

**GUIDELINES FOR OPERATING AND CAPITAL IMPROVEMENT PROGRAM  
BUDGETS FOR FB 2017-19 AND THE PLANNING PERIOD**

Budget submissions shall include all costs of Executive Branch agencies and programs, including operating, current lease payment and capital improvement program project (CIP) costs by the appropriate means of financing (MOF).

All requests for operating and capital improvement program budget authorizations shall conform to the guidelines contained herein. For additional information, departments should also refer to:

- Attachment 3 (*Additional Operating Budget Detail Guidelines FB 2017-19 and the Planning Period*).
- Attachment 6 (*General Budget Information and Instructions for Completing Program Budget Request Forms (August 2016)*).

**A. OPERATING BUDGET**

The following instructions apply to all MOF, except as otherwise noted.

**1. Departmental Budget Ceilings**

**Attachment 1** contains the operating budget ceilings established for each department for all MOF. The ceilings are based on each department's FY 17 appropriations, less non-recurring expenses, and plus collective bargaining, as applicable.

**2. Requests for Trade-Off and Transfer and Conversion of Unbudgeted Positions**

Departments should consider whether it is feasible to reallocate current resources to address their operating program needs. Departments should review current expenditures which are not appropriately budgeted (i.e., budgeted in the wrong line item or program) and submit trade-off and transfer requests to ensure that budgeted amounts appropriately reflect anticipated program expenditures by line item. Departments are encouraged to use their resources wisely to accommodate the changing conditions and priorities of State programs and to increase efficiency.

Departments should also ensure that they are able to meet the requirements of Act 160, SLH 2015, which, effective July 1, 2017, 1) defines "position ceiling" as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program and 2) prohibits the expenditure of funds to fill a permanent or temporary position for the lowest level of a program if the filling of that position causes the position ceiling for that level of the program to be exceeded, with exceptions for a:

- a. Position established by the University of Hawaii (UH) or the Hawaii Health Systems Corporation;
- b. Position that is entirely federally funded;
- c. Position that is necessary for compliance, without undue delay, with a court order or decree if the director of the Department of Human Resources Development determines that recruitment through normal civil service procedures would likely result in delay or noncompliance;
- d. Position approved by the Governor for a special, research, or demonstration project of an agency;
- e. Position approved by the Governor to perform an emergency management function under the Department of Defense pursuant to the authority of Section 127A-12(b)(9);
- f. Casual hire position;
- g. Vicing position;
- h. Position established by an agency pursuant to express statutory authorization to establish the position; and
- i. Position established by an agency for a program or project funded by an appropriation in an Act other than a General or Supplemental Appropriations Act.

As such, all other unbudgeted positions that are critical and anticipated to be ongoing must be identified and incorporated into the budget. Additional funding will not be provided for these positions because they are currently funded within existing budgets; as such, only requests for "Conversion of Unbudgeted Positions" (trade-off and transfer) may be submitted.

Requests for trade-off and transfer or conversion of unbudgeted positions shall be cost neutral; however, requests for conversion of unbudgeted positions may include new temporary or permanent position counts. All such requests shall be prioritized; corresponding requests shall share the same priority number.

Use **Form B** to list all trade-off and transfer and conversion of unbudgeted positions requests in the "Trade-Off and Transfer and Conversion of Unbudgeted Positions Requests" portion of the form and **Form A** to propose and justify a trade-off and transfer or conversion of unbudgeted positions request. **Form A-Attachment** may be used to list multiple trade-off and transfer or conversion of unbudgeted positions requests.

### 3. Requests for Fixed Cost and Entitlement Expenses

Requests for the following fixed cost and entitlement expenses will be considered:

- Debt Service

AGS 231: Finance agreement payments

BUF 721, BUF 725, BUF 728: Principal and interest on general obligation (G.O.) bonds

TRN 195, TRN 395, TRN 595: Principal and interest on Department of Transportation's revenue bonds and G.O. reimbursable (G.O.R.) bonds

- Employee Fringe Benefits

BUF 741, BUF 745, BUF 748: Pension Accumulation, Social Security and Medicare

BUF 761, BUF 765, BUF 768: Employer-Union Health Benefits Trust Fund premiums for health insurance

- Medicaid/QUEST

HMS 401: Health care payments

Use **Form B** to list all fixed cost and entitlement expense requests in the "Allowable Non-Discretionary Expense Requests" portion of the form and **Form A** to propose and justify a fixed cost and entitlement expense request.

### 4. Requests for Appropriated Federal Fund Adjustments

In 2013, B&F and the Department of Accounting and General Services initiated processes to change the way the State budgets for and accounts for federal awards with the intent of increasing transparency on the use of federal funds and improving the State's ability to meet federal requirements. Implementation of these changes continues, as this department's Office of Federal Awards Management (OFAM) will introduce a new online electronic workflow for **Form FF** (*Federal Awards for FB 2017-19*). (OFAM will provide additional information under separate cover.)

