



EXECUTIVE CHAMBERS

HONOLULU

NEIL ABERCROMBIE
GOVERNOR

September 2, 2014

EXECUTIVE MEMORANDUM

MEMO NO. 14-06

TO: All Department Heads

SUBJECT: FY 15 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 15.

The State experienced healthy levels of general fund tax revenue growth of 15% and 9.9% in FY 12 and FY 13, respectively. It was expected that these high levels of growth would taper off to more sustainable levels in FY 14 and the forthcoming years but a number of factors, including declining visitor spending and the impact of federal fiscal austerity on the spending of Hawaii's residents, caused the Council on Revenues (COR) to lower its FY 14 general fund tax revenue growth rate forecast from 0% to -0.4% in its June 2, 2014 report.

Preliminary actual general fund tax revenues for FY 14 were less than the COR's projection, coming in at 1.8% below FY 13, resulting in \$74.4 million less general fund tax revenues for FY 14 than previously estimated. Two uncommon events in FY 14 negatively impacted general fund tax revenue growth: 1) the allocation of \$55.5 million to the Hawaii Hurricane Relief Fund in August of FY 14; and 2) an unusually large allocation to the County Surcharge on State Tax in July of FY 14 compared to an unusually small allocation in July of FY 13. Even so, the State's general fund had a healthy balance of nearly \$665 million at the end of FY 14 due to our fiscal restraint.

Despite lower than anticipated revenue collections, Hawaii's major economic drivers continue to show strength. Unemployment has been at 4.4%, a rate unseen since August 2008, for four consecutive months. The construction sector is continuing to strengthen, while Hawaii's visitor and tourism industry is still expected to show growth of over 2% in visitor days, expenditures and arrivals in 2015 even after nearly two years of strong growth.

General fund tax revenues, however, have not been as clearly reflective of the State's economic performance as in past years. Thus far, no clear trend has emerged to indicate where FY 15 general fund tax revenues are headed. The COR, which has remained optimistic about the economy for FY 15 through FY 20 and has maintained its forecast of at least 5% for each of those fiscal years, has also expressed some uncertainty about the general fund tax revenue outlook for FY 15 and future fiscal years.

As we have done throughout this Administration, we will continue to focus on the State's long-term fiscal stability. We remain committed to making sound fiscal decisions. We will manage the budget and fiscal condition, while delivering core Administration priorities. We will do what is necessary to ensure the State's fiscal health today and for years to come.

Towards this end, we will implement measured controls of the State's budget to ensure that programs are sustainable through any economic cycle while continuing our efforts to deliver State services more efficiently. Consequently, departments should conservatively manage their expenditures and exercise due constraint, especially in regard to program expansions or operational additions that may result in increased costs for FY 15 and future fiscal years.

To ensure the State's fiscal stability, all general fund discretionary appropriations will be subject to a 5% restriction and a 5% contingency restriction. The 5% restriction is intended to mitigate the impact of the lower than forecasted FY 14 actual general fund tax collections and is applicable for the full fiscal year. The 5% contingency restriction is intended as a contingency reserve to address a possible decline in the revenue forecast for FY 15 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. I trust that each department will make their utmost effort to operate efficiently and stay within its departmental allocation.

With regard to specific appropriations and grants funded by general funds, departments should refrain from requesting release of these types of appropriations until the start of the second half of the fiscal year. At that time, we will have a clearer idea of where the general fund revenue trend is heading and what level of general fund spending is sustainable over the long term.

Similar to FY 14, 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 to maintain the State's fiscal integrity. As always, the expenditure of State funds should be judicious and appropriate.

As part of our ongoing effort to improve the management of federal grant awards from receipt to expenditure, these policies also update the approval process for non-appropriated federal awards and increases in appropriated federal awards.

Our commitment to our State, to Hawaii's people, is steadfast and our efforts are unwavering. We are transforming government in Hawaii by improving our ability to service Hawaii's people. We are growing a sustainable economy. We are investing in our State's most valuable asset, our people. These ongoing efforts are underway to make "A New Day in Hawaii" a reality.

Exhibit 1 contains your department's FY 15 allocation of operating program appropriations and position ceilings from Act 134, SLH 2013, as amended by Act 122, SLH 2014, which include a 5% restriction and a 5% contingency restriction on discretionary general fund appropriations. Exhibit 1 also reflects included and excluded collective bargaining allocations for Bargaining Units 1, 2, 3, 4, 5, 6, 8, 9, 10, 11 and 13 for the applicable negotiated agreements and arbitration awards, and allocations for Salary Commission adjustments for State executives and statutorily-linked positions.

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 15 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.

/s/

NEIL ABERCROMBIE
Governor, State of Hawaii

Exhibit 1
Attachment A
Attachment B