



## EXECUTIVE CHAMBERS

HONOLULU

NEIL ABERCROMBIE  
GOVERNOR

June 16, 2011

### EXECUTIVE MEMORANDUM

MEMO NO. 11-07

TO: All Department Heads

SUBJECT: Interim Budget Execution Policies and Instructions for FY 12

As we begin a new biennium, we recognize the challenge ahead. Our State government is in the midst of one of its most difficult economic periods in its history. We have made tough decisions and we will make many more. Together, we must remain focused to guide our State to work effectively and efficiently for Hawaii's people, and to lead the way towards a New Day in Hawaii.

At its meeting on May 26, 2011, the Council on Revenues (COR) maintained its projected FY 11 general fund tax revenue growth rate of -1.6%. Preliminary general fund tax collections for FY 11 through May 2011 are at -.8% and it appears that revenues are on track to meet the COR's projection for FY 11. We are cautiously optimistic that the economy will remain on pace to meet the COR's projection of strong general fund revenue growth of 11% in FY 12; but we are cognizant of the potential impact that instability in the national and worldwide economies could have on Hawaii's economy.

Even as Hawaii's economy improves, we must remain prudent and thoughtful with our expenditures as we continue our work to mitigate the estimated \$1.0 billion budget shortfall in FB 2011-13 (\$540.1 million in FY 12 and \$499.5 million in FY 13). Addressing the shortfall will involve implementing the two expenditure reductions which were included in House Bill (H.B.) No. 200, H.D. 1, S.D. 1, C.D. 1, in the Department of Budget and Finance's (B&F) operating budget:

1. Across-the-board labor savings reduction of \$88.2 million in general funds in FYs 12 and 13 to be derived from labor cost savings related to collective bargaining agreements, to be allocated within the Executive Branch.

2. \$50 million for fiscal restraints in FYs 12 and 13 which will be allocated within the Executive Branch in concert with the Administration's efforts to reprioritize State government.

All State departments have suffered severe cuts in the past few years and it would be difficult to absorb additional horizontal general fund reductions. As such, we are initiating the 2011 Program Review, which is necessary to identify the \$50 million in specific general fund reductions. All departments will receive instructions for the 2011 Program Review under separate cover.

Identifying the general fund reductions will take time; however, so in order to allow departments to begin FY 12, only first quarter allocations will be released.

**Although some budget execution policies have been relaxed and purchasing thresholds have increased, department directors should ensure that adequate funding is available for any expenditure and/or commitment being considered. Departments should exercise extreme caution with expenditures as final allocations have not been established.**

Full year budget execution policies for FY 12 are forthcoming. During the interim, the following actions are hereby authorized:

1. On July 1, 2011, departments will receive their respective budget allocations for the first quarter only.

Exhibit 1 contains your department's First Quarter allocation, which is:

- General funds: One-fourth of 95% of the FY 12 operating program appropriation from H.B. No. 200, H.D. 1, S.D. 1, C.D. 1, which has been adjusted for 5% labor savings.
  - Non-general funds: One-fourth of the FY 12 operating program appropriation from H.B. No. 200, H.D. 1, S.D. 1, C.D. 1, which has been adjusted for 5% labor savings.
2. Allocations for subsequent quarters will be made upon further consideration of revenue and expenditure requirements.
  3. Updated Capital Improvement Program policies and procedures are forthcoming.
  4. 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 Item No. 5.
    - Executive Memorandum (E.M.) No. 08-03, *FY 09 Budget Execution Policies and Instructions* (dated June 23, 2008).

- E.M. No. 08-05, *Amendments to E.M. No. 08-03* (dated August 26, 2008).
- E.M. No. 09-06, *Third Interim Budget Execution Policies and Instructions for FY 10* (dated November 10, 2009).
- E.M. No. 11-01, *Amendments to Budget Execution Policies* (dated January 19, 2011).
- E.M. No. 11-04, *Sixth Interim Budget Execution Policies and Instructions for FY 11 – General Fund Expenditure Freeze* (dated April 27, 2011).  
Note: These policies will be in effect only until the end of FY 11.

