

GENERAL BUDGET GUIDELINES FOR OPERATING AND CAPITAL IMPROVEMENT PROJECTS FB 2015-17 AND THE PLANNING PERIOD

Budget submissions shall include all costs of Executive Branch agencies and programs, including operating, current lease payment and capital improvement project costs by the appropriate 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 FB 2015-17 and the Planning Period*).
- Attachment 6 (*Instructions for Completing Program and Financial Plans and Program Budget Request Forms (September 2014)*).

All appropriate forms will be e-mailed to your Administrative Services/Budget Officers. In addition, template forms will be available on the Department of Budget and Finance's (B&F) website.

A. OPERATING BUDGET

The following instructions apply to all MOF, except as otherwise noted.

1. Departmental Budget Ceilings

Attachment 1 contains the "status quo" budget ceilings established for each department for all MOF. The ceilings are based on each department's FY 15 appropriations, less non-recurring expenses, and plus collective bargaining and Commission on Salaries adjustments, as applicable.

Department "status quo" budgets will be limited in total to the established ceilings except for: 1) trade-off and transfer requests that do not result in an increase in general fund support (see A.2 below); 2) selected fixed cost and entitlement expense requirements (see A.3 below); 3) selected non-general fund requests (see A.4.b below); 4) selected federal fund adjustment requests (see A.4.c below); and 5) adjustments to non-recurring items identified by the Legislature (see A.5 below).

2. Trade-Off and Transfer Requests

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 to accommodate the changing conditions and priorities of State programs so long as there is no increase in general fund support.

Accordingly, trade-off and transfer adjustment requests to meet needs in other programs that are within departmental ceilings for positions and funding will be considered includable "status quo" budget requests. Variances to existing authorized positions or changes to MOF may be proposed to accommodate changes in program needs so long as there is no increase in general fund support. Justification shall be provided for all such requests for change.

All trade-offs and transfers shall be prioritized; corresponding requests shall share the same priority number. Use Form B to list all trade-off/transfer requests in the appropriate portion of the form and Form A to propose and justify a trade-off/transfer request. Form A-Attachment may be used to list multiple trade-off/transfer requests.

In light of constraints on general funds, departments should maximize their efforts to use non-general funds to support their programs where appropriate or authorized.

3. Fixed Cost and Entitlement Expense Requests

Requests for the following fixed cost and entitlement expenses will be considered includable "status quo" budget requests:

- Debt Service

AGS 231: Finance agreement payments

BUF 721, BUF 725, BUF 728: Principal and interest on general obligation (G.O.) bonds

TRN 195, TRN 395, TRN 595: Principal and interest on Department of Transportation's revenue bonds and general obligation reimbursable (G.O.R.) bonds

- Employee Fringe Benefits

BUF 741, BUF 745, BUF 748: Pension Accumulation, Social Security and Medicare

BUF 761, BUF 765, BUF 768: Employer-Union Health Benefits Trust Fund premiums for health insurance

- Medicaid/QUEST

HMS 401: Health care payments

Use Form B to list all fixed cost and entitlement expense requests in the appropriate portion of the form and Form A to propose and justify a fixed cost and entitlement expense request.

4. Non-General Fund Requests

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

a. Changes in MOF

A change in MOF 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.
- It is necessary to reflect the change in MOF for federal funds from MOF "N" (Major Recurring Federal Funds) to MOF "P" (Other Federal Funds).

b. Requests for Special, Revolving and Appropriated Trust Funds

Special, revolving and appropriated trust fund requests for the following purposes will be considered includable "status quo" budget requests:

- Requests to convert general funded programs to special or revolving funds.
- Requests to meet requirements for fixed costs and entitlement expenses as defined in A.3. above.
- Requests to meet requirements for fringe benefit assessment rate increases. [Note: The fringe benefit assessment rate is estimated to increase to 52.0% for FY 16 and FY 17.]
- Requests to adjust legislatively identified non-recurring items (as defined in A.5 below) back into the operating budget base.

Sufficient special, revolving and appropriated trust fund revenues must be available to accommodate all such requests through the biennium and beyond. Departments may submit special, revolving and appropriated trust fund requests for non-includable purposes; however, these requests will not be considered for inclusion in the FB 2015-17 budget at this time.

