

NEIL ABERCROMBIE
GOVERNOR



KALBERT K. YOUNG
INTERIM DIRECTOR

DEAN K. HIRATA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

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

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF ECONOMIC RECOVERY
AND REINVESTMENT (ARRA)

January 7, 2011

FINANCE MEMORANDUM

MEMO NO. 11-01

TO: All Department Heads

FROM: Kalbert K. Young
Interim Director of Finance

SUBJECT: Executive Budget Review and Budget Preparation Policies and Guidelines

This memorandum communicates direction and guidance for the next phase of your department's FB 2011-13 budget.

The past few years have been difficult for everyone. It is clear that the layoffs, severe cuts and strict attrition policy over the past few years have taken a heavy toll on the ability of State agencies to sustain their delivery of core services to the public and to other State agencies.

Our first step toward a prosperous future in Hawaii and addressing our program deficiencies is to focus all our energies and ideas on accelerating our economic recovery (i.e., putting people back to work). With all of us working together, we can begin to make strides to support Hawaii's recovery as outlined in the Governor's four-part plan, which includes:

1. Reconfiguring, retooling and strengthening our fractured government services, while assuring adequate delivery of CORE governmental services.
2. Creating jobs with a significant capital improvement program (CIP) that improves our infrastructure and economic landscape.
3. Pursuing all available federal funds and private partnership opportunities.
4. Investing in our long-term economic and social well-being (including clean energy, food security, education and health).

It is with this focus that we will begin retooling our State budget. There is a very short turnaround time for submittals. We all must make the most of this budget phase to address our department's high priority program initiatives and most critical program deficiencies, encourage the pursuit of alternate funding opportunities and invest in our public infrastructure. Be assured that we are as committed as Governor Abercrombie to these efforts to accelerate our State's recovery.

The Executive Budget Request for FB 2011-13

The operating budget that was submitted on December 20, 2010 to the Legislature by Governor Abercrombie was largely prepared during the previous administration and generally provided for the continuation of State services at their current levels. There were some adjustments to more appropriately reflect program expenditure requirements and limited increases for non-discretionary costs. The CIP budget provided funding primarily for major repair and maintenance (R&M) projects.

Budget Requests for the Abercrombie Administration

It is apparent that there will be the need to selectively restore some of the previous budget cuts to address critical program deficiencies. Program areas which cannot deliver their core public service or functionality may have immediate operational needs which should be identified.

Although we are using the budget proposed by the previous administration as the base for budget requests to be introduced by the Abercrombie administration, it does not take into account increased funding requirements for the Temporary Assistance to Needy Families program and the Medicaid program due to a recent court decision on benefits for Compact for Free Association clients. These recently identified costs will greatly impact our resources and, when included in the general fund financial plan, contribute to a significant budget shortfall which could last until FY 15. While we are actively and collaboratively considering options to address the shortfall, it will undoubtedly impact the totality of general fund operating budget requests which we are able to consider.

In times like these, however, we need to consider and maximize other means of financing (MOF) for our State programs. As appropriate, program areas should be considered for conversion from general funds to special or federal funds or other funding opportunities, such as public-private partnerships, which may be available. Further, special or other funds authorized to receive general revenue receipts, or general fund appropriations, should consider the feasibility of discontinuing such general fund support, except as otherwise provided by law.

Departmental CIP projects should focus on modernizing and improving our public infrastructure while also addressing immediate needs for health and safety and statutory or court-mandated requirements. To provide immediate economic impact, we will give priority to projects which are "shovel ready," such as major R&M projects or ongoing projects which can be completed within the next two years.

We will begin this phase by reviewing and reassessing the Executive Budget Request and “wish list” requests for FB 2011-13. While we understand that time is short, there must be some understanding of the resources which are included in your department’s proposed Executive budget request to ensure that all future budget requests are appropriate.

All proposed changes to the Executive Budget Request for FB 2011-13 will be submitted to the 2011 Legislature via Governor’s Message. The following policies and guidelines shall be used in the preparation of budget requests for the Abercrombie administration.

