



STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
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EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER
PUBLIC UTILITIES COMMISSION

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF ECONOMIC RECOVERY
AND REINVESTMENT (ARRA)

September 27, 2011

FINANCE MEMORANDUM

MEMO NO. 11-16

TO: All Department Heads

FROM: Kalbert K. Young
Director of Finance

SUBJECT: Supplemental Budget Policies and Guidelines for Fiscal
Biennium 2011-13

The policies and guidelines included herein shall apply to the preparation of the Executive Supplemental Budget for Fiscal Year (FY) 13 (Fiscal Biennium 2011-13).

General Background

Hawaii's economic recovery from the Great Recession continues, though at a slower pace than originally anticipated. At its most recent meeting on September 6, 2011, the Council on Revenues (COR) changed its FY 12 general fund tax revenue growth rate projection from 11% to 14.5%. Although the projection has increased, it does not reflect the current assumptions built into our financial plan.

The COR's projection had, in fact, two parts. The first part was based on economic growth, while the second part was based on the impact of revenue enhancement tax measures, enacted by the Legislature to address a potential \$1.2 billion budget shortfall for the biennium. The COR's projection of 11%, which did not include the impact of the tax measures, was decreased to 9.5% due to the slowdown of the State's economy and the underlying uncertainties in the world and national economies. The COR projects a conservative 5% general fund tax revenue growth rate for the revenue enhancement tax measures; whereas, the Administration had anticipated a growth rate of 7.2% in its financial plan.

In total, the COR's projection of 14.5% is 3.7% less than the 18.2% (11% plus 7.2%) included in the Administration's financial plan. Thus far, the preliminary actual general fund tax revenue growth rate for FY 12 is 9.0% (after \$187.4 million

in accrued tax refunds that were released in July 2010 are factored out) through August 2011.

While we are cautiously optimistic about our State's economy, Hawaii's tourism industry, a key component of Hawaii's economy, has slowed after experiencing double-digit growth last fiscal year. Additionally, Hawaii remains vulnerable to the volatility affecting the national and global economies.

The political climate in our nation's capital has spawned a continuing sense of economic uncertainty with looming federal debt limit issues and imminent reductions to federal programs. Combined with the increasing costs of the Medicaid program, the impending changes will undoubtedly have a significant impact on Hawaii and the nation. Events affecting the global economy including Japan's recovery from the devastating earthquake and tsunami, the instability of the European economy and the continuing uprisings in Northern Africa add to the insecurity.

Nevertheless, there are many substantial financial challenges that we must tackle, starting now. During the upcoming legislative session, we intend to submit legislation to recapitalize our emergency funds – the Hawaii Hurricane Relief Fund and the Emergency Budget and Reserve Fund. We must attend to our unfunded liabilities in the Employees' Retirement System and the Employer-Union Health Benefits Trust Fund, which exceed \$20 billion, and ready ourselves for significant cuts in federal moneys.

In preparing the FY 13 Supplemental Budget, we must address the nearly \$140 million in expenditure reductions for retirement benefit and health premium payments imposed by Act 164, SLH 2011. To make up for the reductions to these non-discretionary costs, the following adjustments must be incorporated into the FY 13 supplemental budget:

1. Across-the-board labor savings reduction of \$88.2 million in general funds to be derived from proposed labor cost savings.
2. \$50 million in general funds for fiscal restraints to be taken as program specific adjustments pursuant to the 2011 Program Review.

We must also restore critical funding for the Department of Education's (DOE) student transportation program and the Department of Human Services' (DHS) Medicaid program relating to Compact of Free Association and the Temporary Assistance for Needy Families clients, as well as non-discretionary funding for the Department of Budget and Finance's (B&F) deferred FY 09 pension accumulation payment.

Through challenging times, we must keep our focus. It is more important than ever that we continue to strive for improving our government services by bettering operational efficiency. We must continue to expedite our New Day Work Projects. These projects will support our infrastructure needs while producing immediate job growth and stimulating Hawaii's economy.

In this fiscal environment, we must continue to be cautious in our expenditure of public funds. We must continue to make prudent and thoughtful decisions to ensure the State's fiscal integrity and strengthen its position in the future.