Use Form B to list all includable and non-includable requests in the appropriate portions of the form and Form A to propose and justify a fixed cost and entitlement expense request.

c. Requests for Appropriated Federal Funds

The Federal Funds Information for States projects a -0.1% decrease in federal funding for most major, recurring discretionary awards for FFY 2015 versus FFY 2014 funding. Major mandatory federal awards such as Medicaid are expected to increase 7.1% for the same time period. The reduced funding for a majority of the federal awards the State receives is a result of the limits on federal spending put in place by the Budget Control Act of 2011 and the Bipartisan Budget Act of 2013.

The imposition of these federal spending caps is expected to be in place until 2023. Therefore, all departments should consider that future reductions in federal-aid moneys are a distinct possibility. Departments should continue to communicate with their federal partners to obtain up-to-date projections on future federal funding levels and use this information in preparing their budget request. Departments should not assume that State funds will be available to support program costs if federal funds are no longer available.

During the last biennium, B&F and the Department of Accounting and General Services began a process to change the way the State budgets for and accounts for federal awards with the intent of increasing transparency on the use of federal funds and improving the State's ability to meet federal requirements. Implementation of these changes will continue in FB 2015-17.

To request a federal fund operating ceiling, Form FF must be completed and submitted for each Program ID from which federal funds are expended. The federal fund operating ceiling requested in the appropriations act for MOF "N" and "P" shall be equal to the total value of the respective MOF on the submitted Form FF for each Program ID.

The list of "*Major, Recurring Federal Awards for FB 2015-17*" (Attachment 8) shall be used to determine the appropriate MOF for all federal awards anticipated to be received and appropriated in FY 16 and FY 17 (a copy of this list can also be found at www.federalawards.hawaii.gov). Federal awards on this list shall be budgeted as MOF "N." All other federal awards shall be budgeted as MOF "P."

Form FF, *Federal Awards for FB 2015-17*, shall include the following:

- All awards assigned to your department from the list of *“Major, Recurring Federal Awards for FB 2015-17”* under MOF “N” (federal funds).
- All other awards including currently non-appropriated federal grants that are expected to be ongoing or other 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 the federal award.
- The total amount anticipated to be awarded for each federal award, regardless of the performance period. Departments should estimate the anticipated award amounts based on the previous year’s grant award and/or by discussion with the awarding federal agencies.

Due to the extended lapse date for prior years’ federal fund appropriations, anticipated carryover amounts from previous years should not be included on Form FF or included in the budget ceiling.

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.

5. Adjustments to Legislatively Identified Non-Recurring Items

Section 136.1 of Act 122, SLH 2014, requires that items identified in the legislative worksheets as “non-recurring” be deleted from the base budget for each department in preparing the FB 2015-17 budget but allows departments to request reinstatement of deleted items into the budget base as a budget request. In compliance with Section 136.1, departmental budget ceilings were reduced by the amount of non-recurring items identified in the worksheets for all means of financing.

However, many of the items identified in the worksheets appear to be recurring-type expenses based on the worksheet descriptions. As provided in Section 136.1, requests to reinstate deleted items into the budget base will be considered includable “status quo” budget requests. Please note that although includable, this category of requests will have to be justified in terms of operational requirements and the recurring nature of the expense.

Use Form B to list all adjustments to non-recurring item requests in the appropriate portion of the form and Form A to propose and justify an adjustment to non-recurring item request.

6. Requests for General Funds

General fund budget reductions are, in all likelihood, going to be implemented in the near future. Consequently, departments should exercise prudence and restraint in submitting any requests for general fund increases.

Departments may submit general fund requests for non-includable purposes; however, these requests will not be considered for inclusion in the FB 2015-17 budget at this time.

All non-includable general fund requests shall be prioritized with other non-includable budget requests, regardless of MOF; corresponding requests for non-general fund and general fund proposals shall share the same priority number. Use Form B to list all non-includable general fund requests in the appropriate portion of the form and Form A to propose and justify a general fund request.

7. The Operating Budget shall conform to the following guidelines:

a. Funding of Positions

- 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.
- New positions shall be funded for a maximum of six months in the first year, then for the full year thereafter.
- As a cautionary note, departments should be aware that the Legislature has taken a strict view on unauthorized positions. For the current biennium, Section 113 of Act 134, SLH 2013, as amended by Act 122, SLH 2014, 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 accurately reflected in their budgets.

