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FINANCIAL ADMINISTRATION DIVISION

August 30, 2005

FINANCE MEMORANDUM

MEMO NO. 05-07

TO: All Department Heads

FROM: Georgina K. Kawamura
Director of Finance

SUBJECT: Supplemental Budget Policies and Guidelines for Fiscal Biennium 2005-07

These policies and guidelines are to be used to prepare the Executive Supplemental Budget.

General Background

This supplemental budget is being prepared in the midst of a strong economy with expectations that the positive outlook for general fund revenues will continue for the near future. Although the past fiscal year saw a rare double-digit growth in general fund tax revenues, the Council on Revenues has cautioned that this rapid increase was partly due to technical factors such as changes in the tax laws and fluctuations in payment patterns. At this time, revenue projections reflect moderate, sustained growth through the upcoming budget and planning periods.

Against this economic backdrop there are, understandably, pent up demands for program expansion following many years of budget constraints. Although the revenue picture appears rosy, it should be noted that our financial plans need to take into account the following factors:

- The State Constitution mandates that taxpayers be provided a tax refund when the general fund balance at the close of two successive fiscal years exceeds five percent of general fund revenues. This requirement will be triggered at the end of FY 06 and the State will be required to refund a portion of the general fund balance. Further, the Administration will again be proposing a package of tax relief measures for Hawaii taxpayers.

- The upcoming round of collective bargaining negotiations will likely mean added payroll and fringe benefits pressures.
- Increased costs for non-discretionary items such as court orders, Medicaid/QUEST, fringe benefits, and debt service are expected.

Therefore, we intend to continue to exercise precautionary restraint and follow the Governor's budget objectives that the State live within its means and plan for recurring and future expenses. Hopefully, by prudent and responsible planning and expenditure, we will avoid the disruptions of "boom or bust" budget cycles.

In keeping with the purpose of a supplemental budget, departments should limit requests to address only critical, unforeseen, high priority items.

I. General Policies

Accordingly, the general policies for the development of the Supplemental Budget are as follows:

1. Program goals and objectives are expected to be accomplished within existing funding levels for general and non-general funds.
2. There will be no increase from current appropriations for either FY 06 and FY 07 as authorized in Act 178/05 (the General Appropriations Act) for both the operating budget as well as the capital improvement budget. Limited exceptions to this general rule will be allowed for FY 07 as discussed below.
3. Departments are encouraged to propose trade-offs and transfers within and among their programs in order to address departmental needs or to bring about greater efficiency.
4. Changes in means of financing (MOF) may be proposed as long as such changes do not result in direct or indirect additional requirements for general funds, general obligation bonds, or general obligation reimbursable bonds (G.O./G.O.R.) in excess of Act 178/05.
5. Any requests for critical new programs, regardless of funding sources, must demonstrate that such programs are appropriate functions of State government and can be implemented by government more cost effectively than by the private sector.
6. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable.

II. Supplemental Budget Guidelines

A. Operating Budget

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

1. Requests for additional funds (add-ons) may be proposed only to meet the requirements of the following:
 - a. Increases in certain unavoidable fixed costs and entitlements such as debt service, fringe benefits, Medicaid and financial assistance programs.
 - b. Critical, unanticipated emergencies relating to public health and safety, or unforeseen, immediate requirements of court orders or federal mandates.
 - c. On-going critical programs, functions, or activities which were funded in FY 06 but not funded in FY 07.
 - d. High priority program initiatives of the Governor.
2. Section 167 of Act 178/05 prohibits expenditures for unauthorized positions (“ . . . for fiscal year 2006-2007 no funds, including federal funds, shall be expended to fill any position not authorized by the legislature . . .”). Consequently, unauthorized positions that are critical and on-going need to be identified and incorporated into the budget. Additional funding will not be provided for these positions because they are currently funded within existing budgets.

For the purpose of complying with Section 167, “authorized by the legislature” are positions reflected in the budget tables as:

- a. Permanent or temporary positions (also covers positions vicing into authorized positions).
- b. Lump sum funding authorizations for hourly or casual employees.
- c. Lump sum capital improvement program (CIP) funding for project funded positions.

Other positions currently funded by departments are considered “unauthorized.”

3. Exception for federal-funded programs. Increases to federal fund appropriation ceilings may be requested if there is sufficient basis for the department's revised estimates and if such increases will not require additional general fund appropriations.
4. Legislative proposals containing specific appropriations or impacting revenues must be coordinated with the Governor's Policy Office through departmental Legislative Coordinators and the Department of Budget and Finance (B&F) analysts informed accordingly.

B. Capital Improvement Budget

1. The objective for the FY 07 Supplemental CIP budget is to hold the line on the current level of authorizations for all MOF. Therefore, consideration of CIP requests will be limited.

Increasing the total budget is discouraged because this is a supplemental year and the focus should be on completing the numerous projects already authorized in previous and current budget acts.

2. As such, CIP requests will be limited to requirements in the following areas:
 - a. Project trade-offs that address critical needs and result in no net increase in authorization levels.
 - b. Projects that address critical, unanticipated emergencies relating to public health and safety, court orders/consent decrees or federal mandates.
 - c. Projects undertaken to meet high priority program initiatives of the Governor.

Departments are encouraged to review their current appropriations for trade-offs or to propose lapsing existing projects to remain within current funding levels.

