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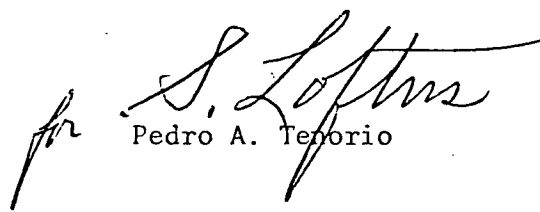
MEMORANDUM

TO: Resident Commissioner, NMIG
FROM: Director, OTSP
SUBJECT: Fiscal Year '79 Budget

May 18, 1977

The Institute of Public Administration in its administrative processes phase of work, now underway in selected areas, is reviewing the form and administrative process of the Commonwealth government budget.

Several pivotal points that are germane to the budget preparation for fiscal '79 and possibly to revision of the fiscal '78 budget, have been identified and are outlined in the attached paper.


Pedro A. Tenorio

Attachment

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KEY POINTS IN THE PREPARATION OF THE COMMONWEALTH BUDGET

1. Article III, Section 9(a) of the Constitution requires the governor to submit to the legislature "a proposed annual budget for the following fiscal year. The proposed budget shall describe anticipated revenues of the Commonwealth and recommend expenditures of Commonwealth funds." The Analysis to the Constitution (at page 75) states: "It is intended that the budget be a unified budget dealing with all revenues available to the Commonwealth, including the direct grant assistance from the United States under article VII of the Covenant. The legislature may approve, modify or reject the governor's budget. The budget document is a plan for collection of revenue and expenditures of funds..." The concept of a unified budget should be implemented in the fiscal '79 budget, and to the maximum feasible extent, in revisions of the fiscal '78 budget. It also must be a balanced budget.
2. The budget should reflect constitutional requirements and OTSP plans for the new government. It should assume a new government with new program priorities and structures for pursuing them. Programs should not be routinely funded incrementally each year.
4. "Zero base" budgeting should be adopted in modified form for the Commonwealth budget.
4. The term "unit of expenditure" should be the base expenditure category for the budget. It is the cost center for all capital and operating programs of all departments and agencies. Each department and agency head should be required to justify each capital program, personnel and non-personnel units of expenditure for his agency. Agency heads should submit information to justify their budget requests, including the following:
 - a. What services will be performed by each proposed unit of expenditure (cost center)?
 - b. What is the goal and objectives of services to be provided by each unit of expenditure? Does it conform to the approved physical, social, or economic plans and any relevant federal guidelines? For each proposed unit of expenditure, state service delivery goals (number of patients to be served by a particular health unit, etc.). State what factors may impede goals' achievement or may increase costs? ~~If an increase in funding is requested, what is the anticipated level of activity?~~
 - c. What is the minimal amount of funds necessary to provide basic, essential services, within each unit of expenditure? What will be the consequence of disallowing the unit of expenditure or reducing it by (a) ten percent or less or (b) twenty five percent or less?

- d. What efforts have been taken or are proposed to reduce service or production costs?
 - e. For the proposed budget of the agency as a whole, list the units of expenditure in order of importance (those having the highest order of priority).
5. The budget should be a unified and balanced plan of expenditures showing all activities and proposed expenditures of the Commonwealth. This includes each branch of government, each department and agency, and each independent agency, including public authorities, regardless of revenue source, and should encompass all government activities. Programs that are funded by "reimbursables" as well as by special federal grants should be shown.
 6. For each unit of expenditure the source of funding should be shown. (For this purpose, funds received from Commonwealth tax sources and from Covenant federal assistance funds should be treated as "general Commonwealth revenues").
 7. ~~Each department or agency should submit a statement indicating for~~ each unit of expenditure involving services of a revenue producing nature, charges that are imposed or are proposed to be imposed, the rate structure or pricing system that is involved, revenue that is expected to be generated. Indicate what groups will be fully or partially subsidized by the pricing system. Subsidies should be identified by category, amount, and benefitting group.
 8. The Commonwealth Legislature should enact a single annual appropriation act. It must be a balanced appropriation act, that is, expenditures cannot exceed anticipated revenues. The Legislature has the constitutional right to modify the governor's unified budget but it should do so through a single appropriation act, not through a series of miscellaneous expenditures. Once the annual appropriation act is passed and signed into law by the governor, any additional appropriations by the legislature during the fiscal year should be made as amendments to the annual appropriation act, showing additional sources of revenues or modifications of existing units of expenditure.