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OFFICE OF THE PUBLIC DEFENDER
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION

September 11, 2008

FINANCE MEMORANDUM

MEMO NO. 08-10

TO: All Department Heads

FROM: Georgina K. Kawamura
Director of Finance

SUBJECT: Fiscal Biennium 2009-11 Executive Budget Request and the Program and Financial Plan for the Period 2009-2015

The following policies and guidelines shall be used in preparing the Executive Budget Request for FB 2009-11 and the Program and Financial Plan (PFP) for the period 2009-2015.

General Background

After several years of extraordinary expansion, Hawaii's growth rates have now settled into a much more modest range. The housing bubble and credit market difficulties continue to have negative reverberations throughout the U.S. economy, and the sharp increases in commodity and fuel costs have had a global impact, particularly on travel and transportation. In Hawaii, we have witnessed a downturn in tourism and construction, two principal drivers of our local economy.

Reflecting the softening economy, general fund tax collections increased by only 1.2% in FY 08. In contrast, the increases for previous years were 8.3% in FY 04, 16% in FY 05, 10.9% in FY 06, and 3.4% in FY 07.

While we had anticipated a certain degree of moderation in the growth of our local economy, the extent of the slowdown was greatly affected by unforeseen developments in the national and global markets. These economic concerns have been a limiting factor on expenditure policies for FYs 08 and 09. As revenue projections were revised downward by the Council on Revenues, appropriate measures were taken to control spending and limit the State's exposure to economic and financial uncertainties.

At the most recent meeting on September 3, 2008, the Council on Revenues retained its previous forecast of July 31, 2008, when the growth rate of general fund tax revenues was

reduced to 1.0% for FY 09, 4.0% for FY 10, and 3.9% for FY 11. Projections for the out-years were between 4.3% and 6.0%.

Budget preparation policies for FB 2009-11 must take into account these revenue projections and the prospect of continued moderation in the economy. In managing the changes brought about by a new fiscal environment, our goal is to achieve fiscal prudence and balance in the upcoming fiscal biennium.

The State's Fiscal Condition

The State's general fund revenues have continued to fall short of projections. Updated revenue estimates by the Council on Revenues for the period covering the current FB 2007-09 through the next FB 2009-11 show that total resources will be insufficient to meet the level of expenditures authorized in the 2008 Legislative Session (including the FY 09 Supplemental Budget and other specific appropriations). The general funds gap is projected to be over \$900 million. Under these extraordinary financial circumstances, immediate and substantial actions are needed to balance the General Fund.

The expenditure side of the State budget continues to show significant growth due to expanded services, collective bargaining costs and fringe benefit obligations. In view of these underlying costs, departments must exercise utmost prudence in planning for their budgets in the upcoming fiscal biennium. As in the past, we shall intensify efforts toward improving efficiency and reducing costs in all areas of State government activities and services.

I. General Policies

The following general policies are hereby provided for the development of the Executive Budget Request for FB 2009-11.

1. As indicated in Finance Memorandum No. 08-09 dated August 26, 2008, preparation of the FB 2009-11 Executive Budget Request began with all departments and agencies conducting a critical review and assessment of their current budget bases. The objective is to determine the essential services that are needed to implement the core functions of each department. Good budgeting requires us to undertake this task regularly and our current fiscal condition demands no less.
2. Given the limited growth in revenues projected for the budget and planning period, substantial adjustments must be made to total expenditures so that the State can live within its means. While budget adjustments and reductions are central to the goal of developing a balanced budget, they will not be the only course. We will be pursuing other appropriate fiscal measures to supplement budgetary actions.
3. For operations, the Biennium Budget will be based on FY 09 appropriations from Act 158, SLH 2008, minus necessary adjustments. Individual departmental budget ceilings are established for all departments by the Department of Budget and Finance (B&F). Under their respective budget ceilings, departments are authorized and encouraged to recommend trade-offs and transfers within and among programs under their purview to reflect the departments' current priorities and changing conditions.

4. Departments with general fund support are required to develop and submit their budget requests at three levels of operation and funding limit. These contingency plans are needed to realign State government programs and expenditures with resource availability as necessary. More detailed instructions are provided in Attachment 2, *General Budget Guidelines for Operating and Capital Improvement Projects, FB 2009-11 and the Planning Period*.
5. In light of the limited availability of general funds, departments should maximize efforts to use non-general funds, as appropriate, to support their programs. Federal funds, special funds, and other available funding sources should be considered as a replacement for general funds. Except as otherwise provided by law, special or other funds authorized to receive general revenue receipts, or general fund appropriations, should consider the feasibility of discontinuing (deleting) such general fund support. As necessary, separate legislation should be proposed to discontinue such support and to transfer remaining general fund balances.
6. For the upcoming biennium, the Capital Improvement plan shall focus on an expanded Major Repair and Maintenance program to get projects out quickly to address the current backlog and, at the same time, provide a stimulus to Hawaii's economy. Planning, design or construction of new buildings to be funded with general obligation bonds is greatly discouraged.
7. Pursuant to Section 37-68(1), HRS, any proposal for new programs, regardless of funding sources, must demonstrate that such programs are appropriate functions of State government and can be implemented by government as cost-effectively as by the private sector.
8. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable.
9. As a reminder, legislative proposals containing specific/emergency appropriations or affecting revenues must obtain clearance from the Governor's Policy Office. The B&F analysts should be informed as part of the budget review. (Form A, *Request for Operating Budget Adjustment*, should be used to provide the necessary information to justify the request.)

II. Submission Requirements and Format

1. Biennium Budget requests shall be submitted according to the requirements and formats as specified in the attachments.
2. All budget submissions will be subject to review and evaluation by B&F and the Governor. Worksheets and other supporting details may be requested and should be made available upon request.

III. Due Dates

The following must be provided to this office:

- By August 1, 2008: Completed Form CB-1 for Collective Bargaining non-salary cost data.
- By August 29, 2008: Proposed changes to Program Performance Measures, as applicable.
- By October 10, 2008: Three budget packages to reflect the three funding levels. Each package includes two copies of each budget submission, including Forms OB, A, B and C (relating to the operating budget) and Tables P, Q, R, Form S and Form PAB (relating to the CIP budget). In addition, electronic files of Forms B, C and S should be transmitted to your B&F analyst.
- By December 10, 2008: 1) Two copies of updated BJ Summary Tables in hardcopy/eBUDDI/Excel files/other electronic files; 2) two copies of the Budget Narrative; 3) updated Performance Measures in eANALYT; and 4) two copies of Tables P and Q, updated in eCIP, and Form PAB. All items should reflect the final Executive Biennium Budget Request.
- By January 5, 2009: Updated budget details in eBUDDI/Excel files/other electronic format matching the Table BJ summary amounts, and two copies of Table R, updated in eCIP. All items should reflect the final Executive Biennium Budget Request.

Departments will be notified later of the timetable for B&F recommendations, departmental rebuttals, and Governor's decisions on the Biennium Budget.

Attachments

Attachment 1: Departmental Budget Ceilings

Attachment 2: General Budget Guidelines for Operating and CIP

Attachment 3: Additional Operating Budget Detail Guidelines

Attachment 4: Collective Bargaining Cost Data (sent out earlier under separate Finance Memorandum 08-07, dated May 14, 2008)

Attachment 5: Operating Budget Submission (Forms OB, A, B, C)

Attachment 6: CIP Submission (Tables P, Q, R, Form S, Form PAB)

Attachment 7: Instructions for Preparing Program and Financial Plans and Program Budget Requests (September 2008)