3. Specifically with regard to G.O./G.O.R. funded CIP, additional projects cannot be funded unless current project appropriations are deleted. Consequently, wherever possible, departments will need to identify and lapse lower priority projects to meet higher priority statewide capital needs.
4. CIP financed by special funds, revolving funds, or revenue bond funds must be self-supporting. Departments must ensure that the responsible program will be able to generate sufficient revenues to cover the cost of the undertaking, including principal and interest, and that a dedicated fund has been authorized to ensure the availability of funds for such purpose.

III. Submission Requirements and Format

Supplemental budget requests are to be submitted using the following formats:

1. Form A – Operating Budget Adjustment Request
2. Form B – Department Summary of Operating Budget Adjustment Requests (Master List of All Requests)
3. Form S – Summary of Proposed CIP Lapses and New CIP Requests
4. Tables P, Q, R and Form PAB – CIP Budget Forms

A. Mandatory Submissions for All Operating Requests:

1. Use Form A to:
 - a. Request FY 07 budget adjustments as allowed under II.A.
 - b. Identify details of plus or minus funding in requests for trade-offs/transfers.
2. Use Form B to summarize all supplemental budget adjustment requests. List the requests in priority order using unique priority numbers.
3. For each special/revolving fund appropriated in Act 178/05, an updated six-year financial plan should be submitted.
4. Update of BJ Summary Tables
 - a. Update the Act 178/05 BJ Summary tables according to the following instructions which apply to all MOF:
 - FY 05 – reflect actual expenditures.
 - FY 06 – do not change any FY 06 amounts since they already reflect Act 178/05; otherwise, the changes will appear in the budget document as requested amendments to Act 178/05.
 - FY 07 – reflect the Governor’s final Executive Supplemental Budget decisions.
 - 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.

- b. Other than the Department of Education (DOE), University of Hawaii (UH) and Department of Transportation (DOT), all departments will be required to use B&F's web-based operating budget system (eBUDDI) for the preparation of BJ Summary tables and updating of budget details. The Act 178/05 budget details have been downloaded to eBUDDI, so you may begin entering your FY 05 actual expenditures.

If you have not finished updating your details to reflect Act 178/05, then the Executive Biennium Budget request data has been downloaded to eBUDDI. Complete your updates to FY 06 and FY 07 as soon as possible to reflect Act 178/05, so that B&F can upload this data. Then, proceed to enter your FY 05 actual expenditures.

After Governor's final decisions, update the details to incorporate your approved supplemental budget requests so that the BJ Summary tables can be generated by eBUDDI by November 28, 2005. If you cannot update all of your detail files to generate your BJ Summary tables by that date, then enter the BJ Summary table amounts directly on the BJ Summary (BJ Edited) screens as was explained in the training sessions.

Departments with their own automated budget systems should submit an electronic file of their BJ Summary tables via email to the assigned B&F analyst and to Ms. Sharon Kotaka of our office at Sharon.Y.Kotaka@hawaii.gov.

5. Budget Narratives

- a. Discuss the final approved Executive Supplemental Budget requests in the budget narrative in Section B (Description of Request) and Section C (Reasons for Request). See attached narrative sample format.
- b. The narrative should be typed lengthwise, in two columns, on 14-inch paper using CG Times font, size 12. Do not exceed one page, if possible. More narrative examples can be found in the 2003 Executive Supplemental Budget document.
- c. Narratives are required only for program IDs with operating or CIP changes. Narratives are prepared at the program ID level; i.e., do not prepare separate narratives for organization codes within the program ID.

B. CIP Submission Requirements:

All departments are required to use the B&F web based CIP system (eCIP) to update CIP tables and to submit any supplemental CIP budget requests as allowed under II.B.

1. All Tables P's have been updated to reflect the project titles, descriptions, and appropriation amounts in Act 178/05. Table Q's still reflect the Executive Biennium Budget. All of these tables have been downloaded to eCIP.
2. All departments may start using eCIP immediately to: 1) update Table Q to reflect Act 178/05; and 2) request funding as allowed by these instructions.

Enter the Senate and House districts on Table P for any supplemental request. Enter the capital project justification (Table R) through eCIP, as explained in the training sessions.

3. Form S (Excel file) is to be used to identify appropriations for trade-offs or lapsing, and to summarize supplemental CIP requests. List the requests in priority order using unique priority numbers.
4. Private entities and/or activities which are proposed to utilize facilities to be funded by G.O. and/or G.O.R bond funds must meet appropriate Internal Revenue Code requirements to preserve the tax-exempt status of interest on such bonds.

To ensure 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. and G.O.R. bonds.

C. Availability of Electronic Forms:

All of the forms will be e-mailed to your administrative services/budget officers. In addition, these forms will also be available on the B&F website.

IV. Due Dates/Other Requirements

A. The following must be provided to this office:

1. By Friday, September 23, 2005: Two copies of each submission, including Forms A and B (for the operating budget) and Tables P, Q, R, and Forms S and PAB (for the CIP budget). In addition, electronic files of Forms B and S should be transmitted to your B&F analyst.

2. By Monday, November 28, 2005: the following submittals reflecting the Governor's final supplemental budget decisions:
 - a. For all departments except DOE, UH, and DOT: All BJ Summary tables in eBUDDI.
 - b. For DOE, UH and DOT: hard copies, Excel files, or other electronic files of the BJ Summary tables.
 - c. All departments: Two copies of the Budget Narratives.
 - d. All departments: All P, Q, and R tables should be updated in eCIP.
- B. Worksheets and other supporting details may be requested by B&F and should be made available upon request.

Attachments: Form A and instructions
Form B and instructions
Form S and instructions
Form PAB and instructions
Sample: Budget Narrative Format
Sample: CIP Tables P, Q, R