

LINDA LINGLE  
GOVERNOR



GEORGINA K. KAWAMURA  
DIRECTOR

ROBERT N. E. PIPER  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER  
PUBLIC UTILITIES COMMISSION

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION

September 14, 2007

FINANCE MEMORANDUM

MEMO NO. 07-07

TO: All Department Heads

FROM: Georgina K. Kawamura  
Director of Finance

SUBJECT: Supplemental Budget Policies and Guidelines for Fiscal Biennium 2007-09

The policies and guidelines included herein shall apply to the preparation of the Executive Supplemental Budget for Fiscal Year 09 (Fiscal Biennium 2007-09).

General Background

After three years of extraordinary expansion, Hawaii's economy continues to grow, but at a more moderate rate of about 6% before adjustment for inflation. Lower visitor counts and hotel occupancy rates as well as leveling of construction and real estate activities are reflective of the current conditions. The recent concern in the credit and financial markets has added another layer of uncertainty for the near future.

Tax revenues have also reflected the moderating pace of growth in the economy. Actual general fund tax collections showed a gain of only 3.4% in FY 07, compared to 10.9% in FY 06, 16.0% in FY 05, and 8.4% in FY 04.

At the most recent meeting on August 28, 2007, the Council on Revenues reduced the estimated growth rates of general fund tax revenues from 6% to 5.7% in FY 08, and from 4.1% to 3.8% in FY 09.

Against this economic and financial background, we must take necessary caution and be prudent in managing public resources to safeguard the State's fiscal integrity. We intend to continue to exercise fiscal restraint and implement appropriate policies to maintain the budget on a sustainable path.

## **I. General Policies**

The general policies for the development of the Executive Supplemental Budget are as following:

1. Program goals and objectives are expected to be accomplished within existing funding levels for general and non-general funds. There will be no increase from current appropriations for either FY 08 or FY 09, as authorized in Act 213/SLH 2007 (the General Appropriations Act). This policy applies to both the operating budget and the capital improvement budget. Limited exceptions to this general rule will be allowed for FY 09 as discussed below.
2. In keeping with the purpose of a supplemental budget, departments should limit requests to address only critical, unforeseen, high priority items. Before requesting additional funds, **departments should first consider trade-offs and transfers within and among their programs to address departmental needs or to bring about greater efficiency.**
3. New programs/services/initiatives are not encouraged.
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 213/SLH 2007.

## **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 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 08 but not funded in FY 09.
  - d. High priority program initiatives of the Administration.

2. Section 191 of Act 213/SLH 2007 prohibits the expenditure of funds 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 191, “authorized by the Legislature” are positions reflected in the budget tables as:

- a. Permanent or temporary positions (also 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.

Authorized positions also include those established by specific legislation or pursuant to HRS statutes.

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. (Note: Changes in federal fund receipts must be reflected in the Quarterly Update of Revenue Estimates.)
4. Legislative proposals containing specific appropriations or impacting revenues must be coordinated with the Governor’s Policy Office. The Department of Budget and Finance (B&F) analysts must also be informed accordingly.

#### B. Capital Improvement Budget

1. The objective for the FY 09 Supplemental CIP Budget is to stay within the current level of authorizations for all MOF. Therefore, consideration of CIP requests will be limited.

Because this is a supplemental year, 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 Administration.

**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 should not be proposed 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.

Limited exception may be considered for the conversion of the Department of Education projects currently funded with general funds and the purchase of Kukui Gardens.

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.
5. Works of Art. Departments are reminded that CIP budget requests should include 1% for Works of Art in accordance with Section 103-8.5, HRS, as amended, and criteria set forth by the State Comptroller.

### **III. Submission Requirements and Format**

Departments must use the following formats in submitting their Supplemental budget requests:

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

A. Requirements for Operating Budget Requests:

1. Use Form A to:
  - a. Request FY 09 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 213/SLH 2007, an updated six-year financial plan must be submitted.
4. Update of BJ Summary Tables. Refer to the attached *Instructions for BJ Summary Tables Update, Budget Narratives, CIP Requests* for details.
5. Budget Narratives. Refer to the attached *Instructions for BJ Summary Tables Update, Budget Narratives, CIP Requests* for details.

B. Requirements for CIP Budget Requests:

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. Refer to the attached *Instructions for BJ Summary Tables Update, Budget Narratives, CIP Requests* for details.

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 Wednesday, October 3, 2007: 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 Friday, November 23, 2007: 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

Instructions for BJ Summary Tables Update, Budget Narratives, CIP Requests

Sample: CIP Tables P, Q, R