



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

June 23, 2008

EXECUTIVE MEMORANDUM

MEMO NO. 08-03

TO: All Department Heads

SUBJECT: FY 09 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 09.

As we begin a new fiscal year on July 1, 2008, it is important to be mindful of the developments that currently affect Hawaii and impact the State's financial condition.

Recent economic indicators all point to a perceptible slowdown in business activities in Hawaii. After several years of extraordinary expansion, Hawaii's growth rates have now settled into a more moderate 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 1.6% in the first 11 months of FY 2008.

Moderation in the rate of growth of our local economy has been anticipated and has been a limiting factor in the execution of the FY 2008 budget. It was also a major consideration in the preparation of the Executive Supplemental Budget for FY 2009. 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 May 29, 2008, the Council again reduced its forecast of general fund tax revenues from 3.9% to 3.3% for FY 2008 and from 4.1% to 2.0% for FY 2009. Projections were also lowered for the years between 2010 and 2014. Compared to earlier estimates and including changes in non-tax revenues, these latest revisions translate to a reduction of -\$137.5 million for the current FB 2007-09 and -\$354.2 million for the next biennium.

In light of these revenue projections and the prospect of continued moderation in the economy, budget execution policies for FY 2009 are, by necessity, cautionary and restrictive to ensure that the State lives within its means. Our goal is to achieve fiscal prudence and balance, not only in the immediate time frame but also for the upcoming fiscal biennium.

Accordingly, there will be an executive restriction of 4% on FY 09 general fund appropriations for all departments. This restriction will apply to discretionary operating expenses only. Full-year allocation of your budgets will be made on July 1, 2008 and will reflect the reductions.

I understand that these restrictions will present a hardship for the departments, especially coming on top of legislative lump sum reductions to your budgets by Act 158, SLH 2008, the Supplemental Appropriations Act. However, our revenues are limited. We must rise to the challenge and be resolute in managing public resources and addressing public needs with efficiency and imagination. I recognize and appreciate your continued dedication to these tasks.

While there are uncertainties in the revenue picture, projections of future State expenditures continue to show significant growth due to collective bargaining costs and fringe benefit obligations, including post-employment benefits. In light of these concerns, the need for maintaining fiscal discipline in managing your given resources becomes imperative. Toward this end, every department must exercise prudence and practice sound management in how it spends public funds. Every expenditure must compete for priority in the State's spending plan relative to all other funding requirements of the State. Above all, you must guard against unjustified, unintended, or automatic expansion of your budget base. Under the present environment, new programs, activities and services should not be considered because they are not sustainable in the future.

The restrictive policies for FY 09 are the first step in managing the changes brought about by a new fiscal environment. As we look toward the next round of budget preparation for Fiscal Biennium 2009-11, we can expect the continuation of this cautionary stance plus other fiscal measures that are necessary to safeguard the State's General Fund.

While every effort must be made to trim your operating expenses, you are encouraged to accelerate the implementation of your department's capital improvement program. The energy and expenditures generated by moving the CIP projects quickly and efficiently through the system will serve our infrastructure needs and, at the same time, provide a good stimulus to Hawaii's economy.

Exhibit 1 contains your department's FY 09 allocation of program appropriations and position ceilings from Act 213, SLH 2007, as amended by Act 158, SLH 2008, minus the 4% restriction on general fund discretionary operating expenses.

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 09 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 prudent 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