



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

June 21, 2006

EXECUTIVE MEMORANDUM

MEMO NO. 06-04

TO: All Department Heads

SUBJECT: FY 07 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 07.

In light of Hawaii's strong recovery and growth in State revenues, Budget Execution policies for FY 07 contain no restrictions. Departments will receive full-year allocations of their appropriations as of July 1, 2006.

Hawaii's economy continues to perform well in all areas, and the significant gains of the past three years are expected to be sustained for 2006 and 2007. As a result of remarkable growth in the economy, general fund tax revenues grew substantially in FY 05 and are projected by the Council on Revenues to increase at a healthy pace in FY 06 and FY 07. While this optimistic view holds for the current biennium and the near term period, there are new concerns arising from inflation, high energy costs, further rise in interest rates, and a potential slowdown in the housing market.

After many years of budget shortfalls and fiscal constraint, the healthy balance in the General Fund to be realized at the end of FY 06 is a welcome change. However, this balance is expected to decrease to about \$200 million at the end of FY 07 as a result of increased program appropriations by the 2006 Legislature.

With a substantial increase in resources and greater expenditure authority, I want to encourage you to use this opportunity wisely and creatively. There are specific areas where catching up activities are necessary. There are also changes that must be accommodated. However, you must guard against unjustified, unintended, or automatic expansion of your budget base, for this will put your programs on an unsustainable path when the economy enters a new cycle and revenues are less abundant.

Projections of future State expenditures continue to show significant growth due to collective bargaining (CB) costs and fringe benefit obligations, including other post-employment benefits. In light of these concerns, we must continue to maintain fiscal discipline in managing our given resources. Toward this end, every department must exercise prudence and practice sound management principles by scrutinizing how it spends public dollars. Every expenditure must compete for priority in the State's spending plan relative to all other funding requirements of the State.

Exhibit 1 contains your department's FY 07 full-year allocation of program appropriations and position ceilings from Act 178, SLH 2005, as amended by Act 160, SLH 2006, and CB allocations, as applicable.

Attachments A and B contain executive expenditure policies, guidelines, and procedures for FY 07 budget execution to provide for prudent and efficient implementation of legislative intent.

Questions on the specific policies and instructions should be directed to the Department of Budget and Finance or the appropriate agency referenced. Electronic files of appropriate forms will be provided for your use.

I am confident that responsible fiscal choices will be made in the spirit of this memorandum even where no specific policies are provided. Your hard work and continued dedication to public service are sincerely appreciated.

LINDA LINGLE

Exhibit 1
Attachment A
Attachment B