

GENERAL BUDGET GUIDELINES
FOR OPERATING AND
CAPITAL IMPROVEMENT PROJECTS
FB 2007-09 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 as of August 7, 2006.

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*). This document has been revised to include the most recent changes to the Department of Budget and Finance (B&F) web based budget systems.

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

A. OPERATING BUDGET

Preparation of the Executive Budget Request for FB 2007-09 will require a two-step process.

First Step: Review of the Operating Budget Base

With substantial funding appropriated for many programs in FB 2005-07, departments and agencies must, at this time, conduct a comprehensive review of their program objectives, priorities, budget resources, and expected outcome. For the upcoming biennium, budget evaluation will concentrate on the total resources currently available to programs as well as on the need for additional funding, if any. Before any consideration can be given to requests for additional funds, departments must first justify the use of their current resources.

Form OB has been developed to facilitate the comprehensive review of the Operating Budget base. The base is defined as the total level of resources allocated to departments and programs in FY 07. By first looking at how resources are spent in the base, the need for additional funding in the upcoming fiscal biennium can be better understood and evaluated.

Form OB must be submitted for each individual Program ID whether or not the program is requesting any funding change.

Second Step: Operating Budget Requests

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

1. Departmental Budget Ceilings

Each department is subject to a budget ceiling for each year in FB 2007-09. The budget ceiling is determined as follows:

- FY 08 departmental budget ceiling = FY 07 Appropriation from Act 160, SLH 2006

Minus: Grants
Non-Recurring Costs

Plus: Annualized CB costs for FY 08

- FY 09 departmental budget ceiling = FY 07 Appropriation from Act 160, SLH 2006

Minus: Grants
Non-Recurring Costs

Plus: Annualized CB costs for FY 09

Attachment 1 provides the calculated FY 08 and FY 09 budget ceilings for the departments. These numbers constitute the base budget for each department.

2. Trade-Off and Transfer

Within the base, departments are encouraged to maximize the opportunities for using their resources wisely and creatively to accomplish the overall fiscal policy objectives of the Administration. These objectives include:

- Improving efficiency in State operations
- Increasing effectiveness of State programs and services
- Demonstrating the results/benefits to the public
- Maintaining a healthy balance between available resources and program needs

Accordingly, trade-offs and transfers of position and funding should be explored and pursued to accommodate the changing conditions and priorities of State programs and services.

3. The Operating Budget

Total budget requests of each department for each fiscal year shall not exceed the departmental budget ceilings as provided in Attachment 1. Specific exceptions to this general rule are provided in **Item A.4** below.

The Operating Budget shall conform to the following guidelines:

a. Use Form C (*Summary of Current Operating Budget*) to provide a breakdown of the department's FY 08 and FY 09 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 budget for FB 2007-09.

b. Funding of Positions

- All positions, including vacancies, must be funded for the full year.
- As a cautionary note, departments should be aware that recent legislatures have taken a strict view on unauthorized positions. For the current biennium, Section 167 of Act 178, SLH 2005, as amended by Act 160, SLH 2006, prohibits expenditures to fill any position not authorized by the legislature, except for a limited number of cases. Therefore, departments should ensure that all necessary workforce requirements are reflected in their budgets.

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

- i. Permanent or temporary positions (also positions vicing into authorized positions)
- ii. Lump sum funding authorizations for hourly or casual employees
- iii. Lump sum CIP funding for project funded positions

4. Requests for additional funds above the budget ceiling may be proposed in 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 2005 and 2006 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

AGS 223: Certificates of Participation (COP) obligations

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/Federal Mandates. Increases 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 2007-09 position and dollar ceilings are allowed. Departments will be notified at a later date of their respective amounts.
- c.6 Costs of Fuel and Utilities. In view of rising energy costs, requests may be submitted to meet additional expenses. However, programs must justify these requests and show that efforts have been made to control costs and/or reduce energy consumption.
- d. Critical activities/services for public health and safety. Departments must first pursue the possibilities for redirecting current resources to meet these needs before requesting additional funds.
- e. 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.
- f. 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 budget ceiling for each fiscal year. Trade-offs and transfers of position and funding within the same MOF are allowed to accommodate changing priorities.

