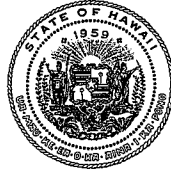


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FINANCIAL ADMINISTRATION DIVISION

October 14, 2009

FINANCE MEMORANDUM

MEMO NO. 09-11

TO: All Department Heads

FROM: Georgina K. Kawamura
Director of Finance

SUBJECT: Preliminary Instructions for Fiscal Biennium 2009-11 Supplemental Budget Preparation

Due to the extraordinary circumstances concerning the State's budget and current collective bargaining negotiations, our schedule for issuing policies and guidelines for the supplemental budget preparation has been delayed. The preliminary instructions contained in this memorandum are provided to inform departments of the general direction and requirements that can be expected for the FB 2009-11 Supplemental Budget submission.

At this time, the State anticipates a budget shortfall of \$1 billion in the current FB 2009-11 as a result of declining general fund revenues in a recession. Projections for the four out-years, as required by law, show a prolonging fiscal concern for the next FB 2011-13 as well. The imbalance between general fund revenues and expenditures must be resolved. This is the fiscal challenge that the State must face now and in the near future.

Substantial restrictions on authorized spending have been implemented for FY 2009-10. Concurrently, the Administration has sought to reduce payroll costs through an initial reduction-in-force (RIF) plan and on-going contract negotiations with the employees' unions. These reductions in labor costs are essential to our ability to partially close the budget gap and are certainly to be included in the Governor's supplemental budget proposal.

To incorporate labor-cost reductions in the Supplemental Budget for FB 2009-11 and plan for other contingencies, the following actions are necessary at this time:

A. Budget adjustments relating to the August 2009 RIF plan

1. Identify vacant positions that were abolished prior to the RIF plan.
2. Identify filled positions to be abolished pursuant to the RIF plan.
3. Provide a report to track the bumping procedure. Identify the positions that were affected in the intermediate steps and in the final round of bumping, their associated costs and means of financing (MOF). A sample format has been developed for this purpose and is attached for your use (Attachment 4). However, if your department has compiled comparable data in another format, you can provide the requested information in that format instead.
4. Compute the necessary salary funding adjustments as a result of the RIF plan.
5. Use the attached Form A-P to identify and reflect the position count and funding adjustments by program ID/org code and MOF (Attachment 2).

B. Budget adjustments relating to other labor cost reductions

1. Prepare Table BJ-1A adjustments to reflect estimated furlough and/or other labor cost reductions for all affected State employees (including HSTA, HGEA, excluded and exempt positions, and Act 85, SLH 2009 positions). Assumptions regarding UPW and UHPA reductions will be used until settlement is reached.
2. Use the attached Form A-P to identify and reflect the funding adjustments by program ID/org code and MOF.
3. Information on the furlough plan and/or other collective bargaining items from the Department of Budget and Finance is attached for your reference (Attachment 5).

C. Adjustments to achieve the initial 13.85% budget reduction target

1. The target for restrictions in the biennium is three furlough days each month (or an equivalence of 13.85% reduction in salary expenses). This level of budget reduction applies to FY 2009-10 as well as FY 2010-11. Your department's budget ceiling for FY 2010-11 is provided in Attachment 1.
2. While the RIF and furlough plans are expected to result in significant savings from labor costs, these savings are not sufficient to meet the initial 13.85% budget reduction target. Therefore, all departments must plan for other adjustments to make up for the remaining difference from the 13.85% target in their general funded programs.
3. Adjustments from non-general fund sources may be considered on a case-by-case basis.

4. Use the attached Form A-P to identify the funding adjustments by program ID/org code and MOF.
5. Use Form B-P (Attachment 3) to provide a departmental summary of all adjustments identified under sections A, B, and C.

D. Additional budget reductions to be considered

As previously indicated by the Governor, additional budget reductions may be pursued to further realign State revenues and expenditures. As long as the budget gap remains, we are required to explore all options, including further spending cuts, to balance the State budget. Please be prepared for this possibility.

E. Capital Improvement Project (CIP) Budget

In light of the need to control costs, including debt service costs, we do not anticipate proposing new projects or new construction. All departments must review their authorized CIP lists for potential lapses.

Deadline:

Please provide two copies of the requested information to the Department of Budget and Finance by November 6, 2009. If the final results of the RIF plan are not yet available, this information can be submitted later on a revised Form A. We understand that preparation for the Supplemental Budget is a work in progress and would like to get it started as soon as possible.

Thank you for your understanding and cooperation.

Attachment 1: FY 2011 Supplemental Budget Ceiling

Attachment 2: Form A-P and Instructions

Attachment 3: Form B-P and Instructions

Attachment 4: Form RIF, Instructions and Sample

Attachment 5: Salary Reduction Pursuant to Collective Bargaining