I. Review of the Proposed Executive Budget Request for FB 2011-13

To ensure that budget requests are appropriate and focused, each department head should review and reassess the proposed Executive Budget Request for FB 2011-13 for their department to determine potential adjustments to program areas which:

- May require additional (or reallocated) resources to restore critical program deficiencies.
- Could be supported by other MOF or maximize non-general fund opportunities, such as federal funds or public-private partnerships.
- Could provide CIP public infrastructure improvements, with priority given to projects which can provide immediate economic impact.
- Could provide immediate support to other areas of the Governor’s four-step plan.

The following documents should be included in the review of your department’s proposed Executive Budget Request for FB 2011-13:

- Operating Budget - The Executive Budget for FB 2011-13 and related Budget Justification (BJ) details.
- CIP Budget – The Executive Budget for FB 2011-13 and related Tables P, Q and R.

In addition, your department may have submitted operating or CIP budget requests for consideration by the new administration (i.e., “wish list” requests). Please include these requests in your review to ensure that they reflect your department’s current priorities and requirements:

- Operating Budget - Requests previously submitted for consideration by the new administration (Form B-1 requests and optional narrative).

- CIP Budget - Requests previously submitted for consideration by the new administration (Form S-1 requests and optional narrative).

II. Operating Budget Requests

All operating budget requests, including trade-off/transfer requests to reallocate resources, should be listed on Form NA-B (*Department Summary of Operating Budget Adjustment Requests - Abercrombie Administration*) in priority order for each section (i.e., trade-off/transfer, non-general fund and general fund request sections should each have their own priority numbers), with (1) indicating the "highest priority." Do not use duplicate or sub-priority numbers, such as 1A, 1B, etc., within a section; however, duplicate numbers may be used for corresponding trade-off/transfer requests or requests with multiple MOFs.

A corresponding Form NA-A (*Operating Budget Adjustment Request - Abercrombie Administration*) should be submitted to support each request with justification of program needs. Requests which were previously submitted for consideration by the new administration (submitted on Form B-1) may be resubmitted as appropriate.

Guidelines for allowable operating requests are outlined below.

A. Operating Budget Requests - Trade-Off and Transfer

Once the potential adjustments to program areas have been determined, departments should consider whether it is feasible to reallocate current resources to address their operating program needs. Departments are encouraged to use their resources wisely and creatively and to accommodate the changing conditions and priorities of State programs. Accordingly, trade-offs and transfers of positions and funding should be explored and requested as appropriate.

Within their proposed Executive Operating Budget Request for FB 2011-13, departments may submit trade-off and transfer adjustment requests to cover operating needs in other program areas. Variances to existing authorized positions may be proposed to accommodate changes in program needs. All such requests for change should be supported with justification.

All trade-offs and transfers shall be prioritized; corresponding requests shall share the same priority number. Use Form NA-B to list all trade-off/transfer proposals and Form NA-A to request and justify a trade-off/transfer proposal. Form NA-A-Attachment (*FB 11-13 Operating Budget Trade-Off/Transfers - Abercrombie Administration*) may be used to list multiple trade-off/transfer proposals.

B. Operating Budget Requests - Non-General Funds

In light of the limited availability of general funds, departments should maximize efforts to use non-general funds to support their programs where appropriate or authorized. Federal fund and other funding opportunities should be actively pursued.

Non-general fund requests which require matching general funds should be included with your general fund requests.

1. 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.
- Projected levels of fund receipts/revenues will be available under current statutes to accommodate the change in MOF.

2. Requests for Special and Revolving Funds

Programs supported by special and revolving funds may submit requests for additional resource requirements. Requests may also be submitted to convert general funded programs to special or revolving funds. Sufficient revenues must be available to accommodate all such requests through the biennium and beyond as general funds will not be available to support any increases in program costs.

3. Requests for Appropriated Trust and Appropriated Federal Funds

Trust and federal fund ceilings may be increased as necessary to meet operational program needs if:

- Such increases require no general fund support.
- Sufficient revenues will be available to accommodate such budgeted increases through the biennium and beyond, as applicable.
- The increase will not result in additional direct or indirect general, special, or revolving fund support to the department.