5. The following policies are amended:

**From E.M. No. 08-05:**

**16. Contracts (amended).**

d. Staffing by Contracts - all MOF (amended)

These contracts provide:

- Services of an advisory nature relating to the functions of agency administration and management or program management; or
- Persons and/or organizations that are considered to have knowledge and special abilities not generally available within the agency; or
- Delivery of completed work, product, or services by or during a specified time.

Requests for these types of contracts require the Governor's approval, through B&F, and compliance with DHRD and DAGS requirements for contractual services. Departments are advised to contact DHRD and DAGS to obtain the latest applicable procedures relating to the approval process.

Exceptions (amended). Approval authority is delegated to department heads to make the expenditures listed below (unless applicable to "financing agreements"); however, compliance with DHRD and DAGS requirements for contractual services must still be fulfilled.

- d.1 Initial requests where total estimated costs will be **less than \$100,000 (amended).**

- d.2 Amendment to an existing contract where the original cost of which is **less than \$100,000 (amended)**. However, if the amendment results in the total cost exceeding this amount, the amendment requires the Governor's approval through B&F. (Note: Non-cost amendments to an existing contract do not require the Governor's approval.) Departments should consult with the AG and the SPO on other applicable requirements concerning contract amendments.
- d.3 Medical services contracts.
- d.4 Legal services contracts approved by the AG.
- d.5 Services contracts for expert witnesses for the AG.
- d.6 Engineering and architectural services for Repair and Maintenance projects funded as operating costs.
- d.7 Routine maintenance services necessary for ongoing operations. Examples include: maintenance of elevators/escalators, landscaping services, and janitorial services.
- d.8 Special repair and maintenance services to extend the life of facilities and other assets. Examples include: repainting, repaving, major repairs and rehabilitation of facilities.

**From E.M. No. 11-01:**

**14. Workforce Control (amended).**

b. Establishment and Filling of Positions/Vacancies (**amended**).

Departments are advised that the freeze on the filling of general funded vacancies is relaxed as indicated in Items b.1 and b.2 below.

b.1 Departments may submit requests for Governor's approval through B&F for the consideration of the establishment and/or filling of positions which meet the following criteria (**amended**):

- Current positions that are budgeted and funded in the current fiscal year (FY) budget.

Or, for positions which are:

- i. Budgeted but not funded;
- ii. Created by general law or specific legislation which are not included in the budget; or

iii. Unauthorized but are allowed pursuant to Section 119 of H.B. No. 200, H.D. 1, S.D. 1, C.D. 1 (**amended**);

for which an operational criticality is justified, departments may submit requests to establish and/or fill such positions with thorough explanation and justification.

- Positions that the director of the requesting department has assessed as being **CRITICAL** to the core operations of the department in delivery of services to the public.

b.2 Exceptions (**amended**). The Governor's approval is not required for the cases listed below.

- Establishment, filling and extension of positions that are 100% federally funded (including American Recovery and Reinvestment Act of 2009 (ARRA) funds), or 100% funded by non-appropriated trust funds.
- Filling of authorized school level positions in the Department of Education and the Charter Schools (**amended**).
- Filling of authorized direct instructional (teaching) and facility maintenance support positions (building maintenance and security guards) in the University of Hawaii (**amended**).
- Filling of authorized positions in the Hawaii Health Systems Corporation.
- Filling of Public Safety correctional facility, correctional program staff assigned to a correctional facility and sheriff positions (**amended**).
- Filling of positions in Child Protective Services.
- Filling of Hawaii State Hospital staff positions.
- Filling of Hawaii Youth Correctional Facility staff positions.
- Filling of Department of Health positions previously mandated by the Felix or Makin Consent Decrees and are currently necessary to ensure compliance (**amended**).
- Granting of temporary assignment to existing employees.

- Establishment and filling of positions pursuant to Section 76-16(b), subsections (5), (7), (9), and (16), HRS.
- Filling of civil service positions identified for Reduction-in-Force placements, and/or for placements of disabled employees.
- Filling of positions to convert exempt positions to civil service (**amended**).
- Extension of exempt positions with incumbents, provided positions are authorized and funded in FY 12 (**amended**).
- Filling and/or extensions of blanket authorizations approved by the Governor on or after April 27, 2011. Note: Blanket authorizations approved prior to April 27, 2011, are rescinded (**amended**).