For the purpose of complying with Section 113, "authorized by the legislature" are positions reflected in the budget tables as:

- i. Permanent or temporary positions
- ii. Lump sum funding authorizations for hourly or casual employees

iii. Lump sum CIP funding for project funded positions

b. Collective Bargaining and Commission on Salaries Adjustments

Estimated ongoing full-year costs for FY 16 and FY 17 resulting from previous years' collective bargaining adjustments for all State bargaining units, and estimated additional costs for FY 16 and FY 17 resulting from continuing collective bargaining adjustments for Units 1, 5, 6, 10, 11 and 13 are included in each department's budget ceilings for FY 16 and FY 17, as applicable. Estimated additional costs for FY 16 and FY 17 resulting from the recently ratified collective bargaining agreement for Unit 7 are included in the departmental ceiling for B&F and will be allocated upon approval by the Legislature. Estimated costs for FY 16 and FY 17 resulting from Commission on Salaries adjustments for Cabinet and statutorily-linked positions are included in the department budget ceilings for FY 16 and FY 17, as applicable.

Use Form C to allocate collective bargaining and Commission on Salaries adjustments among Program IDs and organization codes to establish appropriate base amounts.

c. 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 Executive Memorandum (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 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 property rights, equipment, or motor vehicles, should be included on a separate Table "BK" for "current lease payments."

- d. Additional Guidelines. Additional information and guidelines are provided in Attachment 3 (Additional Operating Budget Detail Guidelines for FB 2015-17 and the Planning Period), which should be referenced for more specific details on the Operating Budget.

8. Operating Submission Requirements

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

- a. Use Form C (Summary of Current Operating Base) to provide a breakdown of the department's budget base in FY 16 and FY 17 by Program ID, Organization Code and MOF.
- b. Use Form A (FB 2015-17 Operating Budget Adjustment Request) to:
 - Propose budget requests for FB 2015-17.
 - Identify details of plus or minus funding in requests for trade-offs/transfers. Use Form A-Attachment (FB 2015-17 Operating Budget Trade-Off/Transfers) to list multiple trade-offs/transfers.

Budget information on Form 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).

- c. Use Form B (FB 2015-17 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, with a separate priority order for each section (trade-off/transfer requests, selected fixed cost and entitlement requests, selected non-general fund requests, selected federal fund adjustment requests, and all other requests) 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.
- d. An updated six-year financial plan shall be submitted for each special or revolving fund with related budget requests. The updated financial plan amounts 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.

- e. Use Form FF (*Federal Awards for FB 2015-17*) to list all federal grants by Program ID, organizational code and MOF for all programs which require federal fund ceilings for FB 2015-17.
- f. Departments should be prepared to initiate necessary legislation, or appropriate rule changes, to coincide with budget requests, as applicable.

B. PROPOSED OPERATING BUDGET ADJUSTMENTS

1. Departmental Tier 1, 2 and 3 Target Levels

Attachment 1 contains the Tier 1, 2 and 3 target levels established for each department. The target levels are calculated as a percentage (5.0%, 7.5% and 10.0%, respectively) of each department's discretionary costs. The Tier 1, 2 and 3 target levels are only applicable to general funds.

Please note that the target levels were set high to facilitate evaluation of each of the proposed budget adjustments on a statewide basis, thereby, providing decision makers with meaningful options in deciding where and how much to adjust the "status quo" budget. It is expected that departments will make a good faith effort to identify proposed operating budget adjustments to meet their Tier 1, 2 and 3 target levels.

It should also be noted that although the Tier target levels were calculated based on departmental discretionary costs, the intent is not to limit the proposed budget adjustments only to discretionary programs and services. Departments should do an assessment and evaluation of all of its programs (see suggested approach below) to identify proposed operating budget adjustments.

2. Suggested Approach to Identifying Proposed Operating Budget Adjustments

Because general fund support for programs have been significantly reduced over the past decade, departments should avoid imposing standard across-the-board "horizontal" budget adjustments. Instead, departments are strongly urged to identify proposed operating budget adjustments based on a review of its programs and services. The aim of the program review is twofold:

- The first is to identify programs, services, and/or activities for possible elimination that, although well-intentioned, are of marginal benefit, low performing, or of lesser priority; and
- The second is to identify cost saving opportunities in primary programs and services through tightening program eligibility, reducing program benefits, or cost shifting.

