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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 FEDERAL AWARDS MANAGEMENT

September 23, 2013

FINANCE MEMORANDUM

MEMO NO. 13-08

TO: All Department Heads

FROM: Kalbert K. Young  
Director of Finance

SUBJECT: Supplemental Budget Policies and Guidelines for Fiscal Biennium 2013-15

The policies and guidelines included herein shall apply to the preparation of the Executive Supplemental Budget for FY 15 (FB 2013-15).

**General Background**

Since we began this journey in 2010, the State's financial footing has substantially improved. With determination and prudent decisions, our shared sacrifice has helped to generate a preliminary FY 13 general fund balance of a healthy and historically unprecedented \$844 million. Our fiscally balanced approach has resulted in a positive balance at the end of each of the past three fiscal years, which will help to ensure the State's fiscal stability going forward. However, we must be ever mindful that as recently as FY 11, the State was managing to a -\$200 million revenue shortfall and negative general fund balances. It is this context and landscape that we approach budget construction during the economic recovery – respectful of managing the future but mindful of where we've been.

The continued improvement of the State's fiscal condition allows the Administration to make meaningful strides towards strengthening our State government and its fiscal position. This fiscal year, we have restored the 5% pay reduction to State employee salaries and have, thus far, reached an agreement or arbitration award with 7 of the 12 State bargaining units.

We will also be taking landmark steps to address the State's Other Post-Employment Benefits unfunded liability with a payment of \$100 million this fiscal year and \$117.4 million in FY 15. Additionally, we will recapitalize our reserve funds, the Emergency and Budget Reserve Fund and the Hawaii Hurricane Relief Fund, with \$50 million going to each fund in FY 14. This is in addition to the \$55.5 million in general excise tax (GET) revenues (i.e., general funds) which must be transferred to the hurricane reserve trust fund pursuant to Act 62, SLH 2011, Relating to the Hawaii Hurricane Relief Fund.

We are optimistic but reserved about the State's economic situation due to concerns regarding the future growth of the local economy, with many sectors already performing at peak levels. Much of the State's economic growth came as the result of the strong performance of the visitor and hospitality industry, a major economic driver of the local economy. Last year, the industry experienced peak growth rates of 17.9% in visitor expenditures and 10.0% in visitor arrivals.

As the tourism market reaches levels of saturation, however, near-term growth rates cannot maintain the same trajectory. For the first seven months of 2013 compared to the same period last year, total visitor expenditures and arrivals increased by 5.7% and 5.5%, respectively. Full-year projections for 2013 are slightly lower, with respective increases of 5.3% and 4.3% anticipated.

Hawaii's construction industry, a significant contributor to the State's job growth and another major economic driver, ended its downward cycle last year after five years of contraction. After losing jobs annually since 2007, the industry generated job growth of 2.4% last year and 9.3% for the first half of 2013, a considerable increase over last year. The housing upswing and Honolulu's rail project are expected to spur further growth through 2015, though short of the industry's peak in 2007.

Another gauge of the State's economic improvement is our declining unemployment rate which, at 4.5% (seasonally adjusted) for July 2013, reflects the lowest unemployment rate since August 2008. The expansion of the construction industry has contributed to this decrease and is expected to lead the State towards a 4.0% increase in State employment from the third quarter of 2012 through the third quarter of 2014.

On a broader level, there are persistent concerns about the potential economic and fiscal impact of unresolved issues in our nation's Capitol regarding federal deficit reduction and program cutbacks, as well as the recurring threat of federal debt default. The U.S. and the State's economic health also remain vulnerable to increases in oil prices due to the unrest in the Middle East and the economic volatility in Europe.

### **The State's Fiscal Condition**

Preliminary actual general fund tax revenues for FY 13 grew by 9.9%, 3.2% more than the 6.7% general fund tax revenue growth rate projected by the Council on Revenues (COR) in its May 30, 2013 report. In its September 10, 2013 report, the COR lowered

its forecast from 8.0% to 4.1% for FY 14 but raised its forecast from 7.0% to 7.4% in FY 15, 1.5% to 7.0% in FY 16; 4.2% to 5.7% in FY 17; 5.0% to 6.1% in FY 18; and 4.7% to 5.5% in FY 19.