If your department has a position that meets the criteria indicated in Item b.1, please assess and evaluate the need to establish and/or fill this position. Department directors are expected to be accountable for the decision to request to establish and/or fill a position.

All directors are advised to seriously examine and weigh each request to establish and/or fill positions against their departmental budget, the overall fiscal condition of the State, and the value the position will give to the public, along with the need to sustain government services in the long term. Your department's request will be deliberatively considered.

17. **Travel (amended)**. The following procedures and guidelines shall apply:

a. **Out-of-State (amended)**

Approval for out-of-state travel for departmental personnel is delegated to department heads, subject to available funding, program necessity, and other applicable statewide travel policies.

21. **Procurement of Goods, Services, and Construction (HRS Chapter 103D) and Purchase of Health and Human Services (HRS Chapter 103F), (amended)**.

f. **Equipment (amended)**. "*Equipment*" is tangible property of a more or less permanent nature (other than land or buildings and improvements thereon) that is used in an operation or activity

Examples are machinery, tools, furniture and furnishing, and certain vehicles such as farm tractors, mowing machines, and

plows required for the performance of program tasks. For budget purposes, "equipment" **excludes** general-use motor vehicles such as trucks, cars, and buses, which are covered under "motor vehicles."

- f.1 Requests to purchase equipment under Administrative Directive (A.D.) No. 77-02 or A.D. No. 87-01 (relating to IT and TC services, facilities and resources) shall: 1) obtain preliminary approval from the Department of Accounting and General Services' Information and Communication Services Division; then 2) submit such request to the Governor for approval through B&F.
- f.2 The Governor's approval through B&F is required for single purchases of equipment totaling **\$100,000 or more** (amended).
- f.3 Department heads are delegated the authority to approve the purchase of equipment items which are 100% federally funded (including ARRA funds) or, for all other means of financing, on single purchases which total less than \$100,000 (amended).
- g. **Motor Vehicles (amended)**. For budget purposes, "motor vehicles" include "passenger cars," "pickup trucks," "sports wagons," "vans," "buses," or any self-propelled vehicles designed for carrying or transporting passengers and/or property, and generally drawn upon a road or highway.
  - g.1 The Governor's approval through B&F is required for single purchases of motor vehicles totaling **\$100,000 or more** (amended).
  - g.2 Department heads are delegated the authority to approve the purchase of motor vehicles which are 100% federally funded (including ARRA funds) or, for all other means of financing, on single purchases which total less than \$100,000 (amended).
  - g.3 Motor vehicle purchases are subject to Chapter 103D, HRS, and the following:
    - i. Oahu and Maui: All passenger cars, leased or purchased, new or used, shall require Comptroller's approval. Review for approval shall consider vehicle type, size, and availability from DAGS Automotive Management Division (DAGS-AMD) motor pools.

Hawaii and Kauai: For passenger cars purchased for these islands, agencies shall submit an annual listing of vehicles purchased during the fiscal year for review by the Comptroller for compliance with paragraph "iv" below.

- ii. Passenger vehicles shall conform to the standard specifications and criteria issued by DAGS-AMD. Exceptions to the standards shall require Comptroller's review and approval.
- iii. Specifications for other than passenger vehicles, including exceptions to the DAGS-AMD standards, shall be the responsibility of the individual purchasing agency.
- iv. Used motor vehicles require the approval of the head of the purchasing agency and, for passenger vehicles only, the approval of the Comptroller as provided above.
- v. Used motor vehicles acquired from the SPO Surplus Property program are not subject to Chapter 103D, HRS, but shall comply with paragraph "iv" above.
- vi. Agencies shall ensure compliance with Act 96, SLH 2006, on Energy, and the Department of Business, Economic Development and Tourism's *Departmental Guidelines for Acquisition of New Vehicles*.

Questions on the specific policies and procedures should be directed to the B&F analyst assigned to your department or the appropriate agency referenced.

NEIL ABERCROMBIE  
Governor, State of Hawaii

Attachment: Exhibit 1