

GENERAL BUDGET GUIDELINES FOR OPERATING AND
CAPITAL IMPROVEMENT PROJECTS
FB 2005-07 AND THE PLANNING PERIOD

Budget requests must be submitted under the currently approved program structure. Exception: Proposed changes to program structure may be reflected if the changes have been approved by the Director of Finance prior to submittal.

Required budget submissions shall include all costs of Executive Branch agencies and programs, including operations, current lease payments, and capital improvements by the means of financing (MOF).

All requests for Operating and Capital Improvement Project (CIP) budget authorizations shall conform to the guidelines contained herein. For additional information, departments should also refer to:

- Attachment 3 (*Additional Operating Budget Detail Guidelines*)
- Attachment 7 (*Instructions for Completing Program and Financial Plans and Program Budget Request Forms*)

All appropriate forms will be e-mailed to your administrative services/budget officers. In addition, these forms will be available on the Department of Budget and Finance (B&F) website.

A. OPERATING BUDGET

The following guidelines apply to all MOF. Exception is provided for programs supported by trust and federal funds, as explained below.

1. **Departmental Current-Services Budget Ceilings**

Departments are to submit a current-services budget for each year of the fiscal biennium. A current-services budget contains resources that are necessary for programs to continue providing the current level of services only. It does not allow for program expansion or addition of new services.

Each department is subject to a current-services budget ceiling for each year in FB 2005-07. The current-services budget ceiling is determined as follows:

- FY 06 departmental current-services budget ceiling =

FY 05 Appropriation from Act 41, SLH 2004

Minus: Targeted Adjustments
Grants-in-Aid

1% Efficiency Restriction
Non-Recurring Costs

Plus: Annualized CB costs for FY 06

- FY 07 departmental current-services budget ceiling =

FY 05 Appropriation from Act 41, SLH 2004

Minus: Targeted Adjustments
Grants-in-Aid
1% Efficiency Restriction
Non-Recurring Costs

Plus: Annualized CB costs for FY 07

Attachment 1 provides the calculated FY 06 and FY 07 current-services budget ceilings for the departments.

2. Total budget requests of each department for each fiscal year shall not exceed the departmental current-services budget ceilings as provided in Attachment 1. Specific exceptions to this general rule are provided in Item A.4 below.
3. **The Current-Services Budget** shall conform to the following guidelines:
 - a. Use Form CS (*Summary of Current-Services Operating Budget*) to provide a breakdown of the department's FY 06 and FY 07 ceilings by Program ID and Organization Code for every MOF based on the currently approved budget. Along with the BJ details (to be submitted later), this form constitutes the department's current-services budget for FB 2005-07.
 - b. Funding of Positions. All positions, including vacancies, must be funded for the full year.
 - c. The following should not be included in the current-services budget:
 - Increases for program expansion or improvement
 - Establishment of new programs, services or activities
 - Funding for pilot or demonstration projects

4. **Requests for additional funds** above the current-services budget ceiling may be proposed for the following cases. Use Form A (*Operating Budget Adjustment Request*) to submit and justify each request by Program ID and Org Code.
- a. High-priority program initiatives of the Governor.
 - b. Recurring costs from specific appropriation acts of the 2003 and 2004 Legislatures.
 - c. Non-discretionary expenses as specified below. Projected requirements for the following programs/items should reflect the best estimates for each year.

(Note: At a later date, B&F will notify the University of Hawaii (UH) and Department of Education (DOE) of the amounts for debt service and fringe benefit costs to be included in their budgets.)

c.1 Debt Service

BUF 115: Principal and interest on general obligation (G.O.) bonds

Other program IDs (non-general fund) with debt service on G.O. Reimbursable (G.O.R.) or revenue bonds

c.2 Employee Fringe Benefits

BUF 141: Pension Accumulation, Social Security and Medicare

BUF 101: Employer-Union Trust Fund premiums for health insurance

DHRD, DOE, UH: Workers' Compensation payment and Unemployment Insurance costs

Other program IDs (non-general fund) with increased costs for fringe benefits

c.3 Entitlements

HMS 201: General and federal fund payments for temporary assistance to needy families