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 are included in the budget ceilings for FY 08 and FY 09. No other costs shall be included.

Use Form C to allocate CB allowances among program IDs for 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, which was previously sent to the departments on June 7, 2006 with the due date of August 1, 2006.

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

Chapters 37 and 37D, HRS, provide 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, whether current or proposed, must 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 2007-09 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 OB to provide information on the Operating Budget base.
- b. Use Form C (*Summary of Current Operating Budget*) to provide a breakdown of the department's FY 08 and FY 09 budget ceilings by Program ID and Organization Code. Along with BJ details (to be submitted later), this form constitutes the department's current budget for FB 2007-09.
- c. Use Form A (*Operating Budget Adjustment Request*) to:

- a. Request adjustments for FB 2007-09.
- 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.

- d. 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" 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 2007-09 (budget ceiling + total adjustments).

- e. Use Form CB-1 (*Collective Bargaining Cost Data*) to provide data on non-salary cost items for CB purposes. Note: This form was sent to the departments earlier and should have been returned by August 1, 2006.
- f. 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 (operating and CIP) and in the Quarterly Update of Revenue Estimates.
- g. Updated BJ Summary Tables and BJ Details shall be submitted by departments (subsequent to the Governor's final decisions on the Executive Budget Request) in November 2006 and December 2006, respectively.

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

- FY 06 – reflect actual expenditures.
- FY 07 – reflect estimated expenditures.

- FYs 08 and 09 – reflect the departmental biennium budget.
- FYs 10 through 13 – Position counts and all operating costs shall be kept constant (i.e., same as FY 09) 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.

Departments using eBUDDI will be notified when to update their BJ Summary tables. Please inform your B&F analyst and Ms. Sharon Kotaka via e-mail at Sharon.Y.Kotaka@hawaii.gov when your BJ Summary tables and BJ details have been updated.

For departments with automated budget systems, please submit two hard copies/Excel file/electronic file of the BJ Summary tables and Excel file/electronic file of the BJ details. Please e-mail Excel or electronic files to Ms. Kotaka.

h. 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 Attachment 7 for more detailed instructions on the Budget Narrative.
- i. Performance Measures – please use the new eANALYT system to 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. Introduction of eANALYT will be forthcoming. See Attachment 7 for additional information on Performance Measures.

B. CAPITAL IMPROVEMENT BUDGET

1. The CIP Plan for FB 2007-09 shall focus on the following priorities:
 - a. Maintenance of existing facilities
 - b. Completion of current projects
 - c. Court orders and critical needs for public health and safety
 - d. Improvements for energy efficiency
 - e. Governor's priorities
2. There shall be no general funded CIP requests.

3. New funding for CIP is severely limited due to the substantial increase in capital improvement appropriations in recent years. 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 to better focus development of fiscal biennium CIP requests.
6. Projects funded by "financing agreements" instead of long-term debt proceeds.
 - a. 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.8, and E.M. No. 96-17, dated November 15, 1996, for further clarification of "financing agreements."
 - b. When financing agreements are being considered, departments must inform B&F of such plans and obtain an initial consent regarding the appropriateness of such 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:

Tables P and Q (*Capital Project Details*) – All CIP projects which were authorized by Act 160, SLH 2006, have been input in eCIP.

- a. Requests for additional funds for FB 2007-09 for existing projects and new CIP requests shall be input in eCIP and submitted on completed **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, 2010, 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**.

Table R is used to justify requests for new projects or additional funding of existing authorized projects.

Form S (*Department Summary of Proposed CIP Lapses and New CIP Requests - loose form*) is 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 the necessary legislative proposals and 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 necessary 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 (operating and CIP) 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: a) are appropriate functions of State government, and b) 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:
 - Administrative Directive No. 06-01 (Energy & Resource Efficiency and Renewable Energy & Resource Development);
 - State energy policies mandated by Act 96, SLH 2006; and
 - Section 168.5 of Act 160, SLH 2006.

All energy-related budget requests must be consistent with such standards, guidelines, and goals.