



EXECUTIVE CHAMBERS

HONOLULU

NEIL ABERCROMBIE
GOVERNOR

June 21, 2012

EXECUTIVE MEMORANDUM

MEMO NO. 12-03

TO: All Department Heads

SUBJECT: Interim Budget Execution Policies and Instructions for FY 13

Last year, we confronted a potential \$1.2 billion budget shortfall for FY 2011-13 head-on. We worked closely with the Legislature to pass several tax revenue enhancement measures, while dealing with the State's uncertain fiscal outlook.

At its May 29, 2012 meeting, the Council on Revenues (COR) maintained its FY 12 general fund tax revenue growth rate forecast of 12.0%. The COR, however, reduced its projected FY 13 general fund tax revenue growth rate from 7.5% to 5.3% but did not change its forecast for FYs 14-18. The FY 13 change was due to the changes in estimated revenue gains from Act 105, SLH 2011, which temporarily suspended certain general excise and use tax exemptions, and the possibility that renewable energy tax credits may cost more than previously anticipated. The change to the FY 13 projection will result in an estimated decrease in general fund tax revenue of over \$100 million per year for FY 13 and subsequent fiscal years.

Since the COR's meeting, the Department of Taxation has indicated that preliminary FY 12 general fund tax collections through May 2012 have grown by 13.6% compared to the same period of FY 11. General fund tax collections for May 2012 exceeded May 2011 by almost 20%.

Though we are in a much better position than we were last year, we remain cautious, though optimistic, about Hawaii's economy. We must address the estimated decrease of over \$100 million in general fund tax revenues in FY 13 and subsequent fiscal years due to the change in the COR's forecast. Uncertainties on the national and worldwide level, including impending federal cutbacks to defense, education and social service spending; economic volatility in Europe; slowdowns in Asia and unrest in the Middle East also give us cause to remain prudent with our expenditures. We must also remain cognizant of future demands on the State's resources, including recapitalization of our emergency funds (the Hawaii Hurricane Relief Fund and the Emergency Budget and Reserve Fund) and unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund.

Through sound fiscal management, we can keep the State's fiscal health on track through FY 13 and beyond. We must make prudent decisions to maintain and improve the operation of our programs, while living within our means. We must continue our efforts to deliver State services more efficiently and accelerate the implementation of New Day Work Projects to stimulate job growth and Hawaii's economy.

Full-year budget execution policies for FY 13 are forthcoming. During the interim, the following actions are hereby authorized:

1. On July 1, 2012, departments will receive their respective budget allocations for the first quarter only.

Exhibit 1 contains your department's First Quarter allocation, which is:

- General funds: One-fourth of 95% of the FY 13 operating program appropriation from Act 106, SLH 2012.
 - Non-general funds: One-fourth of the FY 13 operating program appropriation from Act 106, SLH 2012.
2. Departments should exercise caution with expenditures as final allocations have not been established. Allocations for subsequent quarters will be made upon further consideration of revenue and expenditure requirements.
 3. Release of other specific appropriations authorized for expenditure in FY 13 by the 2012 Legislature or other legislative sessions will be considered after full-year allocations have been made.
 4. Except for allocation amounts, all other current budget execution policies as contained in Executive Memorandum (E.M.) No. 11-10, *FY 12 Budget Execution Policies and Instructions* (dated September 9, 2011), remain in effect.
 5. Capital Improvement Program policies and procedures as contained in E.M. No. 97-07, *Procedures for Requesting the Implementation of Capital Improvement Projects* (dated June 19, 1997), shall continue to be followed.

These interim budget execution policies, as continued from FY 12, provide a high level of flexibility which I trust that all departments will responsibly utilize with the utmost accountability. Questions on the specific policies and procedures should be directed to the Department of Budget and Finance analyst assigned to your department or the appropriate agency referenced.

NEIL ABERCROMBIE
Governor, State of Hawaii

