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HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION

August 3, 2006

FINANCE MEMORANDUM

MEMO NO. 06-07

TO: All Department Heads

FROM: Georgina K. Kawamura
Director of Finance

SUBJECT: Fiscal Biennium 2007-09 Executive Budget Request and the Program and
Financial Plan for the Period 2007-2013

These policies and guidelines shall be used in preparing the Executive Budget Request for
FB 2007-09 and the Program and Financial Plan (PFP) for the period 2007-2013.

General Background

Hawaii's economy turned in another strong performance in the past fiscal year with all
measures of economic activities showing considerable growth in the past twelve months. The
robust recovery that the State has experienced since 2003 is expected to continue for 2006 and
2007 although the pace is projected to become more moderate in subsequent years. While the
main sectors of Hawaii's economy continue to be on solid ground, concerns over high energy
prices, rising interest rates and inflation warrant a cautious view toward the future.

General fund tax revenue collections showed a healthy growth of 10.9% for FY 2006.
However, current projections by the Council on Revenues reflect only moderate increases for
the current FY 2007 as well as for the next biennium and planning period.

The State's Fiscal Condition

The State's General Fund has been restored to a healthy balance as a result of strong revenue
growth in recent years and conscious efforts by the Administration to hold down expenses.
Your hard work, dedication and prudent management have contributed greatly to this end.
Mahalo to all of you and your staff!

With a strong economy and healthy revenue growth, financial constraints have been relaxed and fiscal policies have responded commensurately. Substantial resources were appropriated by the 2006 Legislature and, for the first time in many years, the current fiscal year began with no restrictions. The increase in funding and expenditure authority has provided departments with real opportunities for guiding their programs in the right direction.

The positive fiscal environment that the State currently enjoys is exactly the appropriate condition that allows us to plan ahead for the next economic and budgetary cycle. Lessons from the past two decades (when Hawaii went through several upswings and downswings in economic activities and budgetary actions) point to the need for a better planning mechanism in managing public resources to avoid the traditional boom and bust in budgetary cycles. As the Governor has reminded us, during this relatively easy budget time, we must guard against unjustified, unintended, or automatic expansion of the budget base, for this will put programs on an unsustainable path when the economy enters a new cycle and revenues are less abundant.

The expenditure side of the State Budget continues to show significant growth due to collective bargaining costs and fringe benefit obligations, including post-employment benefits. In view of these underlying costs, departments must exercise utmost prudence in planning for their budgets in the upcoming fiscal biennium. As in the past, we shall intensify efforts toward improving efficiency and reducing costs in all areas of State government activities and services.

I. General Policies

The following general policies are hereby provided for the development of the Executive Budget Request for FB 2007-09.

1. With substantial funding appropriated for Fiscal Biennium 2005-07, departments must, at this time, conduct a comprehensive review of their program objectives, priorities, budget resources, and expected outcome. Before any consideration can be given to requests for additional funds, departments must first justify the use of their current resources.
2. The Biennium Budget will be based on FY 07 allocation levels from Act 160, SLH 2006, 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 2007-09 and the Planning Period.*
3. Departments are authorized and encouraged to recommend trade-offs and transfers within and among programs under their purview to accommodate changing conditions and priorities.
4. As conveyed in Finance Memorandum No. 06-02 (dated May 4, 2006), 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.

5. 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.
6. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable.
7. 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.)
8. Except as otherwise provided by law, special or other funds authorized to receive general revenue receipts, or general fund appropriations, should 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

1. Biennium Budget requests shall be submitted according to the requirements and formats as specified in the attachments.
2. 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.
3. The budget preparation and review process for this year includes an oral presentation of FB 2007-09 budget requests by the department heads. This new procedure is an opportunity for departments to have a broad discussion of their current achievements and the major initiatives being proposed for the next biennium.

III. Due Dates

The following must be provided to this office:

- By July 31, 2006: Proposed changes to the Program Structure and Performance Measures, as applicable. (Note: This is an extension of the previous June 16, 2006 submission date.)
- By August 1, 2006: Completed Form CB-1 for Collective Bargaining non-salary cost data.

- By September 11, 2006: Two copies of each budget submission, including Forms OB, A, B and C (relating to the operating budget) and Tables P, Q, R, Form S and Form PAB (relating to the CIP budget). In addition, electronic files of Forms B, C and S should be transmitted to your B&F analyst.
- September 11, 2006 to September 22, 2006: Oral presentations of FB 2007-09 budget requests by department heads.
- By November 24, 2006: 1) Two copies of updated BJ Summary Tables in hardcopy/eBUDDI/Excel files/other electronic files; 2) two copies of the Budget Narrative; 3) updated Performance Measures in eANALYT; and 4) two copies of Tables P and Q, updated in eCIP, and Form PAB. All items should reflect the final Executive Biennium Budget.
- By December 29, 2006: Updated budget details in eBUDDI/Excel files/other electronic format 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 Budget Ceilings
- Attachment 2: General Budget Guidelines for Operating and CIP
- Attachment 3: Additional Operating Budget Detail Guidelines
- Attachment 4: Collective Bargaining Cost Data (sent out earlier under separate Finance Memorandum 06-03, dated June 7, 2006)
- Attachment 5: Operating Budget Submission (Forms OB, A, B, C)
- 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 2006)