The list of "*Major, Recurring Federal Awards for FB 2017-19*" (Attachment 7) shall be used to determine the appropriate MOF for all federal awards anticipated to be received and appropriated in FY 18 and FY 19 (a copy of this list can also be found at [www.federalawards.hawaii.gov](http://www.federalawards.hawaii.gov)). Federal awards on this list shall be budgeted as MOF "N." All other federal awards shall be budgeted as MOF "P."

**Form FF** must be completed and submitted for each Program ID from which federal funds are anticipated to be expended during FB 2017-19 and shall include the following:

- All awards assigned to your department from the list of *“Major, Recurring Federal Awards for FB 2017-19”* under MOF “N” (federal funds).
- All other recurring, including currently non-appropriated, or anticipated awards under MOF “P” (other federal funds). Anticipated awards under MOF “P” may be included if you reasonably expect to apply for and receive a federal award that has not been designated as MOF “N.”
- The total amount of each federal award anticipated to be received in FY 18 and/or FY 19, regardless of the performance period. Departments should make reasonable estimates of anticipated grant award amounts based on the prior grant awards and/or by discussion with the awarding federal agencies.
- Due to the extended lapse date for prior years’ federal fund appropriations, anticipated carryover amounts from previous years should not be included on **Form FF** or included in the budget ceiling.

FY 18 and/or FY 19 federal fund (MOF “N” or “P”) budget requests may be submitted:

- For appropriation ceiling increases required because the total amount of awards anticipated to be received in the respective fiscal year exceeds the budget ceiling for the respective MOF (to be indicated on **Form FF**).

Given the uncertain nature of future federal funding levels and the likelihood that an increase in federal funds, besides for Medicaid, will be limited, programs should not assume that State funds will be available to support program costs if federal funds are reduced or no longer available.

- For appropriation ceiling decreases required because the total amount of awards anticipated to be received in the respective fiscal year is less than the budget ceiling for the respective MOF (to be indicated on **Form FF**).
- To correct the MOF for awards appropriated in Act 119, SLH 2015, as amended by Act 124, SLH 2016, and anticipated to be received in FY 18 and/or FY 19, if necessary.
- Note: Changes in receipts must be reflected in the Quarterly Update of Revenue Estimates.

Use **Form B** to list federal fund adjustment requests which do not require adjustments to general funds or other means of financing in the “Federal Fund Adjustment Requests” portion of the form and **Form A** to propose and

justify a federal fund adjustment request. Federal fund adjustment requests which have matching general or other fund requirements should be listed on the **Form B** in the "Other Requests" portion.

5. Requests for Public Health and Safety or Immediate Requirements of Court Orders or Federal Mandates

Budget requests may be proposed to provide for public health and safety needs or to meet the immediate requirements of court orders or federal mandates.

Use **Form B** to list all public health and safety requests or requests to meet the immediate requirements of court orders or federal mandates in the "Other Requests" portion of the form and **Form A** to propose and justify each request related to public health and safety or meeting the immediate requirements of court orders or federal mandates.

6. Requests for Full-Year Funding for New Positions

Departments with new positions which were partially funded in FY 17 may request full-year funding for those positions.

Use **Form B** to list requests for full-year funding for new positions in the "Other Requests" portion of the form and **Form A** to propose and justify each request for full-year funding for new positions.

7. Requests for Adjustments to Legislatively Identified Non-Recurring Items

Departmental budget ceilings were reduced by the amount of non-recurring items identified in the legislative worksheets for Act 119, SLH 2015, as amended by Act 124, SLH 2016, for all means of financing. Because many items identified in the worksheets appear to be recurring-type expenses based on the worksheet descriptions, requests to reinstate these items will be considered.

Use **Form B** to list all adjustments to non-recurring item requests in the "Other Requests" portion of the form and **Form A** to propose and justify an adjustment to non-recurring item request.

8. Other Requests

Departments may submit other requests for funding necessary for program implementation which are **sustainable and reasonable**.

Use **Form B** to list requests for other requests in the "Other Requests" portion of the form and **Form A** to propose and justify each request for funding for other requests.

9. Requests for Special, Revolving and Appropriated Trust Funds

Special, revolving and appropriated trust fund requests may be submitted for the purposes listed above. The following should also be considered:

- Requests to meet requirements for fringe benefit assessment rate increases may be necessary. The fringe benefit assessment rate is estimated to increase to 60% for FY 18 and FY 19. These requests shall be categorized as "Other Requests."
- Increases to appropriation ceilings may be requested if **sufficient special, revolving and appropriated trust fund revenues** will be available to accommodate all such requests through the biennium and beyond and if such increases will not require additional general fund appropriations.

Departments must provide sufficient basis for any revised estimates. A financial plan for the fund supporting the request must also be submitted. (Note: Changes in receipts must be reflected in the Quarterly Update of Revenue Estimates.)