Although the higher base in FY 13 buffers the impact of the decreased growth rate in FY 14, general fund tax revenues are still projected to decrease in FY 14 by \$45.3 million and FY 15 by \$22.9 million. However, those declines are primarily due to the impact of the \$55.5 million transfer of GET revenues (i.e., general funds) in both years for the replenishment of the hurricane reserve trust fund pursuant to Act 62, SLH 2011, which must be made by October 1st of the respective fiscal year and had not been accounted for in the COR's previous forecast.

Preliminary FY 14 general fund tax revenue collections through August 2013 show a softening of -8.2%, primarily due to the transfer of \$55.5 million in GET revenues. In order to reach the projected 4.1% growth in FY 14, general fund tax revenue collections need to increase by 6.4% over last year for the remainder of the fiscal year.

### **Maintaining Our Focus in FB 2013-15**

The fiscally balanced approach that we have maintained has served us well and we must continue our efforts with the same focus. In the context of planning for the FY 15 Supplemental Budget, we recognize our continuing commitment to recapitalize our reserve funds and address our unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund. These are significant demands that we must be prepared to address at increased levels in future years.

We also intend to provide second year funding for priority New Day Initiatives and restore funding for critical positions. We remain aware, however, that debate at the federal level on cutting spending to reduce the deficit in the upcoming federal fiscal years is continuing, even with the Budget Control Act (BCA) in place. Given the importance of many of these federally supported programs, especially in the areas of education and social services, we must be prepared to absorb the impact of these potentially significant cuts.

Our approach to the FY 15 Supplemental Budget must acknowledge that while there are many needs to be addressed, fiscal sustainability is critical. As we move forward towards a New Day in Hawaii, we must consider the numerous uncertainties that could impact Hawaii's economy as well as the demands on our resources today and in the future. We must continue to make prudent and thoughtful decisions to ensure the integrity of the State's finances.

### ***A New Day in Hawaii***

The Administration's commitment to bring a New Day in Hawaii is steadfast and the FB 2013-15 Executive Budget includes many New Day Initiatives. These initiatives are intended to improve the lives of Hawaii's people by:

- Providing immediate job growth as we shift Hawaii's economy to a sustainable foundation.

Our efforts to expedite New Day Work Projects has helped provide a needed stimulus to Hawaii's economy through our construction industry. Now that private construction activity is picking up, our focus must shift to completing projects that have been initiated, improve energy efficiency and address the backlog of major R&M for State facilities.

- Investing in the education, skills and well-being of Hawaii's people.

Hawaii's most valuable asset, its people, must be provided the opportunity to reach and live their lives to their fullest potential. Early childhood education is a vital stepping stone for our keiki and we are committed to ensure that resources for public schools are used appropriately to best serve all students.

- Transforming State government into an efficient and effective enterprise.

State government must be able to service its customer, the public, in the most proficient manner. Our ongoing task is to makeover State government operations to best manage our resources. The State's ongoing Enterprise Resource Planning project will provide the necessary technological tools to improve the management of our personnel resources, fiscal transactions and budget.

The FY 15 Supplemental Budget will address new or ongoing resource requirements necessary for the implementation of New Day Initiatives.

### ***Budget Transparency***

Section 136 of Act 134, SLH 2013, requires the Director of Finance to submit to the Legislature recommendations to more accurately align budgeting for operating programs with expenditures. Although these recommendations are not due to the Legislature until January 2014, in the spirit of this provision, departments should review their FB 2013-15 operating budget details for items which do not align with anticipated expenditures and can be addressed immediately.

Each department's review should include, but should not be limited to, the following, as applicable:

- Negative adjustments
- Underfunded, unfunded and/or unbudgeted positions
- Specific budget line items which do not align with anticipated expenditures

In order to reflect necessary changes, departments should submit the following:

1. Trade-off and transfer adjustment requests necessary to correct negative amounts; fund underfunded, unfunded and/or unbudgeted positions; or realign the budget to expenditures; or
2. Base adjustment requests to delete underfunded or unfunded positions.

