

LINDA LINGLE
GOVERNOR



GEORGINA K. KAWAMURA
DIRECTOR

STANLEY SHIRAKI
ACTING DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER
PUBLIC UTILITIES COMMISSION

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION

June 30, 2004

FINANCE MEMORANDUM

MEMO NO. 04-10

TO: All Department Heads

FROM: Georgina K. Kawamura
Director of Finance

SUBJECT: Preliminary Meeting for FB 2005-07 Budget Preparation

In the process of preparing for the next fiscal biennium budget, I would like to meet with each of you individually to discuss the following matters.

THE FINANCIAL PICTURE

As you know, the State currently faces a serious fiscal challenge to balance its budget. While we expect to end the current fiscal biennium on June 30, 2005 with an estimated general fund balance of \$100 million, estimates for the next FB 2005-07 project a deficit of over \$150 million. This condition must be fixed, not only because the Hawaii Constitution requires a balanced budget, but also because the State cannot continue to live beyond its means.

On an annual basis, the general fund budget has been in the red in recent years. The deficit amounted to \$215 million in FY 02, \$17 million in FY 03, and is estimated to be \$16 million in FY 04. It must be realized that the State was able to maintain a positive cumulative balance in the general fund (and satisfy the constitutional requirement) only by continuously relying on past reserves, both in the general fund as well as from special funds (through the transfer of excess balances). This course is no longer viable; we must find a way to balance the State budget and, in doing so, put the budget on a more even, predictable, and prudent path.

With steady improvements in the economy, the Council on Revenues projects that general fund revenues will grow moderately in the near-term, through FY 09. However, even with moderate increases, annual general fund revenues are insufficient to support projected

annual expenses of current State programs and services financed with general funds. Furthermore, this prognosis was based on the favorable assumption of no additional collective bargaining requirements beyond what has been agreed to in the past legislative session.

The immediate task we face is to bridge a gap between general fund revenues and expenditures in the magnitude of \$150 million as we begin to construct the Executive Branch Budget for FB 2005-07, which the Governor will propose to the 2005 Legislature. The longer-term goal is to restore and strengthen the structural balance in the State budget.

FB 2005-07 BUDGET PREPARATION PROCESS

In view of the critical task before us, we are departing from past practice and schedule by taking an early start with a consultation meeting with each individual Director and her/his staff, to begin in mid-July 2004. The purpose of this meeting includes the following:

1. To clarify the fiscal issues and preliminary planning parameters for FB 2005-07 Executive Budget preparation.
2. To obtain an overview of each department's current direction, programs, services, issues, and funding requirements.
3. To develop a preliminary plan of action in each department to identify potential cutbacks in programs and services. For your information, a deficit of \$75 million in each year of the next fiscal biennium is the equivalent of 12% of the total discretionary base in the general fund budget. An across-the-board cut of this magnitude would not be the most productive or prudent approach to fixing the deficit.

As such, this preliminary round of meetings with individual departments can be considered the first stage of FB 2005-07 Budget Preparation. Subsequent meetings are anticipated to follow through with the results/ideas from the first stage and to consider other measures, as necessary.

The meeting is expected to last for two hours for most departments and will include myself, my deputy, and the Department of Budget and Finance budget staff. Due to the need for programs to prepare the necessary data and information, the meetings will most likely start with the smaller departments. My secretary, Ms. Sharon Gibo, will coordinate the meeting schedule with your office. She can be reached at 586-1519.

FUNCTION & ACTIVITY REVIEW

Before your department begins to develop its budget requests for the next biennium, a thorough review of the department's functions must be conducted. A comprehensive and full-force Function and Activity Review is being planned as an integral step of budget preparation this year. The attached *FB 2005-07 Function & Activity Review Guidelines* has been developed to give direction and focus to this critical task.

Please use the Review Guidelines to begin identifying and prioritizing your functions, activities, and funding requirements. For this preliminary meeting, please come prepared with some specific or potential items for discussion, which can be listed on the attached form.

To develop meaningful solutions and reach our fiscal goal, I would like to offer the following suggestions at this time:

- Please be clear about what has been authorized for your current programs and budget.
- Review your departmental priorities critically. Every item cannot be a high priority.
- Do not ask for more money. Instead, identify the specific and potential areas for budget reduction, cost containment, and improved performance.

EXCEPTIONS

The focus of this memorandum is on all departments receiving general fund appropriations. Therefore, the following departments are not required to have the consultation meeting at this time: Department of Commerce and Consumer Affairs, Department of Hawaiian Home Lands, and Department of Transportation. However, the spirit of this memorandum applies to all departments and agencies and will be adhered to during the course of budget preparation.

I sincerely appreciate your understanding, cooperation, and collaboration in this matter. I believe that together, we can do it.

Attachments

FB 2005-07 FUNCTION & ACTIVITY REVIEW GUIDELINES
(July 2004)

The FB 2005-07 Function and Activity Review involves **identifying low-to-medium priority functions and activities** of State government that could be **eliminated** or **reduced in scope**. The focus of the review is primarily on the general fund portion of the Executive Budget.

Outlined below are the basic criteria for the function and activity review. The underlying assumption is that necessary changes to State laws and administrative rules will be made to implement the proposed budget reduction.

Please use the attached format to record proposed budget reductions.

Basic Guidelines for the Function and Activity Review

1. Funding priorities:

- a. Maintain essential components of the social/health safety net.
- b. Maintain essential components in support of public schools.
- c. Maintain essential components in ensuring public safety.
- d. Maintain basic support of higher education.
- e. Maintain basic level of environmental protection activities to preserve the environment.
- f. Maintain a basic level of economic development activities to facilitate economic growth to finance State programs.
- g. Maintain essential activities to comply with federal mandates/court orders/consent decrees/etc.

2. Review questions:

- a. Can the function and/or activity be eliminated without significant adverse consequences in meeting objectives of funding priorities?
- b. Can the function and/or activity be reduced without significant adverse consequences in meeting objectives of funding priorities?

3. Potential candidates for elimination and/or reduction include:
 - a. State programs where the function is primarily the responsibility of another jurisdiction, or there are other means of support.
 - b. Conversion of programs to non-general fund means of financing and/or eliminating general fund support.
 - c. Services and activities that have outlived their usefulness and/or are of marginal benefit.
 - d. Optional benefits and services that are allowed under federal programs.
 - e. Supplementary benefits and services that complement federal programs.
 - f. Functions and activities that are not critical to the overall mission of the program (if program is a priority noted above).
 - g. Reducing service levels of functions and activities.
 - h. Functions and activities within a department or departments where overlap exists.

2004 FUNCTION & ACTIVITY REVIEW
GENERAL FUND
Department of

Program ID	Item	FY 06		FY 07		Comments/Impact Statement
		Positions	\$	Positions	\$	
	Medium Priority:					
	Sub-total - Medium Priority	0.00	0	0.00	0	
	Low Priority:					
	Sub-total - Low Priority	0.00	0	0.00	0	
	Total	0.00	0	0.00	0	