



March 7, 2016

**From Secretary Landrum's Desk:
Finance Cabinet Budget Recommendations**

Since being appointed as Finance Cabinet secretary in early December, I have spent my first three months learning about the cabinet, meeting personnel throughout, and providing guidance for developing our cabinet's next biennial budget.

I have had opportunities to meet many of our employees and am greatly impressed with the work our cabinet does. Thank you for what you do and for doing it well. As things settle down over the next several months, I hope to have more opportunities to meet employees throughout all areas of the cabinet.

As you can imagine, taking on the cabinet secretary's role is not only an honor, but also a big challenge. A part of that challenge is dealing with budget constraints while taking care of our employees and continuing to provide programs and services.

If you missed Governor Bevin's January budget address, he outlined a variety of steps he plans to take in regards to state retirement systems, education, workforce development and more. He also put forth his recommendation that agencies, with some exceptions, reduce their budgets by 4.5 percent for the remainder of this fiscal year and 9 percent for each of the next two fiscal years. See Figure 1 for Finance reduction goals.

FIGURE 1:
Reduction goals set forth in Governor Bevin's budget address.

Expenditures	Recommended Reduction FY2016 (4.5%)	Recommended Reduction FY2017 (9%)	Recommended Reduction FY2018 (9%)
TOTAL	\$6,748,699	\$13,497,400	\$13,497,400

He tasked each cabinet secretary to review their respective budgets and determine how to achieve budget reductions for the next two and a half years. The governor delegated that responsibility to the secretaries as they know their agencies and are best equipped to find savings to meet the governor's objectives.

Over the last several weeks, I tasked my management team to find practical, sensible and doable budget reduction recommendations.

Being in public service for over 36 years, my philosophy has always been, "mission first; people always." That is, how can we keep revenue coming in, achieve savings, keep jobs intact, and continue providing services at the appropriate level?

In the last two weeks, I have made budget presentations to legislative committees in both the House and the Senate. I feel they were well received and legislators commended our team on a thoughtful and common sense approach.

I want to share highlights of our proposed budget with you so that you are informed about our recommendations. However, we will not know what the final budget looks like until the general assembly passes a budget and Governor Bevin signs it into law.

In developing our budget recommendations, I issued the following operational planning guidance:

- 1) Keep revenue generating components intact.
- 2) Maintain current levels and/or manage growth within our budget.
- 3) Reduce inefficiencies and redundancies.

Using this planning guidance, we focused on five areas:

- Staffing
- Commonwealth Office of Technology Infrastructure
- Fleet
- Outside Contract Services
- Natural Gas Prices within Facilities

Staffing

FAC's current FY2016 budgeted staffing level is 1,995 positions, of which 1,849 are filled currently. Our plan is to continue operating below the overall cap, while adding some staff, primarily in revenue generating operations. No layoffs will result from budget constraints. Figure 2 shows current employees and the recommended staffing levels through FY2018.

Technology

COT is proposing to reduce costs by providing infrastructure services differently. This will include migrating to cloud-based subscription services and re-platforming legacy applications. Anticipated savings are \$450,000 for the remainder of this fiscal year and \$8,000,000 for FY17 and FY18.

Figure 2: Positions and savings in staffing.

			FY 2016		FY 2017		FY 2018
Office or Department	FY 2016 Budgeted Employees	Current Employees	Savings to Maintain this Level of Employees	Proposed Number of Employees	Savings to Maintain this Level of Employees	Proposed Number of Employees	Savings to Maintain this Level of Employees
General Admin	131	117	\$800,000	120	\$577,116	120	\$731,216
DOR	970	926	\$1,150,000	950	\$(5,288,097)	950	\$(4,540,097)
COT	530	468	\$3,000,000	490	\$6,347,279	490	\$6,347,279
Controller	83	77	\$300,000	77	\$727,380	77	\$819,180
Facilities	281	261	\$830,000	261	\$2,153,859	261	\$706,159
Total	1995	1849	\$6,080,000	1898	\$4,517,537	1898	\$4,063,737

Fleet

In reviewing the number of cars that FAC leases on a cabinet-wide basis, we found there are 190 vehicles of which 60 have been driven fewer than 5,000 miles per year. That is a 17% utilization rate that equates to an average of 11.67 miles per day, at a cost of \$262,800 per year. By returning these 60 vehicles to the motor pool, FAC will save more than \$260,000 and fleet will have to buy fewer vehicles in FY17 and FY18. Savings for the next two and a half years will be \$2.2 million.

FAC's management team has taken to clearly articulate savings without sacrificing jobs. Bottom line is, these recommendations will save \$34,331,274, which is \$587,774 more than the objective set forth by Governor Bevin. Please see Figure 3 for the total recommended savings through fiscal year 2018.

Outside Contract Services

We realize we may be able to become more efficient with service contracts. By finding efficiencies the cabinet can realize savings of \$400,000 for each of the next full fiscal years.

Focus Areas	FY 2016 (4.5%)	FY 2017 (9%)	FY 2018 (9%)
Staffing	\$6,080,000	\$4,517,537	\$4,063,737
COT Infrastructure	\$450,000	\$8,000,000	\$8,000,000
Fleet	\$200,000	\$1,000,000	\$1,000,000
Outside Services	\$0	\$400,000	\$400,000
Natural Gas	\$20,000	\$100,000	\$100,000

Natural Gas Prices Within Facilities

Natural gas prices have declined significantly over the last several years and have become a much more reasonable source of energy. We estimate that savings over the next two and a half years will be \$220,000.

Total	\$6,750,000	\$14,017,537	\$13,563,737
Goal	\$6,748,700	\$13,497,400	\$13,497,400

Figure 3: Total recommended savings through fiscal year 2018.

Conclusion

Throughout this budget review process, I have continually challenged FAC's management team to keep in mind, "mission first; people always."

I challenge everyone in the Finance Cabinet to put forth their ideas for generating revenue, cutting costs and providing the highest degree of service.

I believe these budget recommendations do just that.

If you could change or not do one thing to find savings or find efficiencies, what would that be?

FAC will keep revenue generating components intact--primarily functions in the Department of Revenue--including Property Valuation Administrators. We need to not only collect revenue that is owed to the Commonwealth, but also to ensure that property values are correct and current.

I encourage each of you to talk with your supervisor about your ideas.

We are managing our work and have put forth a plan to either maintain current staffing levels or add staff where necessary. Even by adding staff in certain areas, staffing levels will continue to remain at or below the number of positions allocated in the cabinet budget.

We are entrusted to be good stewards of the people's money. I take that role seriously and I trust you do as well.

And, finally, we are and will continue to reduce inefficiencies and eliminate redundancies to maximize savings where possible.

Thank you again for your work and dedication. I look forward to personally meeting many more of you in the coming months.

I am proud of the thoughtfulness and common sense approach

Thank you,
William M. Landrum III