### ***Federal Fund Budgeting***

Last year, we began a process to significantly change the way the State budgets and expends federal awards with the intent of increasing transparency and improving the State's ability to meet anticipated federal reporting requirements. The Federal Fund Information for States list of major, recurring federal awards was used to determine which federal awards were appropriated in FB 2013-15 as means of financing (MOF) "N" (federal funds). All other federal awards which were anticipated to be received in FY 14 or FY 15 were appropriated as MOF "P" (other federal funds).

Each operating federal grant award anticipated to be received in FY 14 received a unique appropriation symbol and an extended lapse date (operating federal funds lapse after three fiscal years, instead of one fiscal year) to accommodate the difference between the State's and the federal fiscal year's and performance periods which extend beyond one year. Federal fund operating allotments are now non-reverting to streamline the expenditure process. Also, beginning in FB 2013-15, CIP federal fund appropriations, which previously had no lapse date, will lapse five fiscal years after the fiscal biennium to encourage the timely implementation of federally-funded projects and expenditure of federal grant awards.

Implementation of these changes would not have been possible without the assistance and cooperation of the Department of Accounting and General Services and the staff from each of the affected departments. We look forward to continuing this joint effort as we make further changes and refinements to how the State budgets and expends federal awards.

During this supplemental budget process, departments may need to submit requests to correct the currently appropriated MOF for federal fund appropriations or adjust FY 15 federal fund ceilings to more accurately reflect anticipated federal award amounts. For planning purposes, departments should assume that the BCA will not be repealed and that the BCA spending caps will remain in place until federal FY 21. Most major, recurring federal awards received by the State are anticipated to increase by less than 1% in federal FY 14 versus federal FY 13. However, federal funding may be disrupted or discontinued for other programs and it should not be assumed that State funding will automatically replace federal funding.

#### **I. General Policies**

The general policies for the development of the FY 15 Executive Supplemental Budget are as follows:

1. Program goals and objectives are generally expected to be accomplished within existing funding levels for general and non-general funds. There will be limited operating budget increases from current appropriations for FY 15, as authorized in Act 134, SLH 2013 (the General Appropriations Act), as discussed below.
2. 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. Departments should continue their efforts to consider the use of non-general funds, as appropriate, to support their programs. Changes in MOF may be proposed as appropriate. Departments should not assume, however, that State funds will be available to support program costs if federal funds are no longer available.
4. 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 such general fund support as funds of this type should generally be self-sustaining. As necessary, draft legislative proposals should be prepared to discontinue such general fund support.
5. Pursuant to Section 37-68(1), HRS, any proposal 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. However, bear in mind that only legislative proposals that have been coordinated with the Governor's Policy Office should be proposed at this time. The Department of Budget and Finance (B&F) analyst assigned to your department should be informed of the applicable proposals 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.)

## II. Supplemental Budget Guidelines

### A. Operating Budget

The following guidelines apply to all MOF, unless otherwise specified.

1. Requests for general funds may be proposed to meet the requirements of the following:
  - a. Increases in fixed costs and entitlements such as debt service, fringe benefits, Medicaid and financial assistance programs.

- b. Public health and safety or immediate requirements of court orders or federal mandates.
  - c. Restoration of legislative program or position reductions necessary for the viability of current programs which can be thoroughly justified.
  - d. Continuation of programs currently funded by specific appropriations.
  - e. New Day Initiatives.
  - f. Impact of federal sequestration.
2. Non-general funded programs. Increases to non-general 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. A financial plan for the fund supporting the request must also be submitted. (Note: Changes in receipts must be reflected in the Quarterly Update of Revenue Estimates.)
  3. Federally funded programs. In continuation of our efforts to improve transparency in the budgeting and expenditure of federal awards, the attached listing of "Major, Recurring Federal Awards for FY 15" shall be used to determine the appropriate MOF for all federal awards anticipated to be received and appropriated in FY 15.
    - a. Form FF, Federal Awards for FY 15, shall include the following:
      - All awards on the list of "Major, Recurring Federal Awards for FY 15" included under MOF "N" (federal funds).
      - All other recurring, including currently non-appropriated, or anticipated awards under MOF "P" (other federal funds). Anticipated awards under MOF "P" may be included if you reasonably expect to apply for and receive a federal award that has not been designated as MOF "N."
      - The total amount of each federal award anticipated to be received in FY 15, regardless of the performance period. Departments should make reasonable estimates of anticipated grant award amounts based on the previous year's grant award and/or by discussion with the awarding federal agencies.
      - Note: Due to the extended lapse date for federal fund appropriations, anticipated carryover amounts from FY 14 should not be included on Form FF or included in the budget.
    - b. FY 15 federal fund (MOF "N" or "P") budget requests shall be submitted:

- For appropriation ceiling increases required because the total amount of awards anticipated to be received in FY 15 exceeds the Act 134, SLH 2013, appropriation ceiling for the respective MOF, as indicated on Form FF.