All non-general fund requests shall be prioritized. Use Form NA-B to list all non-general fund proposals and Form NA-A to request and justify a non-general fund proposal.

C. Operating Budget Requests – General Funds

General funds are severely limited and only the highest priority requests statewide can be accommodated. Therefore, departments should exercise prudence and restraint in submitting their general fund requests.

Requests for additional general funds may be proposed as deemed necessary to meet immediate operational program needs based on the criteria below. General fund requests must be for additional resources for current programs.

Non-general fund requests which require general fund matching should be included with your general fund requests.

Additional general fund support may be requested for current programs with:

- Immediate operational needs with public or intradepartmental impact related to:
 - Health and safety
 - Statutory requirements or court mandates
 - Direct public services
 - Department-wide impact

- Immediate operational needs with statewide interdepartmental impact related to:
 - Direct support services to other State agencies
 - Revenue collection and processing

All general fund requests shall be prioritized; corresponding requests for non-general fund and general fund proposals shall share the same priority number. Use Form NA-B to list all general fund proposals and Form NA-A to request and justify a general fund proposal.

Departments are reminded that the operating budget shall conform to the following general guidelines:

A. Funding of Positions

- New positions may be funded for six months, if appropriate, in the first fiscal year. All existing positions must be funded for the full year. This requirement also applies to vacant positions that departments choose to retain in their programs. Positions that are not funded should be eliminated.

- As a cautionary note, departments should be aware that recent legislatures have taken a strict view on unauthorized positions.

B. Financing Agreements

Chapters 37 and 37D, HRS, provide separate requirements for the budgeting and management of “*financing agreements*” and related transactions. All funding for such financing transactions and liabilities, whether current or proposed, must be budgeted as a separate cost element in each fiscal year. Please see Finance Memorandum (F.M.) No. 10-10, dated September 23, 2010, and Executive Memorandum (E.M.) No. 96-17, dated November 15, 1996, for further clarification of “financing agreements.”

Operating Submission Requirements. All budget submissions will be subject to review and evaluation by the Department of Budget and Finance (B&F) and the Governor. Worksheets and other supporting details may be requested and should be made available upon request.

The following forms, as applicable, must be completed as part of your department’s operating budget submission:

1. Use Form NA-A (*Operating Budget Adjustment Request - Abercrombie Administration*) to:
 - a. Request adjustments for FB 2011-13.
 - b. Identify details of plus or minus funding in requests for trade-offs/transfers. Use Form NA-A-Attachment (*FB 11-13 Operating Budget Trade-Off/Transfers - Abercrombie Administration*) to list multiple trade-offs/transfers.

Budget information on Form NA-A should be as detailed as possible to facilitate the update of BJ tables (to be completed if the request is approved in the budget act).

2. Use Form NA-B (*Department Summary of Operating Budget Adjustment Requests - Abercrombie Administration*) to list all budget adjustment requests of the department, by Program ID and Organization Code. List the requests by order of department priorities, with a separate priority order for each section (trade-off/transfers, non-general fund and general fund requests).
3. An updated six-year financial plan should be submitted for each special or revolving fund with related budget requests. The updated numbers should be consistent with those provided in the budget requests (operating and CIP) and in the Quarterly Update of Revenue Estimates. Discussion of assumptions used for revenue estimates should be provided.

4. Departments should be prepared to initiate necessary legislation, or appropriate rule changes, to coincide with budget requests, as applicable.

Detailed instructions to complete similar Forms A, A-Attachment and B, found in Attachment 5 of F.M. No. 10-10, dated September 23, 2010, can generally be used for Forms NA-A, NA-A-Attachment and NA-B, respectively.

III. Capital Improvement Budget Requests

The focus of our capital improvement program is to improve the public infrastructure and the economic landscape. As such, priority will be given to “shovel ready” projects, such as major R&M projects and ongoing CIP projects, which can be completed within the next two years.