HMS 202: General fund payments to assist the aged, blind, and disabled

HMS 203: General fund payments for temporary assistance to other needy families

HMS 204: General assistance

HMS 230/245/603: General, federal, and other funding for health care

HMS 303: General and federal payments for child foster care payments

HMS 305: Child care

- c.4 Court Orders/Consent Decrees. Increases over FB 2005-07 current-services budget ceilings are allowed for mandated requirements such as Felix, witness fees, and court-appointed counsel.
- c.5 Risk Management. Risk management requirements which could not be accommodated within FB 2005-07 position and dollar ceilings are allowed. Departments will be notified at a later date of their respective amounts.
- d. Appropriated Trust and Appropriated Federal Funds. Trust and federal fund ceilings may be increased if:
- Such increases require no general fund support;
 - Sufficient revenues will be available to accommodate such budgeted increases; and
 - The increase will not result in additional direct or indirect general, special, or revolving fund support to the department.
- e. While budget requests may be proposed for the above categories, departments are required to justify them in the normal process of budget review and evaluation.
5. All other requirements shall be funded within the departmental current-services budget ceiling for each fiscal year. **Trade-offs and transfers** of position and funding with the same MOF are allowed to accommodate the following:
- Workload increase requirements.
 - Critical needs relating to public health and safety.
 - Program changes to bring about greater operating efficiency.

In light of position ceiling limits, variances to existing authorized positions may be proposed during budget formulation to accommodate changes in program needs. All such requests for change should be supported with justification.

Use Form A to request and justify a trade-off/transfer proposal.

6. CB Expenses. Annualized CB salary costs from currently approved contracts (including projected costs for Unit 1, United Public Workers and Unit 7, University of Hawaii Professional Assembly (UHPA)) are included in the current-services budget ceilings for FY 06 and FY 07. No other costs shall be included.

Use Form CS to allocate CB allowances among program IDs. Departments must ensure that CB allocations are sufficient to cover payroll requirements.

To be included in the CB cost database:

- a. Positions must be listed on Tables BJ-1 and BT-1.
- b. Non-salary cost items must be identified and submitted on Form CB-1 (Attachment 4).

7. Changes in MOF. A change in MOF sources may be proposed if:

- It does not result in requirements for additional direct or indirect general fund support to the department;
- It is consistent with the statutory purpose of the funds involved; and
- Projected levels of fund receipts/revenues will be available to accommodate the change in MOF.

Changes shall be identified and justified on Form A, by org code/program ID.

8. Financing Agreements

Chapter 37D, HRS, provides separate requirements for the budgeting and management of “*financing agreements*” and related transactions.

A “*financing agreement*” includes any lease purchase agreement, installment sale agreement, loan agreement, line of credit, or other agreement to finance the improvement, use, or acquisition of real or personal property that is or will be owned or operated by the State or any agency or to refinance any such previously executed financing agreement including certificates of participation relating thereto.

“*Financing agreement*” applies but is not limited to agreements involving tangible personal property, software (including software, training, and maintenance contracts related to the operation of computer equipment), fixtures, and property rights. (See E.M. No. 96-17, dated November 15, 1996, relating to financing agreements.)

All funding for such financing transactions and liabilities are required to be budgeted as a separate cost element in each fiscal year.

“Operating” cost categories must now include a separate cost element for “**current lease payments**,” in addition to the existing “personal services,” “other current expenses,” “equipment,” and “motor vehicles.” Note: Any lease purchase agreement, master lease agreement, installment sale agreement, or other similar financing agreement used to fund “personal services,” “other current expenses,” “equipment,” or “motor vehicles,” should be included on a separate Table “BK” for “current lease payments.”

9. Additional Guidelines. Additional information and guidelines are provided in Attachment 3 (Additional Operating Budget Detail Guidelines for FB 2005-07 and the Planning Period), which should be referenced for more specific details on the Operating Budget.
10. Submission Requirements. The following forms, as applicable, must be completed as part of the department’s operating budget submission:
 - a. Use Form CS (Summary of Current-Services Operating Budget) to provide a breakdown of the department’s FY 06 and FY 07 current-services budget ceilings by program ID and Organization Code. Along with BJ details (to be submitted later), this form constitutes the department’s current-services budget for FB 2005-07.
 - b. Use Form A (Operating Budget Adjustment Request) to:
 - a. Request adjustments to the current-services budget for FB 2005-07.
 - b. Identify details of plus or minus funding in requests for trade-offs/transfers.

Budget information on Form A should be as detailed as possible to facilitate the update of BJ tables.
 - c. Use Form B (Department Summary of Operating Budget Adjustment Requests) to list all budget adjustment requests of the department, by Program ID and Organization Code. List the requests by order of department priorities. (See “Instructions for Form A,” Item #3, regarding department priority.) Identify the category of each request as appropriate (e.g., Governor’s priority, recurring cost, trade-off/transfer, fixed cost/entitlement, etc.).