I. General Policies

The general policies for the development of the Executive Supplemental Budget are as follows:

1. Program goals and objectives are generally expected to be accomplished within existing funding levels for general and non-general funds. There will be limited operating budget increases from current appropriations for FY 13, as authorized in Act 164, SLH 2011 (the General Appropriations Act) as discussed below.
2. In keeping with the purpose of a supplemental budget, departments should limit requests to address only critical, unforeseen, high priority items. Before requesting additional funds, **departments should first consider trade-offs and transfers within and among their programs to address departmental needs or to bring about greater efficiency.**
3. New programs/services/initiatives are not encouraged.
4. Changes in means of financing (MOF) may be proposed as long as such changes do not result in direct or indirect additional requirements for general funds in excess of Act 164, SLH 2011.

II. Supplemental Budget Guidelines

A. Operating Budget

The following guidelines apply to all MOF, unless otherwise specified.

1. Requests shall be submitted to reflect:
 - a. Labor savings adjustments (includes \$88.2 million in general fund adjustments and adjustments for all other MOF).
 - b. 2011 Program Review adjustments (includes \$50 million in general fund adjustments and related adjustments for other MOF).
2. Requests for additional general funds may be proposed only to meet the requirements of the following:
 - a. Increases in certain unavoidable fixed costs and entitlements such as debt service, fringe benefits, Medicaid and financial assistance programs.

- b. Critical, unanticipated emergencies relating to public health and safety or unforeseen, immediate requirements of court orders or federal mandates.
 - c. Restoration of specific legislative reductions for non-discretionary costs or critical programs:
 - B&F's deferred FY 09 pension accumulation payment.
 - DOE's student transportation program.
 - DHS' Medicaid program (Compact of Free Association) and the Temporary Assistance for Needy Families program.
 - d. High priority program initiatives of the Administration.
3. Non-general funded programs. Increases to non-general fund appropriation ceilings may be requested if there is sufficient basis for the department's revised estimates and if such increases will not require additional general fund appropriations. (Note: Changes in receipts must be reflected in the Quarterly Update of Revenue Estimates.) A financial plan for the fund supporting the request should also be submitted.

All departments, however, should consider that future reductions to federal-aid moneys are a distinct possibility and should exercise caution when requesting an increase to their federal fund ceiling. Departments should not assume that State funds will be available to support program costs if federal funds are no longer available.

4. Requests for trade-offs and transfers within and among programs may be submitted to address changes in program needs or to improve operational efficiency.
5. Section 119 of Act 164, SLH 2011, prohibits the expenditure of funds to fill any position not authorized by the Legislature, with specific exceptions. All unauthorized positions that are critical and on-going need to be identified and incorporated into the budget. Additional funding will not be provided for these positions because they are currently funded within existing budgets; as such, only trade-off and transfer requests may be submitted.

For the purpose of complying with Section 119, "authorized by the Legislature" are positions reflected in the budget tables as:

- a. Permanent or temporary positions (also positions vicing into authorized positions).

- b. Lump-sum funding authorizations for hourly or casual employees.
- c. Lump-sum capital improvement program (CIP) funding for project-funded positions.

Authorized positions also include those established by specific legislation or pursuant to HRS statutes.

Other positions currently funded by departments are considered "unauthorized."

- 6. Legislative proposals containing specific appropriations or impacting revenues must be coordinated with the Governor's Policy Office. The B&F analyst(s) assigned to your department must also be informed accordingly.

B. Capital Improvement Budget

Because this is a supplemental year, departments should focus on completing the New Day Work Projects already authorized in previous and current budget acts. As such, consideration of new CIP requests will be limited.

- 1. CIP requests will be limited to requirements in the following areas:
 - a. Project trade-offs that address critical needs and result in no net increase in authorization levels.
 - b. Projects that address critical, unanticipated emergencies relating to public health and safety, court orders/consent decrees or federal mandates.
 - c. Projects that improve energy efficiency.
 - d. Projects undertaken to meet high priority program initiatives of the Administration.
- 2. Departments are encouraged to review their current appropriations for trade-offs or to propose lapsing existing projects before considering requests for new funding.
- 3. CIP financed by special funds, revolving funds, or revenue bond funds must be self-supporting. Departments must ensure that the responsible program will be able to generate sufficient revenues to cover the cost of the undertaking, including principal and interest, and that a dedicated fund has been authorized to ensure the availability of funds for such purpose.