Budget requests may be submitted for CIP projects based on the following criteria:

- Provides public infrastructure improvements for:
 - Telecommunications or information processing infrastructure
 - Agricultural infrastructure
 - Transportation infrastructure
 - Energy grid
- Provides affordable housing
- Improves energy efficiency or conservation
- Provides major R&M for a public or educational facility
- Addresses health and safety, statutory requirements or court mandates
- Completes later phases of an ongoing CIP project

Departments are reminded that the capital improvement budget shall conform to the following guidelines:

- A. Major R&M includes projects that extend the useful life of a facility or provide for greater functional/operational efficiency through a significant improvement or upgrade. The life expectancy of the project should be generally over 15 years. Examples include: reroofing, air conditioning equipment, refurbishing of building space or building infrastructure, major improvements to sports facilities, and resurfacing.
- B. There shall be no general funded (cash-funded) CIP requests.

- C. Departments are encouraged to identify and lapse projects with lower priority to ensure the availability of funds for other statewide capital needs. CIP trade-offs may also be proposed.
- D. All requests will be reviewed and scrutinized for their impact on debt service and operating costs. Additional operating costs incurred as a result of CIP requests must be accommodated within your department's Executive operating budget request.
- E. Departments with projects funded by "financing agreements" instead of long-term debt proceeds should refer to additional guidelines in F.M. No. 10-10 and E.M. No. 96-17, dated November 15, 1996, for further clarification.
- F. 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.
- 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.

- G. 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.

- H. Agencies should consider the feasibility of participating in the development of a joint use facility before requesting CIP funding for single agency facilities.
- I. User and expending agencies of CIP which are funded by G.O. or G.O. Reimbursable (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.

CIP Submission Requirements. CIP budget requests and/or adjustments shall be submitted according to the following procedures:

1. Form NA-S (Department Summary of Proposed CIP Lapses and New CIP Requests - Abercrombie Administration) is used to summarize projected CIP requests and to identify appropriations for trade-off or lapsing. Requests on Form NA-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.

Detailed instructions to complete Form S, found in Attachment 6 of F.M. No. 10-10 can generally be used for Form NA-S.

2. Tables P and Q (Capital Project Details), which are used to identify required appropriations and expected expenditures by MOF are required for each CIP budget request. Table R (Capital Project Information and Justification Sheet) should also be prepared to provide project justification for new projects or additional funding of currently requested or existing authorized projects.
 - a. All CIP projects which were included in the Executive Budget Request for FB 2011-13 are currently in eCIP. Please do not alter those records unless you are requesting to adjust (i.e., increase or decrease funding and related expenditures) a project which has already been proposed.
 - b. All new CIP budget requests shall be inputted in eCIP and submitted on completed Tables P, Q, and R.
 - c. Each project description must begin by stating the cost elements requiring appropriations in the budget biennium.
3. For capital authorizations of new projects with federal aid financing that are expected to lapse on June 30, 2014, 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 if deemed appropriate pursuant to federal grant requirements:

“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.

4. 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.

IV. Other Requirements

Departments should reference Attachment 2 of F.M. No. 10-10 for other requirements applicable to operating and CIP budget requests for FB 2011-13.

V. Due Date

The following must be provided to this office by Thursday, January 27, 2011, reflecting your budget submission:

- Two copies of Forms NA-A, NA-A-Attachment, and NA-B (relating to the operating budget); and Forms NA-S and PAB and Tables P, Q, and R (relating to CIP budget).
- Electronic files of Forms NA-A, NA-A-Attachment, NA-B, and NA-S should be transmitted to your B&F analyst.

Departments will be notified later of the timetable for B&F recommendations, Governor's decisions and the transmittal of the budget decisions to the Legislature.

Attachments

Attachment 1: Operating Budget Submission (Forms NA-A, NA-A-Attachment, and NA-B)

Attachment 2: CIP Submission (Tables P, Q, and R; Forms NA-S and PAB)

Attachment 3: Form NA-B with Executive Budget Request