

2011 PROGRAM REVIEW GENERAL APPROACH AND PROCESS

- The objective of the program review is to identify \$50 million in specific general fund reductions to meet the lump-sum, “fiscal constraints” reduction imposed by the Legislature for FY 12 and FY 13 based on a systematic review of State programs and services. As provided for in Section 97 of House Bill No. 200, H.D. 1, S.D. 1, C.D. 1, Relating to the State Budget, \$50 million must be transferred to health premium payments (BUF 761).
- The program review will focus on departmental programs that are fully or partially funded by general funds. Departments with programs wholly funded by non-general funds are encouraged to conduct their own modified reviews of such programs with the aim towards increasing program efficiency and effectiveness.
- General fund support for programs have been significantly reduced over the past decade, and consequently, the Administration wants to avoid imposing standard across-the-board “horizontal” budget adjustments that would further hobble hard hit, departmental operations. Instead, the thrust of the 2011 Program Review is to have each department make honest and discerning assessments of its programs and services as compared to its primary mission (what it does and who it serves). The aim is twofold:
 - The first is to identify programs, services, and/or activities for possible elimination that, although well-intentioned, are of marginal benefit, low performing, or of lesser priority; and
 - The second is to identify cost saving opportunities in primary programs and services through tightening program eligibility, reducing program benefits, and/or cost shifting.
- Difficult and painful decisions must be made for this review, but the alternatives are worse - more vacant positions, more deferred maintenance or payments, etc., for every program and service. Standard “horizontal” budget adjustments such as keeping positions vacant, deferral of payments, deferral of required maintenance, or unspecified lump sum adjustments are not options.
- To provide an impetus to facilitate a rigorous review of departmental programs, planning targets are being established for each department with general funded programs (see Attachment B). The planning targets are high because the intent is to evaluate each of the proposed budget reductions on a statewide basis to yield the \$50 million reduction target rather than having each department bear proportional reductions. Except for the University of Hawaii (UH) and Hawaii Health Systems Corporation (HHSC), the planning targets are based on 5% of the

department's general fund appropriation for FY 12 after subtracting out estimated 5% salary savings, debt service costs, EUTF costs, ERS pension accumulation costs and FICA costs. Because of their autonomous authority and unique abilities to raise non-general fund sources of revenue, the planning targets for UH and HHSC are being established at \$10 million, \$15 million and \$20 million levels.

- The first step in the program review process is to update appropriation information at the program org code level including amounts authorized, number of permanent and temporary positions and other means of financing, if a program is funded partially by non-general funds. The review is being conducted at the program org code level (which is one level of detail down from the program I.D. level that is reflected in the executive budget) because that is the lowest level of budget detail available on a statewide basis. The updated appropriation information should be recorded on Form PR (Program Review). [NOTE: If a program org code in the department is totally funded by non-general fund sources, then that particular program org code may be omitted from the program review.]
- The next step of the process is to review each of the program org codes using the "Criteria for Review of Programs and Services" (see Attachment C). These criteria are intended to assist departments in assessing whether a particular program, service, or activity is a potential candidate for possible elimination. [NOTE: Programs and/or services that are specifically authorized or referenced in the Hawaii Revised Statutes are still subject to this review.] If a program org code is assessed to fall under one (or more) of the criteria, a "X" should be recorded on Form PR in the applicable column(s) labeled "A" through "N" (corresponding to the criterion) for that particular program org code.
- The third step of the process is to analyze each of the program org codes for cost saving opportunities using the framework contained in "Cost Saving Opportunities Analysis" (see Attachment D). Departments need to identify cost saving opportunities based on their primary missions and functions, and the current fiscal realities. If the cost savings analysis determines that there could be cost saving opportunities, a "X" should be recorded on Form PR in the applicable column(s) labeled "1" through "6" (corresponding to the analysis area) for that particular program org code. [NOTE: If comments are needed for a particular program I.D. org code, a "X" should be recorded in the comments column and the comments recorded on a separate sheet in the file. Create as many comments "sheets" as necessary.]
- The fourth step of the process is to develop specific budget reduction proposals based on the reviews and analysis from the first three steps. Please use Form RD (Reduction Details) and the included instructions to present details of each budget reduction proposal. It is noted that estimated savings for FY 12 could be lower than in FY 13 due to lags in implementing reductions and inherent delays associated with closing down programs. As such, departments may not be able to meet their planning targets in FY 12 but should meet their planning targets in FY 13. The specific budget reduction proposals should then be prioritized according to which reduction should be considered first, second and so on (priority no. 1 should reflect the first reduction to be considered).

- The fifth step of the process is to prepare a departmental summary of the budget reduction proposals. Please use Form RS (Reduction Summary) to present a summary of the department's budget reduction proposals, including a brief impact statement on each budget reduction proposal.
- Departmental program review submittals will then be reviewed by B&F and the Governor's Office, and preliminary budget reduction recommendations will be made for each department. Review meetings will be scheduled between departments and B&F and the Governor's Office to discuss these preliminary recommendations. If necessary, review meetings will be scheduled with departments and the Governor to finalize budget reductions. Upon reaching final decisions on budget reductions, departmental general fund allocations will be adjusted accordingly. It is the Administration's intent to release full year allocations at this point, subject to the caveat that the Council on Revenues does not make significant reductions to its forecast and actual tax collections are in line with the Council's projections.
- The final budget recommendations will be incorporated into the FY 13 Executive Supplemental Budget based on the estimated savings identified by departments. If there are any significant budget issues related to legislative budget adjustments and/or non-funding of Administration requested budget items (especially for FY 13), please use the format in Attachment D to discuss these issues. These significant budget issue discussion papers (one per issue) should be submitted to B&F by Monday, June 27, 2011, to ensure timely resolution before finalization of departmental budget reductions.
- The timetable for the program review is outlined in Attachment E. As can be seen, the program review process is quite involved and will take some time to complete. It is imperative that all parties meet the specified deadlines to ensure that the process can be completed as expeditiously as possible. Please remember that delays in completing the process will result in delays for all departments in receiving their full-year funding allocations.
- Further technical guidance will be issued by B&F under separate cover with respect to costing assumptions to be used for implementation of program eliminations and conversion of programs to special funds.