

To: All Agency Heads and Budget Officers
From: Butch Eley, Commissioner of Finance and Administration
Date: August 14, 2020
Subject: Fiscal Year 2021-2022 Budget Instructions



The impact from COVID-19 continues to be described as unprecedented with the length of a recovery that is still very much uncertain.

Since the initial safer at home order, the U.S. economy has seen a loss of at least 20 million jobs as well as a 32.9% second quarter drop in GDP. Here in Tennessee, we have experienced a loss of over 636,00 jobs. With so much depending upon personal responsibility to curb the viral spread within our population, the recovery of our state economy and state tax revenue will continue to be impacted by both the international and national economies as well. While we are in a much better position than most states to deal with these challenges, there are many variables of which we have little control thus it remains extremely difficult to forecast.

The FY 2020-2021 budget passed by the legislature is structurally imbalanced. While FY2019-2020 revenues exceeded our downward revised estimates, it is prudent to assume economic recovery will be slow-to-weak moving forward. As such, the administration continues to follow the approach outlined to the legislature that will address our budget imbalance with a multi-year approach.

That process began with immediate spending reductions to the governor's proposed FY2020-2021 budget. The list of possible budget reductions submitted on June 30th by each of the executive branch agencies has also been a significant step in this direction. We are in the process now of reviewing those plans with the Governor, Chief of Staff, and COO and we will be getting back with you in the coming weeks to review those plans. It is important, however, that we continue to seek efficiencies and funding reductions from all state agencies as we begin the development process for FY2021 -2022.

Below are the guidelines for developing and submitting your fiscal year 2021-2022 budget request. Justifications and impact descriptions for both cost increase requests, and reduced expenditure items should be well documented and supported by evidence and data where applicable.

Due Date

Please submit your operating and capital outlay budget requests to the Division of Budget **by Friday, September 25th**.

Cost Increases

All cost increase requests should have justification and 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 not meeting the above criteria should be limited and listed as lower priorities.

Reductions

Even as we are finalizing our current reductions, it is important that we continue to seek efficiencies and funding reductions from all state agencies as we begin the development process for FY2021-2022. Similar to last year, we are asking agencies with general appropriations to develop a list of reductions that total **two percent** of your discretionary base appropriation. Budget Office staff will inform each agency of their two percent reduction target once the work program has been finalized. I realize this will be difficult coming off this year. But since we will not be implementing all the reduction plans in full, it will be important to again evaluate and prioritize if we feel additional reductions are required this year.

Agencies that are funded from interagency charges, although not a direct impact to the general fund, also need to develop a list of spending reductions that total two percent of their budgeted revenue.

Just as many of the reductions from this year, may not ultimately be implemented, it makes sense to get your most up to date thinking on how your department would make additional reductions in the coming year if it becomes necessary to do so. We know that much has changed and will continue to change as we move forward and better learn how to operate and provide needed services during this pandemic. I am impressed every day with how creative you have been in providing our vital services with the challenging circumstances we face.

Capital Outlay

Requests for capital outlay and 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.

Next Steps

Technical instructions for transmitting your fiscal year 2021-22 budget request will be shared with your fiscal officer. If you or your staff has questions about the budget instructions, please feel free to contact your Budget Office analyst.

Thank you and your fiscal team in advance for help and cooperation as we begin development of the fiscal 2021-2022 budget. I look forward to working with you in the coming months.

Stay safe!