EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

June 24, 2016

EXECUTIVE MEMORANDUM MEMO NO. 16-02

TO: All Department Heads

SUBJECT: FY 17 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 17.

In its most recent report of June 1, 2016, the Council on Revenues (COR) lowered its projected FY 16 general fund tax revenue growth rate from 6.7% to 6.1%. The decrease in the growth rate was based primarily on the COR's concern with the declining rate of growth of overall general fund tax collections in recent months. The COR notes that in order to reach the old forecast of 6.7% growth for FY 16, general fund tax revenues would need to be more than 9.0% higher in the last two months of FY 16 than they were in the last two months of FY 15. The growth of tax revenues in the last two months of FY 16 is expected to depend heavily on refunds of the individual income tax.

Preliminary actual general fund tax collections for the first 11 months of FY 16 has increased by 7.1% compared to tax collections for the first 11 months of FY 15. It is estimated that the FY 16 general fund balance will be about $890 million based on the COR's projected 6.1% growth rate for FY 16.

Although Hawaii's major economic drivers continue to show strength, the Department of Business, Economic Development and Tourism cautions that Hawaii's economy faces the following potential challenges:

- The economies of most countries worldwide are experiencing slowdowns;
- Many Hawaii industries are still recovering;
- The Counties of Hawaii and Kauai have just recovered;
- Unemployment due to economic reasons is still high;
- Air seat growth is slowing down significantly, which will lead to a slowing down of visitor industry growth; and
- Construction industry momentum is weakening.

On the expenditure side, it is crucial to recognize that the State's expenditures are anticipated to outpace revenues substantially in FY 17. Additionally, the State must meet significant financial commitments to address our unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund in the coming years. And we will soon be undertaking collective bargaining (CB) negotiations for all of the bargaining units (BU) for FB 2017-19. Taken together, these factors all reinforce the need to continue to be fiscally prudent and responsible with our expenditures to ensure the State's fiscal stability in FY 17 and beyond.

Although the State's economy appears to be doing well, we must remain cognizant that the revenue picture can change suddenly and dramatically as it did only a few years ago. Therefore, we will continue a cautious approach in executing the FY 17 budget.

To provide program flexibility, $5 million from each department's general fund discretionary appropriation ("discretionary adjustment"), as applicable, will not be subject to the 5% contingency restriction which will be applied to the balance of the discretionary general fund appropriation. Specific appropriations and Chapter 42F grants funded by general funds shall also be subject to the 5% contingency restriction. The 5% contingency restriction is intended as a contingency reserve for FY 17 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.

Similar to FY 16, these budget execution policies delegate many responsibilities to the department level to facilitate the efficiency of your operations.

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 must be committed to finding better ways to do our jobs and serve the public. As I have stressed previously, working together, we can strengthen the foundation of our State government by increasing the transparency and improving the accountability of our State operations, as well as helping to ensure 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 17 allocation of operating program appropriations and permanent position ceilings from Act 119, SLH 2015, as amended by Act 124, SLH 2016, which include a 5% contingency restriction on your department's discretionary general fund appropriations less a $5 million discretionary adjustment, as applicable. Other allocation adjustments may also have been applied.

Exhibit 1 also reflects included and excluded, if applicable, CB allocations for BUs 2, 3, 4, 5 (additional), 7, 8, 9, 11 (additional) and 14 for the applicable negotiated agreements. Amounts for the other BUs have been previously incorporated in your FY 17 appropriations.

<u>Attachments A and B</u> contain detailed, specific expenditure policies, guidelines, and procedures for FY 17 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/

DAVID Y. IGE
Governor, State of Hawaii

Exhibit 1
Attachment A
Attachment B