All departments, however, should consider that future reductions to federal-aid moneys are a distinct possibility and should exercise caution when requesting an increase to their federal fund ceiling. Departments should not assume that State funds will be available to support program costs if federal funds are no longer available.

- For appropriation ceiling decreases required because the total amount of awards anticipated to be received in FY 15 is less than the Act 134, SLH 2013, appropriation ceiling for the respective MOF, as indicated on Form FF.
  - To correct the MOF for awards already appropriated in Act 134, SLH 2013, if necessary.
  - Note: Changes in receipts must be reflected in the Quarterly Update of Revenue Estimates.
4. Requests for trade-offs and transfers within and among programs may be submitted to address changes in program needs or to improve operational efficiency or budget transparency.
  5. Existing positions must be funded for the full year; new positions shall be funded for a maximum of six months for the first year, then for the full year thereafter. Vacant positions must be funded for the full year; partially funded or unfunded positions should be eliminated.
  6. Section 113 of Act 134, SLH 2013, prohibits the expenditure of funds to fill any position not authorized by a General or Supplemental Appropriations Act item or proviso that is in effect, with specific exceptions. For the purpose of complying with Section 113, positions authorized by a General or Supplemental Appropriations Act item or proviso are generally positions reflected in the budget details 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 CIP funding for project-funded positions.

This prohibition does not apply to positions established by specific legislation or pursuant to the HRS.

All other positions currently funded by departments are considered "unauthorized." All unauthorized positions that are critical and on-going must be identified and incorporated into the budget. Additional funding will not be provided for these positions because they are currently funded within existing budgets; as such, only trade-off and transfer requests may be submitted.

7. Legislative proposals containing specific appropriations or impacting revenues must be coordinated with the Governor's Policy Office. The B&F analyst(s) assigned to your department must also be informed accordingly.

#### B. Capital Improvement Budget

Because this is a supplemental year, departments should focus on completing the New Day Work Projects already authorized in previous and current budget acts. As such, consideration of new CIP requests will be limited.

1. CIP requests will be limited to requirements in the following areas:
  - a. Project trade-offs that result in no net increase in authorization levels.
  - b. Projects that address public health and safety, court orders/consent decrees or federal mandates.
  - c. Projects that provide major repair and maintenance (R&M) for a public or educational facility.
  - d. Projects that improve energy efficiency or conservation.
  - e. Projects undertaken to meet New Day Initiatives.
  - f. Projects which complete later phases of an on-going CIP project.
2. CIP requests should be submitted to convert currently authorized FY 15 general obligation (G.O.) bond funded major R&M projects from Act 134, SLH 2013, to general funded.
3. Departments are encouraged to review their current appropriations for trade-offs or to propose lapsing existing projects before considering requests for new funding.
4. 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.

5. 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, that a dedicated fund has been authorized to ensure the availability of funds for such purpose and that these revenues are reflected in the Quarterly Update of Revenue Estimates.
6. All requests will be reviewed for their impact on debt service and operating costs. Operating cost information must be included in Table R for all CIP budget requests.
7. 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.
8. User and expending agencies with CIP requests to be funded by G.O. or G.O. Reimbursable bonds are reminded of compliance requirements of the Tax Reform Act of 1986, including amendments thereto. Form PAB (revised September 2013), Questionnaire - G.O. Bond Fund Appropriations, must be completed and submitted for every G.O. or G.O. Reimbursable bond fund CIP request. If assistance with this form is required, please contact B&F's Financial Administration Division.

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

Departments must use the following formats in submitting their Supplemental Budget requests and should use the attached instructions as applicable.

