B.1   BUDGET DEVELOPMENT GUIDANCE

The State of Maryland uses a current services budget (CSB) process. DBM begins with a base of the previous year's budget, then adjusts that base for certain known changes, creating CSB targets for agencies. Agencies must carefully consider their targets and determine what action is needed to submit a budget within the target.

✓ In BARS, we reference "targets" in two ways:

- A <u>CSB target</u>, which is the total General Fund and /or Special Fund target for the agency's entire budget submission. This is what DBM has historically referred to as the agency's budget target. The full budget submission in BARS will validate to ensure the request does not go over the target amount(s).

- <u>Target adjustments and/or locks</u>, which are specific updates that DBM analysts have entered in BARS to ensure that budget mandates and other specific budget items are properly reflected in the submission. For example, DBM may increase a grant program by $1 million to reflect the funding level specified in statute through a target adjustment. DBM may also "lock" that line item or subprogram to ensure that the funding stays in the mandated location.

Agencies may have to decrease portions of their budget below the previous year's expenditure level. Please contact your assigned DBM analyst if you would like guidance for a specific type of expenditure. Agencies should include documentation with the budget request regarding assumptions made about each category of expenditure (comptroller object or "subobject"). Please refer to <u>Section B.14</u> for a list of subobjects and guidance on each.

General Considerations

Agencies should answer the following questions before beginning to build their budget:
- Are any new facilities becoming operational and therefore increasing operating costs?
- Are there required rate changes from the federal government, service providers, or DBM?
- Are there any approved salary adjustments?
- Are there other budget drivers that should be considered?
- If the agency budget is dependent on a caseload forecast, how will that forecast change in the coming fiscal period?
- Are there any new or changed funding mandates that were not reflected in the target?

Strategies

<u>Averages:</u> When determining the budget for some subobjects, it may make sense to budget the average of the last three completed fiscal years. Averages should be applied to recurring expenditures that are not "controlled subobjects." (See page 2 of this section for a description of controlled subobjects). For example, if the number of inspections an agency conducts stays the same each year, the travel costs related to these inspections may be relatively stable, depending upon fuel costs. Using the average of the last three years may allow for a stable funding level that changes marginally to reflect actual travel costs.

Most Recent Year Actuals: In some cases, it may be more appropriate to budget the same amount as was spent in the most recently closed fiscal year. Using the most recent actual expenditures is particularly valuable if the agency recently began a new program and does not have enough data or experience to fully predict the potential expenditures. Over time, the agency should be able to better determine which budgeting strategy is appropriate.

Inflationary Factor: In some cases, such as when calculating expenditures that are consumer-based, it makes sense to inflate the previous year's budget. In general, the State uses the Implicit Price Deflator for State and Local Expenditures. Additional information on the implicit price deflator can be found at this link. Next, select *Section 1 – Domestic Product and Income* and then select *Table 1.1.9 Implicit Price Deflators for Gross Domestic Product (A) (Q)*. Scroll down to Line 26 to find the State and local expenditures.

Specific Commitments: In some cases, there are discrete additional charges that the agency may include for specific commitments. These are often one-time expenditures for new equipment or expenditures related to a new initiative. The agency may budget these within the target, reducing in other areas if necessary. This should include contracts that are multi-year commitments.

General Guidance for Working in BARS
While DBM is providing some basic guidance and ideas for how to approach the budget request, we recognize each agency will complete the request in BARS differently. We're just sharing one possible approach. We encourage you to share best practices as you work in the system so we can continue to refine and improve the guidance we provide over time.

- **Update the Prior Year (PY) data first**, as feasible. If an agency can completely finalize the PY actuals, input Supporting Detail (SD), and then "release" those adjustments, the revised actuals will be visible in the adjustments grid as a reference when updating the CY (Current Year) and BY (Budget Year).

- For the same reason, **next, update the CY completely**, input Supporting Detail, and then "release" those adjustments so both PY and CY are updated for reference when deciding what adjustments need to be made in the BY.