Note: The grand total on Form B represents the department’s budget request for FB 2005-07 (current-services budget ceiling + total adjustments).
 - d. Use Form CB-1 (Collective Bargaining Cost Data) to provide data on non-salary cost items for CB purposes.
 - e. An updated six-year financial plan should be submitted for each special or revolving fund. The updated numbers should be consistent with those provided in the budget requests and in the Quarterly Update of Revenue Estimates.

- f. Updated BJ Summary Tables shall be submitted by departments subsequent to the Governor's final decisions on the Biennium Budget in November 2004.

Prepare BJ Summary tables according to the following instructions which apply to all MOF:

- FY 04 – reflect actual expenditures.
- FY 05 – estimated expenditures.
- FYs 06 and 07 – reflect the departmental biennium budget.
- FYs 08 through 11 – Position counts and all operating costs shall be kept constant (i.e., same as FY 07) throughout the planning period.

Exceptions: Debt service, Employees' Retirement System, Employer-Union Trust Fund employer contributions, and Department of Human Services' entitlement programs should reflect projected requirements. CB costs for Unit 7 (UHPA) should also be reflected.

For departments that do not have automated budget systems, please submit two copies of your BJ Summary tables. If you are submitting BJ Summary tables in Excel format, please e-mail the files to your B&F analyst and Ms. Adele Muronaga at Adele.K.Muronaga@hawaii.gov.

For departments with automated budget systems, please submit an electronic file of the BJ Summary tables. Please e-mail these files to Ms. Muronaga.

- g. Budget Narratives (Program Plan Narratives)

- Prepare a budget narrative, not to exceed two pages, for each program ID to discuss the final Executive budget requests.
- Do not prepare separate narratives for the organization codes within the program ID.
- See pages 30-32 of Attachment 7 for more detailed instructions on the Budget Narrative.

- h. Performance Measures Excel file – please update the data by fiscal year to reflect the level of program goals that will be achieved by the implementation of the approved Executive budget. See pages 9-10 of Attachment 7 for more detailed instructions on Performance Measures.

B. CAPITAL IMPROVEMENT BUDGET

1. The CIP Plan for FB 2005-07 shall focus on the following priorities:

- a. Maintenance of existing facilities.
 - b. Completion of current projects.
 - c. Critical needs for public health and safety.
 - d. Governor's priorities.
2. There shall be no general funded CIP requests.
 3. New funding for CIP is limited. Departments are encouraged to identify and lapse G.O./G.O.R. projects with lower priority to ensure the availability of a larger margin for other statewide capital needs. CIP trade-offs may also be proposed.
 4. Requests for new G.O. and G.O.R. bonds will be reviewed and scrutinized for their impact on debt service and operating costs.

Additional operating costs incurred as a result of CIP requests shall be accommodated within the appropriate department's operating ceilings.

5. Review of departments' preliminary six-year CIP plans will be conducted separately in an effort to better focus development of fiscal biennium CIP requests.
6. Projects funded by "financing agreements" instead of long-term debt proceeds. Whenever the financing transaction used in any project (or cost element therein) does not entail funding by G.O. or other long-term debt, but entails a "financing agreement" as defined by Chapter 37D, HRS, the portion thus financed shall be submitted as a separate and distinct project. The title of such a project shall refer to the financing mechanism as well as the project (e.g., "Lease-purchase of Land for Kamehameha Highway Extension," to be funded by special funds). See also this attachment, Item A.7, and E.M. No. 96-17, dated November 15, 1996, for further clarification of "financing agreements."
7. Departments requesting CIP financed by special funds, revolving funds, or revenue bonds must ensure that:
 - The public undertaking so funded will be self-supporting;
 - The responsible program will be able to impose appropriate rates and charges to accommodate the cost of the undertaking, including payment of principal and interest; and

- A special fund has been authorized to provide dedicated funds for such purposes.

Departments should consider the impact such authorizations would have on their departmental special fund operating budget requirements and ceilings.

8. As appropriate, departments must ascertain the relationship between current and future facility costs (e.g., renovation, CIP) associated with operating requests and vice-versa.

Departments are reminded to make the appropriate funding adjustments for *operating costs* associated with the lapsing of currently-authorized CIP projects in this budget request.

