budget resulting from the first three phases of the budget process.

There will be two forms of budget decision packages: policy-based requests and technology-based requests. Separate sets of instructions for completing these two types of requests will be issued by DPB over the next several weeks. The deadline for policy-based decision packages is October 2, 2017. Requests for new technology spending will be due on September 18, 2017. All requests for new technology spending will be reviewed by both DPB and the Virginia Information Technologies Agency (VITA).

In submitting your requests for additional spending, continuation of core services should get the highest priority treatment. Any requests for non-discretionary spending increases should be limited to addressing known and unavoidable cost increases to non-discretionary services that are driven by established and approved funding formula and/or that are based on changes in the number of constituents, caseloads or enrollments, or other circumstances that are typically beyond your ability to control. Your submission should explain why the program is mandated and why the costs cannot be absorbed.

Next priority should be given to new initiatives that will improve the long-term economic health of the Commonwealth. Beyond support for core services such as public education, the Governor's top policy objective has been to develop a more qualified workforce, and to grow and diversify the Virginia economy. This remains his top priority for this budget. New initiatives that support this objective should be clearly identified and supported with details on how the initiative will impact the Governor's goals.

New funding for discretionary initiatives that do not directly support these key objectives should be your lowest priority requests. You should work directly with your respective cabinet secretary to determine the priority of your requests. Please be sure to allow yourself enough time to have these discussions and meet the submission deadlines.

Conclusion

As previously mentioned, DPB will issue detailed instructions on the various stages of the budget development process. Your requests must be submitted via the Performance Budgeting system in accordance with the established deadlines.

The Governor and I thank you in advance for your cooperation. We look forward to reviewing the ideas you generate during this process to improve the Commonwealth by prioritizing its services and enhancing the long-term outlook of the New Virginia Economy.