



EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

August 24, 2015

EXECUTIVE MEMORANDUM

MEMO NO. 15-03

TO: All Department Heads

SUBJECT: FY 16 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 16.

In its most recent report of June 1, 2015, the Council on Revenues (COR) raised its projected FY 15 general fund tax revenue growth rate from 5.5% to 7.5%. The increase in the growth rate was based primarily on the expected reduction in tax refund payments resulting from the slower processing of individual tax returns due to additional screening being done by the Department of Taxation (TAX) to prevent the payment of fraudulent refund claims. Slower processing in FY 15 also meant that more tax refunds would be paid in FY 16; thus, the COR decreased its forecast for FY 16 from 5.5% to 2.7%.

Preliminary actual general fund tax collections for FY 15 increased by 6.8%, less than the anticipated 7.5%, primarily because TAX was able to process more tax refunds by June 30, 2015 than they had anticipated. Nonetheless, FY 15 ended with a higher than anticipated general fund balance of \$828.1 million. With a healthy general fund balance, FY 16 is off to a positive start with preliminary actual general fund tax collections for July 2015 coming in 4.4% higher than the same period last year.

Hawaii's major economic drivers continue to show strength through 2015. The preliminary seasonally adjustment unemployment rate for June 2015 was 4%, which is the lowest June rate since 2007. In the construction sector, the value of private building permits, year to date through June 2015, has increased by 36.6%. Hawaii's visitor and tourism industry, after several years of growth, has continued to show growth through June 2015, with visitor arrivals increasing by 4% and spending increasing by 3.5%.

However, preliminary general excise tax revenues, generally a measure of business activity, for July 2015 have decreased by 2.7% compared to last year. Additionally, it is crucial that we recognize that the State's expenditures are anticipated to outpace revenues this fiscal year and in the upcoming biennium.

We must also position the State to meet growing commitments to address our unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund. On the national and worldwide level, federal cutbacks, continued economic volatility in Europe, slowdowns in Asia and unrest in the Middle East give us added reasons to keep a watchful eye on our finances.

Although the State's economy appears to be doing well, the revenue trend for FY 16 is still developing. We must continue to be prudent and responsible with our expenditures to ensure the State's fiscal stability this fiscal year and beyond. Therefore, we will continue our cautious approach until the revenue picture becomes clearer.

To provide program flexibility, \$1 million from each department's general fund discretionary appropriation ("discretionary adjustment") will not be subject to the 5% restriction and 5% contingency restriction which will be applied to the balance of the discretionary general fund appropriation.

The 5% restriction is intended to mitigate the potential impact of lower than forecasted FY 16 actual general fund tax collections and is applicable for the full fiscal year. The 5% contingency restriction is intended as a contingency reserve for FY 16 and may be adjusted during the second half of the fiscal year based on actual tax collection trends and the COR's updated forecasts later in the fiscal year.

Specific appropriations and Chapter 42F grants funded by general funds shall also be subject to the 5% restriction and 5% contingency restriction. By January 2016, we expect that a general fund revenue trend will be more evident and we will be better able to discern the level of general fund spending which will be sustainable.

Similar to FY 15, these budget execution policies delegate many responsibilities to the department level to facilitate the efficiency of your operations. Additional flexibility has been provided with respect to budgeted recurring routine expenditures. Also, these policies reflect the updated process for appropriated and non-appropriated federal awards as part of our ongoing effort to improve the management of federal grant awards from receipt to expenditure.

Implementation of these budget controls is necessary to manage the State's finances with regard to the current and future demands on the State's resources. State funds must always be expended judiciously and appropriately. It is expected that each department will make a conscientious effort to operate efficiently and stay within its departmental allocation.

We shall find better ways to do our jobs and serve the public. Working together, we can strengthen the foundation of our State government by increasing the transparency and improving the accountability of our State operations, while ensuring that the State budget is sustainable.

I expect that the flexibility and authority provided to your department will be used wisely. These processes deserve your appropriate attention and should be executed responsibly with the utmost care to maintain the State's fiscal health.

Exhibit 1 contains your department's FY 16 allocation of operating program appropriations and position ceilings from Act 119, SLH 2015, which include a 5% restriction and a 5% contingency restriction on your department's discretionary general fund appropriations less a \$1 million discretionary adjustment. Other allocation adjustments may have been applied, as applicable.

Exhibit 1 also reflects included and excluded, if applicable, collective bargaining allocations for Bargaining Units (BU) 2, 3, 4, 5, 7, and 9 for the applicable negotiated agreements. Amounts reflected for included and excluded BU 14 reflect amounts equivalent to the terms of BU 3 or 4 agreements, pending an initial agreement with BU 14.

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 16 budget execution to provide for prudent and efficient implementation of legislative intent.

Questions on the specific policies and instructions should be directed to the Department of Budget and Finance or the appropriate agency referenced. Electronic files of appropriate forms will be provided for your use.

DAVID Y. IGE
Governor, State of Hawaii

Exhibit 1
Attachment A
Attachment B