9. User and expending agencies of CIP which are funded by G.O./G.O.R. bonds are reminded of compliance requirements of the Tax Reform Act of 1986, including amendments thereto. **Form PAB** (*Questionnaire – G.O. Bond Fund Appropriations*) must be completed for every project to be funded with G.O. and G.O.R. bond funds. If assistance in completing this form is required, the Financial Administration Division of B&F should be contacted.
10. Agencies should consider the feasibility of participating in the development of a joint use facility before requesting CIP funding for single agency facilities.
11. **CIP Submission Requirements**. CIP budget requests and/or adjustments shall be submitted according to the following procedures:

A. **Tables P and Q** (*Capital Project Details*) – Computer turnaround forms by project and program which were authorized by Act 41, SLH 2004, will be provided.

- a. Turnaround forms are to be used to request additional funds for FB 2005-07 for existing projects. New CIP requests shall be submitted on completed loose **Tables P, Q, and R** (*Capital Project Information and Justification Sheet*).
- b. For capital authorizations of new projects with federal aid financing that are expected to lapse on June 30, 2008, the lapsing of all MOF (**except** for general funds and School Education Facilities Improvement Special Funds), may be prevented by including the following statement within each applicable project description:

“This project is deemed necessary to qualify for federal aid financing and/or reimbursement.”

In addition, documentation of the source of federal funds must be included in Table R. Information shall include the source of grant, type of grant, federal contract agency, amount being sought, amount received in past, total funding cap on specific grant, and anticipated date for receipt of funds.

- c. Private entities and/or activities funded by G.O. or G.O.R bond funds must meet appropriate Internal Revenue Code requirements to preserve the tax-exempt status of interest on such bonds.

For compliance with the Federal Tax Reform Act of 1986 and amendments thereto, Form PAB must be completed and submitted for every request funded by G.O. or G.O.R. bonds.

- d. Each project description must begin by stating the cost elements requiring appropriations in the budget biennium. Where project descriptions and appropriated cost elements do not coincide, appropriate amendments should be made to the project description on **Table P**.

B. **Table R** (loose form) is to be used to justify requests for new projects or additional funding of existing authorized projects.

C. **Form S** (*Department Summary of Proposed CIP Lapses and New CIP Requests - loose form*) is to be used to summarize projected CIP requests and to identify appropriations for trade-off or lapsing. Requests on Form S shall be prioritized with (1) as “highest priority,” and so on. Projects proposed for lapsing shall be prioritized with (1) as “first to be lapsed,” and so on.

C. OTHER REQUIREMENTS

1. Where proposed program or budget adjustments will require statutory amendments or specific legislation, departments shall prepare necessary legislative proposals, and shall coordinate such submissions with the Governor’s Office.

Details of such proposals shall be made available as part of the department’s budget justification.

2. Where program or budget requests entail coordination between programs or departments, participating agencies shall ensure that clear delineations of responsibility have been mutually established and are legally permissible; and that appropriate implementation and/or funding mechanisms are available, including the possible inclusion of clarifying budget language.
3. Special and other non-general funded departments and programs must conform to these budget submission requirements. Further, such departments and programs should be reminded of Section 37-52, HRS, which provides that “. . . *departments and establishments shall not be authorized to make expenditures out of any special fund in excess of the monies available in the special fund.*” Budget requests, therefore, should not exceed anticipated total resources available in the (non-general) fund for the specified fiscal year. Any changes should be reported to B&F. *A financial plan should accompany the budget request of each special or revolving fund to verify the availability of adequate resources.* Numbers should be consistent with

those provided in the budget requests and in the Quarterly Update of Revenue Estimates.

4. State agencies contemplating the creation of new programs should be aware of Section 37-68(1), HRS, which requires departments to justify proposed requests for new programs by first demonstrating that such programs are appropriate functions of State government, and can be implemented by government as cost-effectively as the private sector.
5. Departments and agencies are reminded that administration decisions to recommend approval of program and capital improvement requests shall be determined by the conformance of such requests with the overall theme, goals, objective, policies, and priority guidelines contained in Chapters 226 and 225M, HRS, relating to State and Functional Plans.
6. Before submitting operating and capital budget requests for energy funding, departments and agencies shall consult with the energy coordinator at the Department of Business, Economic Development and Tourism for specific energy-related standards, guidelines, and goals, pursuant to State energy policies mandated by Act 77, SLH 2002. All energy-related budget requests must be consistent with such standards, guidelines, and goals.