- If feasible, **input the fund source income and balance information before starting on the BY request**. With this information input by the agency, BARS will allow users to view at any given time whether the budget as entered over-expends any specific fund source.
    - This tool can help as you select fund sources each time you are working on the revenue tab of an adjustment.

- **Use the Export/Import feature for Supporting Detail** in order to use the same information for the CY as the PY, and then the same information for the BY as the CY.
    - This strategy should allow agencies to only have to update the bulk of information once for each SD tab that covers all three years (Contractual Positions, Contracts/Grants, and Real Estate).

- Use the Excel export feature with formulas if you are more comfortable inputting whole numbers while working on the budget request instead of adjusted numbers.

  o This can also help agencies quickly budget three year actuals or some other calculated budgeting methodology.
  o For an example, see the exported BARS grid below as well as the formula view of the same spreadsheet.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	
1	Unit	Program	Sub-Program	Object	Comptroller Subobject	Agency Subobject	Fund	PY 2016	PY 2017	PY 2018	CY 2019	BY 2020 Approved	FY 2020 Adjustment	Comment	Three Year Average
2				09	0901	0908	03	474	1291	1000	1200	1200	-278	3-yr actual avg	922
3				09	0902	0901	03	2279	1167	1365	2810	2810	-1206	3-yr actual avg	1604
4				09	0903	0925	03	0	196	0	0	0	65	3-yr actual avg	65
5				09	0904	0902	03	2049	2253	3999	4524	4524	-1757	3-yr actual avg	2767
6				09	0904	0902	09	2475	1800	0	0	0	1425	3-yr actual avg	1425
7				09	0912	0912	03	760	100	906	600	600	-11	3-yr actual avg	589
8				09	0917	0910	03	0	700	30	750	750	-507	3-yr actual avg	243
9				09	0930	0937	03	324	0	0	324	324	-216	3-yr actual avg	108
10				09	0951	0934	03	3059	1882	0	3059	3059	-1412	3-yr actual avg	1647
11				09	0999	0917	03	2479	6988	9872	6820	6820	-374	3-yr actual avg	6446
12				09	0999	0917	09	3596	2003	1678	4000	4000	-1574	3-yr actual avg	2426
13				09	0999	0918	03	538	1033	697	1000	1000	-244	3-yr actual avg	756
14				09	0999	0913	03	105	0	0	0	0	35	3-yr actual avg	35

L	M	N	O	P
BY 2020 Approved	FY 2020 Adjustment	Comment		Three Year Average
1200	=P2-L2	3-yr actual avg		=ROUND((H2+I2+J2)/3,0)
2810	=P3-L3	3-yr actual avg		=ROUND((H3+I3+J3)/3,0)
0	=P4-L4	3-yr actual avg		=ROUND((H4+I4+J4)/3,0)
4524	=P5-L5	3-yr actual avg		=ROUND((H5+I5+J5)/3,0)
0	=P6-L6	3-yr actual avg		=ROUND((H6+I6+J6)/3,0)
600	=P7-L7	3-yr actual avg		=ROUND((H7+I7+J7)/3,0)
750	=P8-L8	3-yr actual avg		=ROUND((H8+I8+J8)/3,0)
324	=P9-L9	3-yr actual avg		=ROUND((H9+I9+J9)/3,0)
3059	=P10-L10	3-yr actual avg		=ROUND((H10+I10+J10)/3,0)
6820	=P11-L11	3-yr actual avg		=ROUND((H11+I11+J11)/3,0)
4000	=P12-L12	3-yr actual avg		=ROUND((H12+I12+J12)/3,0)
1000	=P13-L13	3-yr actual avg		=ROUND((H13+I13+J13)/3,0)
0	=P14-L14	3-yr actual avg		=ROUND((H14+I14+J14)/3,0)