It is recognized that difficult choices are involved in a program review, but the impacts of standard “horizontal” budget adjustments such as keeping positions vacant, deferral of payments, deferral of required maintenance, or unspecified lump sum adjustments may be worse. To assist your department in this effort, Attachment 7 contains a suggested program review approach that is based on the 2011 Program Review (E.M. No. 11-06, *2011 Program Review*). Also attached is a prefilled out Form PR (*Suggested FB 2015-17 Program Review*) with the FY 15 appropriations included for your department.

3. Proposed Operating Budget Adjustments Submission Requirements to Meet Target Tiers

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

- a. Use Form X (*FB 2015-17 Budget Operating Budget Adjustment Tier Proposal*) to describe and provide general details of the proposed operating budget adjustment along with the estimated impact(s) of the adjustment.
- b. Use Form Y (*FB 2015-17 Budget Department Summary of Operating Budget Adjustments Tier Proposals*) to list all proposed operating budget adjustments that comprise Tiers 1, 2 and 3 for the department. List the adjustments by order of which adjustment the department proposes to implement first, with a separate priority order for each Tier level.
- c. Departments should be prepared to initiate necessary legislation, or appropriate rule changes, to coincide with the proposed operating budget adjustment, as applicable.

C. CAPITAL IMPROVEMENT BUDGET

The CIP budget will follow a “status quo” approach by concentrating on projects that:

- Provide major R&M for a public or educational facility.
- Address health and safety, statutory requirements or court mandates.
- Complete later phases of an ongoing CIP project.

Departments may submit budget requests for new CIP; however, these requests will not be considered for inclusion in the FB 2015-17 budget at this time. The “status quo” approach will apply to all CIP means of financing.

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

1. 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 public facilities.
2. There shall be no general funded (cash-funded) CIP requests.
3. 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.
4. 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 operating budget ceiling.

Pursuant to Act 135, SLH 2014, departments submitting a CIP request must provide an estimate of operational costs for the proposed CIP and furnish all documents that support the operational cost estimate. Form CIPOp (*FB 2015-17 Estimated Operating Costs Related to CIP Requests*) has been developed to standardize reporting of CIP operational costs in conformance with Act 135.

5. To facilitate federal fund reporting requirements, federal funds shall be budgeted as follows:
 - Federal funds - MOF "N"
 - Other federal funds - MOF "P"
- A list of "Major, Recurring Federal Awards for FB 2015-17" is attached for your reference. Federal grants on this list shall be budgeted as MOF "N." All other grants shall be budgeted as MOF "P." Federal fund ceilings shall be requested to accurately reflect anticipated federal grant award amounts.
6. Projects funded by "financing agreements" instead of long-term debt proceeds:
 - Whenever the financing transaction used in any project (or cost element therein) does not entail funding by G.O. bonds 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).

- 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.

Departments with projects funded by “*financing agreements*” instead of long-term debt proceeds should refer to additional guidelines in E.M. No. 96-17, dated November 15, 1996, for further clarification.

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.
- 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 and should ensure that sufficient revenues are available to fund the related operating and CIP costs.

8. Agencies should consider the feasibility of participating in the development of a joint use facility before requesting CIP funding for single agency facilities.
9. 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 S (*FB 2015-17 Department Summary of Proposed CIP Lapses and New CIP Requests*) 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.

Detailed instructions to complete Form S may be found in Attachment 6.

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. Form CIPOp (FB 2015-17 Estimated Operating Costs Related to CIP Requests) should also be prepared to provide an estimate of operational costs for each CIP.
 - a. All new CIP budget requests shall be inputted in eCIP and submitted on completed Tables P, Q, and R.
 - b. All CIP projects which were appropriated in recent budget acts are currently in eCIP. Please do not alter those records unless you are requesting to adjust (i.e., add funding and related expenditures for FB 2015-17) an existing project.
 - c. Each project description must begin by stating the cost elements requiring appropriations in the budget biennium.
3. CIP projects with federal aid financing proposed for FB 2015-17 will lapse on June 30, 2018. If deemed appropriate pursuant to federal grant requirements, a CIP project's lapsing may be extended for two additional years by including the following statement within the 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.
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.

D. OTHER REQUIREMENTS

1. 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.
2. 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.” Operating and CIP 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 shall 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.

3. 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.
4. 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.
5. 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 in accordance with Chapter 196, HRS.

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