#### **A. Requirements for Operating Budget Requests:**

1. Use **Form A** (*Operating Budget Adjustment Request*) to:
  - a. Request FY 15 budget adjustments as allowed under II.A (Supplemental Budget Guidelines, Operating Budget).
  - b. Identify details of plus or minus funding in requests for trade-offs/transfers. **Form A-Attachment** may be used to list multiple trade-off/transfer proposals.
2. Use **Form B** (*Department Summary of Operating Budget Adjustment Requests*) to summarize all supplemental budget adjustment requests at the program ID/organization code level. All requests shall be listed sequentially using unique priority numbers; duplicate priority numbers may only be used for corresponding trade-off/transfer requests or for requests with multiple MOF.
3. Use **Form FF** (*Federal Awards for FY 15*) to summarize all federal awards anticipated to be received and budgeted in FY 15.

4. For each special/revolving fund appropriated in Act 134, SLH 2013, an updated six-year financial plan must be submitted.
5. Update of BJ Summary Tables. Refer to the attached Instructions for BJ Summary Tables Update, Budget Narratives, and CIP Requests for details.
6. Budget Narratives. Refer to the attached Instructions for BJ Summary Tables Update, Budget Narratives, and CIP Requests for details.

B. Requirements for CIP Budget Requests:

All departments are required to use eCIP, B&F's web-based CIP system, to update the CIP tables and prepare their supplemental CIP budget request (Form S-Supplemental should be downloaded in Excel format from eCIP):

1. Use **Table P** (*Capital Project Details*) to request supplemental budget adjustments as allowed under II.B (Supplemental Budget Guidelines, Capital Improvement Budget).
2. Use **Table Q** (*Capital Project Details*) to provide project schedule, expenditures, and other information for each respective CIP request.
3. Use **Table R** (*Capital Project Information and Justification Sheet*) to provide narrative project information and justification for each respective CIP request.
4. Use **Form S-Supplemental** (*Summary of Proposed CIP Lapses and New CIP Requests*) to identify projects which can be lapsed (including trade-offs) and summarize all FY 15 Supplemental Budget CIP Requests. "Part A: Proposed Lapses" and request category of Form S-Supplemental must be completed manually after downloading the Form S-Supplemental file from eCIP. All requests shall be listed sequentially using unique priority numbers; duplicate priority numbers may only be used for corresponding requests with multiple MOF.

**Form PAB** must also be completed for all G.O. and G.O. Reimbursable bond funded CIP requests.

Refer to the attached Instructions for BJ Summary Tables Update, Budget Narratives, and CIP Requests for details. Financial plans for funds supporting non-general fund requests are also required.

C. Availability of Electronic Forms:

Forms will be e-mailed to your administrative services/budget officers. In addition, these forms will also be available on the B&F website. Form S-Supplemental should be downloaded from eCIP, in blank form or prefilled with FY 15 Supplemental Budget requests which have been input in eCIP.

#### **IV. Due Dates/Other Requirements**

A. The following must be provided to this office:

1. By Wednesday, October 16, 2013: Two copies of each submission, including Forms A, A-Attachment, B, and FF (for the operating budget) and Tables P, Q, and R, and Forms S-Supplemental and PAB (for the CIP budget). Financial plans to support non-general fund requests are required, as appropriate. Electronic files of Forms A, A-Attachment, B, FF and S-Supplemental must be transmitted to your B&F analyst.
2. By Friday, December 6, 2013: the following submittals reflecting the Governor's final supplemental budget decisions:
  - a. For all departments except the Department of Education (DOE), University of Hawaii (UH), and the Department of Transportation (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 and the Form PAB.
  - d. All departments: All Tables P, Q, and R updated in eCIP.
3. By Friday, January 17, 2014: the BJ details updated in eBUDDI reflecting the Governor's final supplemental budget decisions, for all departments except DOE, UH, and DOT for which Excel or other electronic files are required.

B. Requests will be reviewed by B&F and the Governor's Office; as such, worksheets and other supporting details should be made available upon request.

Attachments:

Attachment 1 - FY 15 Supplemental Budget Ceiling

Form A, A-Attachment and instructions

Form B and instructions

Form FF

Form PAB and instructions

Form S-Supplemental and instructions

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

List of "Major, Recurring Federal Awards for FY 15"

Sample: CIP Tables P, Q, R