



EXECUTIVE CHAMBERS

HONOLULU

NEIL ABERCROMBIE
GOVERNOR

August 30, 2012

EXECUTIVE MEMORANDUM

MEMO NO. 12-05

TO: All Department Heads

SUBJECT: FY 13 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 13.

We continue to make inroads towards our goals of economic recovery and sustainability. As a result of our fiscally balanced approach to address the potential \$1.2 billion budget shortfall for FY 2011-13, the State was able to end FY 12 in the black, with a \$275 million general fund balance.

Actual general fund tax revenues for FY 12 grew by 14.9%, nearly 3% more than the 12% general fund tax revenue growth rate projected by the Council on Revenues (COR). The COR currently projects that general fund tax revenues will increase at a rate of 5.3% in FY 13, as compared to FY 12.

The State's economy has strengthened in recent months, with our visitor and hospitality industry leading the way. All visitor markets showed growth in expenditures and arrivals during the first half of 2012 compared to the same period last year. Total visitor expenditures for the period increased by 21.4%, while total arrivals rose by 10.2%.

The strength of the visitor and hospitality industry's growth will continue to impact other sectors of Hawaii's economy; thus far, however, recovery of those sectors has been less than remarkable. As even the stunning growth of the visitor and hospitality industry has its own limitations, we cannot afford to take things for granted.

We are vulnerable to uncertainties at the national and worldwide level, including a potentially significant contraction in federal spending for defense, education and social services; economic volatility in Europe; slowdowns in Asia and unrest in the Middle East. We also remain committed to recapitalize our reserve funds and address our unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund.

Although Hawaii's economy has improved since last year, we remain cautious, though optimistic, about its recovery and sustainability in the face of numerous uncertainties. In this light, and in consideration of the many demands on our limited resources, we must continue to be prudent with our expenditures. We are responsible to maintain the State's fiscal integrity.

As such, all general fund discretionary appropriations will be subject to a 5% contingency reserve restriction. While we will continue to monitor our State revenues through the fiscal year as more definitive information on tax revenue collections and projections becomes available, I trust that each department will make the necessary effort to operate efficiently and stay within its departmental allocation to allow the State's fiscal health to be maintained.

Similar to FY 12, these budget execution policies delegate many responsibilities to the department level to facilitate the efficiency of your operations. These responsibilities deserve your appropriate attention and should be executed with the utmost care and accountability in consideration of the State's fiscal situation. The expenditure of State funds should always be judicious and appropriate.

Through sound fiscal management, we can continue to maintain and improve the State's fiscal well-being. We must continue our efforts to deliver State services more efficiently and accelerate the implementation of New Day Work Projects. The energy and expenditures generated by moving our CIP projects quickly and purposefully will support our infrastructure needs while producing job growth and stimulating Hawaii's economy.

Our commitment to our State, to Hawaii's people, is steadfast and our efforts are unwavering. We will not wait for A New Day in Hawaii, we will make it happen. We will transform government in Hawaii by continuing to improve our ability to service Hawaii's people. We will grow a sustainable economy. We will invest in our State's most valuable asset, our people.

Exhibit 1 contains your department's FY 13 allocation of operating program appropriations and position ceilings from Act 164, SLH 2011, as amended by Act 106, SLH 2012, which may include a 5% contingency reserve restriction on discretionary general fund appropriations. Exhibit 1 also reflects the labor savings adjustment for CIP staff services cost appropriations (if not previously reduced in Act 164, SLH 2011, as amended by Act 106, SLH 2012).

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 13 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.

NEIL ABERCROMBIE
Governor, State of Hawaii

Exhibit 1
Attachment A
Attachment B
Operational Expenditure Plan