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FINANCIAL ADMINISTRATION DIVISION

August 25, 2004

FINANCE MEMORANDUM

MEMO NO. 04-14

TO: All Department Heads

FROM: Georgina K. Kawamura  
Director of Finance

SUBJECT: Fiscal Biennium 2005-07 Executive Budget Request and the Program and Financial Plan for the Period 2005-2011

These policies and guidelines are to be used in preparing the Executive Budget Request for FB 2005-07 and the Program and Financial Plan (PFP) for the period 2005-2011.

General Background

Hawaii's economy continues to show steady improvements in all areas. Unemployment in the State remains low while growth in personal income has averaged over 5% in recent years. As a result of these improvements, general fund revenues are projected to grow at a moderate pace for the duration of the six-year planning period. With recent increases in tax revenues, we are cautiously optimistic about the future.

However, revenue forecasting continues to be a challenge and revenue projections are subject to significant variation and adjustment. Therefore, a conservative and prudent stance must be maintained with respect to the availability of revenues, especially general fund revenues.

The Financial Picture

The message that we have consistently sent out is that the State must learn to live within its means and balance the budget. Finance Memorandum No. 04-10 (*Preliminary Meeting for FB 2005-07 Budget Preparation*) includes the following statement, which bears repeating:

“On an annual basis, the general fund budget has been in the red in recent years . . . 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 reaching into 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.”

Under current projections by the Council on Revenues, annual general fund revenues are insufficient to support annual general fund expenses of current State programs and services. 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 the gap between general fund revenues and expenditures. The longer-term goal is to restore and strengthen the structural balance in the State budget such that recurring expenses are supportable by recurring revenues. And, as in the past, we shall intensify efforts toward improving efficiency and reducing costs in all areas of State government services.

#### **I. General Policies**

Accordingly, the following general policies are hereby provided for the development of the Executive Budget for FB 2005-07.

1. The Biennium Budget will be based on FY 05 allocation levels from Act 41, SLH 2004, for departments and agencies. Limited exceptions to this general rule will be allowed, as discussed in Attachment 2, *General Budget Guidelines for Operating and Capital Improvement Projects, FB 2005-07 and the Planning Period* (Guidelines).
2. Departments are authorized to recommend trade-offs and transfers within and among programs under their purview. Specific conditions are discussed in the Guidelines.
3. As conveyed in Finance Memorandum No. 04-06 (dated May 21, 2004), the review of program structure and performance measures should be conducted as part of the Biennium Budget preparation. The goal of this effort is the development of meaningful objective statements and performance measures for all programs.
4. Pursuant to Section 37-68(1), HRS, any requests for new programs, regardless of funding sources, must demonstrate that such programs are appropriate functions of State government and can be implemented by government as cost-effectively as by the private sector.
5. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable.

6. As a reminder, legislative proposals containing specific/emergency appropriations or affecting revenues must obtain clearance from the Governor's Policy Office. The Department of Budget and Finance (B&F) analysts should be informed as part of the budget review. (Form A, Request for Operating Budget Adjustment, should be used to provide the necessary information to justify the request.)
7. Except as otherwise provided by law, special or other funds authorized to receive general revenue receipts, or general fund appropriations, should also consider the feasibility of discontinuing (deleting) such general fund support. As necessary, separate legislation should be proposed to discontinue such support and to transfer remaining general fund balances.

## **II. Submission Requirements and Format**

Biennium Budget requests are to be submitted according to the requirements and formats as specified in the attachments.

All budget submissions will be subject to review and evaluation by B&F and the Governor. Worksheets and other supporting details may be requested and should be made available upon request.

## **III. Due Dates**

The following must be provided to this office:

- By Tuesday, September 7, 2004: Proposed changes to the Program Structure, as applicable. (Note: This is an extension of the previous June 30, 2004 submission date.)
- By Monday, September 20, 2004: Two copies of each budget submission, including Forms CS, A, B, and CB-1 (relating to the operating budget) and Tables P, Q, R, S and Form PAB (relating to the CIP budget). In addition, electronic files of Forms CS, B, CB-1, and S should be transmitted to your B&F analyst.
- By Friday, September 24, 2004: Proposed changes to Performance Measures, as applicable. (Note: This is an extension of the June 30, 2004 submission date.)
- By Monday, November 22, 2004: 1) Two copies of updated BJ Summary Tables in hardcopy/Excel files/other electronic files; 2) two copies of the Budget Narrative; and 3) the Performance Measures Excel file. All items should reflect the final Executive Biennium Budget.
- By Wednesday, December 29, 2004: Excel files (or other electronic format) of the budget details matching the Table BJ summary amounts. All items should reflect the final Executive Biennium Budget.

Departments will be notified later of the timetable for B&F recommendations, departmental rebuttals, and Governor's decisions on the Biennium Budget.

Attachments

- Attachment 1: Departmental Current-Services Budget Ceilings
- Attachment 2: General Budget Guidelines for Operating and CIP
- Attachment 3: Additional Operating Budget Detail Guidelines
- Attachment 4: Collective Bargaining Cost Data (Form CB-1)
- Attachment 5: Operating Budget Submission (Forms CS, A, B)
- Attachment 6: CIP Submission (Tables P, Q, R, Form S, Form PAB)
- Attachment 7: Instructions for Preparing Program and Financial Plans and Program Budget Requests (August 2004)