



**Office of State Budget Director**  
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Frankfort, Kentucky 40601

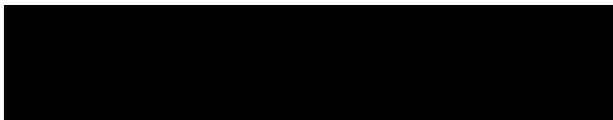
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**Mary E. Lassiter**  
State Budget Director

Governor's Office for Policy and Management  
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July 1, 2010



Frankfort, Kentucky 40601

Dear

The FY 2011 budget enacted by the General Assembly in the 2010 Special Session relies upon \$131 million in additional spending reductions to balance. The Executive branch budget bill, House Bill 1, mentioned various means by which the \$131 million in spending reductions could be achieved including, but not limited to, contract expenditures, non-merit employee spending, a coordination of information technology to include procurement and implementation practices, a review of improved management and utilization of fleet vehicles, a review of leased space, and any number of other types of spending reductions.

Efforts have been underway to identify spending reductions which will reduce the amounts that must be borne by state agency programs and services. Substantial opportunities have been identified that result in the need to initiate state agency planning efforts for \$35 million in spending reduction targets.

To achieve the \$35 million in reductions, actions beyond efficiencies and cost reduction measures may be necessary. As you know, a review of cost saving measures, the Smart Government Initiative, was initiated a few months ago, and recommendations will be forthcoming that identify strategies to achieve some savings. However, for planning purposes efforts to identify the spending reductions necessary to balance the budget must get underway immediately.

This communication serves several purposes. The first is to communicate the FY 2011 General and Restricted fund spending reduction planning targets for the appropriation units of each Cabinet and applicable General Government agencies necessary to address the \$35 million in further spending reductions. These amounts are attached and represent the assigned portion of agency spending reductions. The amounts represent 1.5% of General Fund and applicable Restricted Funds appropriations. In addition, a planning amount is included which represents your agency's proportionate share of the spending reduction target for non-merit employees, with the full understanding that the Governor does not have the authority to direct the specific means by which you will achieve these reduction targets. The treatment of non-merit spending reductions for your agency is consistent with the treatment across the Executive branch.

Second, this communication solicits from each affected Cabinet and agency a draft plan to reduce spending by the

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assigned target amounts attached to this letter. That draft plan must address the specific means of achieving the target reductions and the impact and consequences on programs and services. The attached spending reduction targets may include both General Fund and Restricted Fund amounts. House Bill 1 explicitly provides for the ability to transfer Restricted Funds to the General Fund resulting from spending reductions by suspending any statute or administrative regulation to the contrary.

Third, this communication solicits from each affected Cabinet and agency a draft plan on how each appropriation unit will implement the General Fund budget reductions already included in the enacted appropriations of House Bill 1.

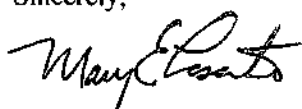
Final decisions regarding the spending reductions for FY 2011 necessary to balance the budget will be determined after the receipt and review of Cabinet and agency plans reflecting the impact of reductions to programs and services. **To aid in finalizing those decisions, please provide the Office of State Budget Director with plans for both the enacted appropriations and the additional spending reductions by close of business on July 15, 2010.**

The amount of spending reductions from contracts must be highlighted and separately set forth in both the draft plan for the planning target share of the \$131 million spending reductions, and separately set forth in the draft plan that identifies the spending reductions necessary to implement the enacted appropriations. The comparison point for determining the amount of reductions in contract spending should be the FY 2010 revised budget. This is necessary to review and understand the totality of contract spending reductions needed to implement the enacted appropriations and the additional \$131 million in spending reductions, and to enable the Executive branch to provide required reporting to the legislative branch.

House Bill 1 mandates that the decision on state employee furloughs must be made for the entire enterprise; therefore, no employee furlough recommendations may be included in any agency's draft plans.

If you have any questions or need further information, please contact your Policy and Budget Analyst.

Sincerely,



Mary E. Lassiter  
State Budget Director

Attachment