Delete this column before importing back in to BARS

Reference: Agency Adjustment Types in BARS

| Adjustment Type	Description	PY	CY	BY	Stage	OBA Approval?
Agency Actuals Adjustment	Allows an agency to adjust their stated actuals for the Prior Year in whatever way they need to	**Y**	N	N	Agency Actuals	N
Reorganization	Allows program changes where otherwise changes to the actuals year need to be balanced by program – please discuss with Kurt	**Y**	N	N	Agency Actuals	Y
CY Adjustment	Allows CY adjustments which are not budget amendments	N	**Y**	N	Agency Working	N
Deficiencies	Agency deficiency requests for the Current Year	N	**Y**	N	Agency Add'l Working	Y
Agency Adjustments	These are changes which agencies submit as an adjustment which do materially change programs, but fall within an agency's target (e.g. a reorganization between programs)	N	N	**Y**	Agency Request	N
Over the Target Requests	Agency "Over the Target" additional funding requests	N	N	**Y**	Agency Add'l Request	Y
Reduction Options	Reduction options submitted by an Agency	N	N	**Y**	Agency Add'l Request	Y
Position Reconciliation	Allows an agency to perform a position reconciliation which does not allow net changes to FTE counts	N	N	**Y**	Baseline Adjusted	N

Building Blocks of the Budget

Set Staffing Levels and Salaries for Permanent Positions

- Budget the number of employees the agency will need in order to achieve the goals of the upcoming fiscal period and set the salaries for these employees using the subobject 0101 target set during the Position Reconciliation exercise. New positions must be submitted as over-the-target requests.
- Budget the health and pension benefits and turnover rate that relate to the positions budgeted above.
- The most important subobjects for the agency for this step are 0101, 0112, 0151, 0152, 0154, 0161, 0169, 0174, and 0189.

Set Staffing Levels and Salaries for Contractual Positions

- Budget the number of contractual employees the agency will need in order to achieve the goals and objectives of the upcoming fiscal period and set the salaries for those contractuals. Be diligent about ending contractual positions that are no longer necessary.
- The most important subobjects for the agency for this step are 0220, 0213, 0214, 0217, and 0289.
- The State provides health insurance for certain contractual employees, level fund from FY 2019.
- When budget developers build their salary and fringe budgets, they should include the following considerations:
    - Will the agency be reclassifying individual employees?
    - Will the agency be converting contractual employees to permanent employees?
    - What are the current vacancies and how many of those will be filled in the budget?

Set All Other Controlled Subobject Expenditures
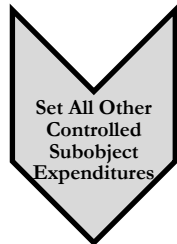
- Controlled subobjects are nondiscretionary. The amounts in the request must be exactly the same, by fund source, as those in the legislative appropriation. While BARS will validate this, the agency should ensure this is correct and contact the assigned DBM budget analyst if there are any questions or concerns. These specific subobjects are 0101, 0152, 0154, 0175, 0217, 0305, 0322, 0697, 0831, 0833, 0839, 0874, 0875, 0876, 0882, 0894 and 0897. Other controlled subobjects that must be budgeted according to guidance in Section B.14 include 0698, 0704, 1302, and 1303.

Set Any Other Mandated Expenditures

- The budget should include any mandated (non-discretionary only) increases or expenditures set forth in statute and carry forward any required contractual expenditures and capital lease financing payments. The staffing considerations for these mandated increases should be considered in the previous steps.
- Agencies should only include mandated increases where the legislature has passed a law that includes language that the "Governor shall" appropriate or include in the budget a specific expenditure amount or budget formula. These are non-discretionary. Agencies should _not_ include funding for new laws that do not specify an amount or provide a formula, unless they are able to include the funding within the target. Alternatively, agencies may request this funding in an over-the-target request.
- CAVEAT: The Legislature will sometimes pass laws that include an intent section with budget language. Intent language in a law is not a legal requirement and agencies should _not_ consider these mandates. Agencies should budget these expenditures within existing funds or submit an over-the-target request.