4. Works of Art. Departments are reminded that CIP budget requests should include 1% for Works of Art in accordance with Section 103-8.5, HRS, as amended, and criteria set forth by the State Comptroller.

III. Submission Requirements and Format

Departments must use the following formats in submitting their Supplemental budget requests:

- Form A – Operating Budget Adjustment Request
- Form A-LS – Departmental Summary of Labor Savings Adjustments (Attachment to Form A)
- Form B – Department Summary of Operating Budget Adjustment Requests (Master List of All Requests)
- Form S – Summary of Proposed CIP Lapses and New CIP Requests
- Tables P, Q, R and Form PAB – CIP Budget Forms

A. Requirements for Operating Budget Requests:

1. Use Form A to:

- a. Request FY 13 budget adjustments to incorporate adjustments for labor savings and/or pursuant to the 2011 Program Review.

Labor savings adjustments: Should be requested and budgeted as lump sum Table BJ-1A adjustments to reflect estimated labor cost reductions for all affected State employees (including HSTA, HGEA, UPW, excluded and exempt positions). It shall be assumed that comparable adjustments will be negotiated/arbitrated for HGEA (Unit 9), HSTA and UPW. One Form A may be used in coordination with Form A-LS to list all labor savings adjustments for a department. (See Attachment 1)

2011 Program Review adjustments: Identify all positions to be abolished and funding to be reduced or deleted pursuant to the Governor's decisions transmitted to all departments via Finance Memorandum No. 11-15, *2011 Program Review - Governor's Decisions*, dated August 22, 2011 (See also Attachment 1). All should be identified and reflected by program ID/org code and MOF.

- b. Request FY 13 budget adjustments as allowed under II.A.

- c. Identify details of plus or minus funding in requests for trade-offs/transfers.
2. Use Form B to summarize all supplemental budget adjustment requests. List the requests in priority order using unique priority numbers.
3. For each special/revolving fund appropriated in Act 164, SLH 2011, an updated six-year financial plan must be submitted.
4. Update of BJ Summary Tables. Refer to the attached Instructions for BJ Summary Tables Update, Budget Narratives, CIP Requests for details.
5. Budget Narratives. Refer to the attached Instructions for BJ Summary Tables Update, Budget Narratives, CIP Requests for details.

B. Requirements for CIP Budget Requests:

All departments are required to use the B&F web-based CIP system (eCIP) to update CIP tables and to submit any supplemental CIP budget requests as allowed under II.B. Refer to the attached *Instructions for BJ Summary Tables Update, Budget Narratives, CIP Requests* for details. Financial plans for funds supporting non-general fund requests are also required.

C. Availability of Electronic Forms:

All of the forms will be e-mailed to your administrative services/budget officers. In addition, these forms will also be available on the B&F website.

IV. Due Dates/Other Requirements

- A. The following must be provided to this office:
 1. By Friday, October 14, 2011: Two copies of each submission, including Forms A, A-LS, and B (for the operating budget) and Tables P, Q, R, and Forms S and PAB (for the CIP budget). Financial plans to support non-general fund requests are required, as appropriate. Electronic files of Forms A-LS, B and S should be transmitted to your B&F analyst.
 2. By Monday, December 5, 2011: the following submittals reflecting the Governor's final supplemental budget decisions:
 - a. For all departments except DOE, UH, and DOT: All BJ Summary tables in eBUDDI.

- b. For DOE, UH and DOT: Hard copies, Excel files, or other electronic files of the BJ Summary tables.
 - c. All departments: Two copies of the Budget Narratives.
 - d. All departments: All P, Q, and R tables should be updated in eCIP.
- B. Worksheets and other supporting details may be requested by B&F and should be made available upon request.

Attachments:

Attachment 1 – FY 13 Supplemental Budget Ceiling

Form A, A-LS and instructions

Form B and instructions

Form S and instructions

Form PAB and instructions

Instructions for BJ Summary Tables Update, Budget Narratives, CIP Requests

Sample: CIP Tables P, Q, R