



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

November 10, 2009

EXECUTIVE MEMORANDUM

MEMO NO. 09-06

TO: All Department Heads

SUBJECT: Third Interim Budget Execution Policies and Instructions for FY 10

State revenues have continued to decline further in past months. In August 2009, the Council on Revenues lowered its forecasted FY 10 growth rate for general fund tax collections from zero to -1.5 percent. Thus far, however, actual general fund tax collections in the first quarter of FY 10 have decreased by -9.4 percent as of September 30, 2009 and preliminary figures for October indicate collections have declined by -10.9 percent. The rapid decline in revenues continues to exert a tremendous pressure on the State's budget.

The Administration continues to pursue labor cost savings. Collective bargaining agreements ratified by the Hawaii State Teachers Association and the Hawaii Government Employees Association, combined with other measures taken by the Executive Branch, are anticipated to result in labor savings of over \$360 million over the current biennium. Uncertainties remain with respect to negotiations with the United Public Workers, which have gone into binding arbitration with Unit 10, and with the University of Hawaii Professional Assembly.

In this fiscal environment, our prudent and cautious expenditure policies must continue to control and reduce expenses. Due to the uncertainties that remain, the following actions are hereby authorized:

1. Effective immediately, departments will receive their respective budget allocations for the first three quarters of FY 10.
 - a. The revised Exhibit 1 contains your department's First, Second and Third Quarters allocation, which is three-quarters of FY 10 operating program appropriations from Act 162, SLH 2009, minus a restriction that is equivalent to three-quarters of the targeted labor cost savings from the original furlough program. The restriction applies to all means of financing.

The new allocation also reflects adjustments that were previously authorized.

- b. CIP staff cost must be adjusted proportionately to reflect the targeted savings.
 - c. Requests for exception from this policy will be reviewed on a case-by-case basis and must be submitted to the Governor's Office through the Department of Budget and Finance (B&F).
2. Allocations for the fourth quarter of FY 10 will be made upon further consideration of revenue and expenditure requirements. **It is fully expected that all departments will meet their targeted savings pursuant to the 13.85 percent restrictions. Due to continuing tax collection decline, contingency plans should be developed now to reduce expenditures beyond the 13.85 percent restrictions in the fourth quarter.**
 3. Except for allocation amounts, all other current budget execution policies as contained in the following Executive Memoranda will continue until further notice unless indicated below in #4 and #5.
 - o Executive Memorandum (E.M.) No. 08-03, *FY 09 Budget Execution Policies and Instructions* (dated June 23, 2008)
 - o E.M. No. 08-05, *Amendments to E.M. No. 08-03* (dated August 26, 2008)
 4. Requests relating to application for and expenditure of federal funds that are not under the American Recovery and Reinvestment Act of 2009 (ARRA) will no longer go through B&F as were required under E.M. No. 08-03, Attachment A, Item #9, and will be submitted directly to the Governor's Office. Departments should make the appropriate format changes to Forms E-1 and E-2.

Departments shall also prepare and submit Form E-3 (notice of request for federal fund approval - see attached sample for non-ARRA funds) in final form, under their department head's signature. To comply with reporting requirements, departments shall transmit the signed Form E-3, with a copy of the request, to the Legislature and to B&F, in order that B&F may prepare the summary annual report to the Legislature.

Because ARRA imposes many additional reporting requirements, application for and expenditure of federal funds under ARRA are subject to the budget execution requirements previously applicable to other federal funds under E.M. No. 08-03, Attachment A, Item #9. All ARRA requests should be submitted to the Governor's Office through B&F.

5. Pursuant to the spending restrictions issued by e-mail, dated September 16, 2009, from the Governor's Chief of Staff, all computer and computer-related purchases (e.g., hardware, software, maintenance and licensing) and purchases of handheld and landline communication devices and other electronic equipment are now restricted for all dollar amounts and means of financing (see E.M. No. 08-05, Item #21, f.1 and f.2). All purchases, unless exempted below, require Governor's approval through B&F.

- Restriction does not apply to purchases necessary for the continuation of ongoing Information Systems Technology (IT) services, such as hardware or software maintenance; license renewals; and existing networks, wide area networks, frame relays, etc.
- Restriction does not apply to purchases made with federal grant funds, including ARRA, on a single purchase order totaling less than \$10,000.
- Restriction does not apply to the Department of Education, Department of Taxation's CGI Tax Collection Initiative (computer program adjustments), University of Hawaii and Hawaii Health Systems Corporation.

Questions on the specific policies and instructions should be directed to B&F or the appropriate agency referenced.

Your continued hard work and dedication to public service are sincerely appreciated.

 LINDA LINGLE

JAMES R. AIONA JR.
ACTING GOVERNOR

Exhibit 1
Form E-3 (Non-ARRA)