10. The Operating Budget shall conform to the following guidelines:

a. Funding of Positions

- Existing positions must be funded for the full year. This requirement also applies to vacant positions that departments choose to retain in their programs. Positions that are not funded should be eliminated.
- New positions shall be funded for a maximum of six months in the first year, then for the full year thereafter.
- Departments must meet the requirements of Act 160, SLH 2015, which, effective July 1, 2017, 1) defines "position ceiling" as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program and 2) prohibits the expenditure of funds to fill a permanent or temporary position for the lowest level of a program if the filling of that position causes the position ceiling for that level of the program to be exceeded, with exceptions (see Item A.2).

b. Collective Bargaining Adjustments

Estimated ongoing full-year costs for FY 18 and FY 19 resulting from previous years' collective bargaining adjustments for all State bargaining units are included in each department's budget ceilings for FY 18 and FY 19, as applicable.

Use **Form C** to allocate collective bargaining adjustments among Program IDs and organization codes to establish appropriate base amounts.

c. Financing Agreements

Chapters 37 and 37D, HRS, provide separate requirements for the budgeting and management of "*financing agreements*" and related transactions.

A "*financing agreement*" includes any lease purchase agreement, installment sale agreement, loan agreement, line of credit, or other agreement to finance the improvement, use, or acquisition of real or personal property that is or will be owned or operated by the State or any agency or to refinance any such previously executed financing agreement including certificates of participation relating thereto.

"*Financing agreement*" applies, but is not limited to, agreements involving tangible personal property, software (including software, training, and maintenance contracts related to the operation of computer equipment), fixtures, and property rights. (See Executive Memorandum (E.M.) No. 96-17, dated November 15, 1996, Relating to Financing Agreements.)

**All funding for such financing transactions and liabilities, whether current or proposed, must be budgeted as a separate cost element in each fiscal year.**

"Operating" cost categories must include a separate cost element for "current lease payments," in addition to the existing "personal services," "other current expenses," "equipment," and "motor vehicles." **Note:** Any lease purchase agreement, master lease agreement, installment sale agreement, or other similar financing agreement used to fund property rights, equipment, or motor vehicles, should be included on a separate Table "BK" for "current lease payments."

- d. Additional Guidelines. Additional information and guidelines are provided in Attachment 3 (Additional Operating Budget Detail Guidelines for FB 2017-19 and the Planning Period), which should be referenced for more specific details on the Operating Budget.

B. CAPITAL IMPROVEMENT BUDGET

CIP project requests may be submitted for the following:

- a. To provide major repair and maintenance (R&M) for a public or educational facility.
- b. To complete later phases of an ongoing CIP project.

- c. To address public health and safety, court orders/consent decrees or federal mandates.
- d. To improve energy efficiency or conservation.
- e. To provide public infrastructure improvements.
- f. To provide other capital improvements necessary for program implementation, which are **sustainable and reasonable**.

Departments are reminded that the capital improvement budget shall conform to the following guidelines:

1. Major R&M includes projects that extend the useful life of a facility or provide for greater functional/operational efficiency through a significant improvement or upgrade. The life expectancy of the project should be generally over 15 years. Examples include: reroofing, air conditioning equipment, refurbishing of building space or building infrastructure, major improvements to public facilities.
2. There shall be no general funded (cash-funded) CIP requests, except for project funded staff costs.
3. Departments are encouraged to identify and lapse projects with lower priority to ensure the availability of funds for other statewide capital needs. CIP trade-offs may also be proposed.
4. All requests will be reviewed and scrutinized for their impact on debt service and operating costs.
5. Pursuant to Act 135, SLH 2014, and Act 150, SLH 2015, departments submitting CIP requests must provide estimates of operational costs for each proposed CIP project and furnish all documents that support each operational cost estimate. **Form CIP Op** (*Estimated Operating Costs Related to CIP Requests*) and **Form CIP Op B** (*Department Summary of Estimated Operating Costs Related to CIP Requests*) have been developed to standardize reporting of CIP operational costs in conformance with these Acts.

Operating cost information must be included in **Table R** (*Capital Project Information and Justification Sheet*), **Form CIP Op** (*Estimated Operating Costs Related to CIP Requests*) and **Form CIP Op B** (*Department Summary of Estimated Operating Costs Related to CIP Requests*) for all CIP budget requests.

6. To facilitate federal fund reporting requirements, federal funds shall be budgeted as follows:



- Federal funds - MOF "N"
- Other federal funds - MOF "P"

A list of "Major, Recurring Federal Awards for FB 2017-19" is attached for your reference. Federal grants on this list shall be budgeted as MOF "N." All other grants shall be budgeted as MOF "P." Federal fund ceilings shall be requested to accurately reflect anticipated federal grant award amounts.

7. CIP requests financed by federal funds or other federal funds which require extended lapse dates (biennium plus five years) to meet the requirements of their federal awards must include the following language in their project description: "This project is deemed necessary to qualify for federal aid financing and/or reimbursement."
8. Departments requesting CIP financed by special funds, revolving funds, or revenue bonds must ensure that:
  - The public undertaking, so funded, will be self-supporting.
  - The responsible program will be able to impose appropriate rates and charges to accommodate the cost of the undertaking, including payment of principal and interest, and that these revenues are reflected in the Quarterly Update of Revenue Estimates.
  - A special fund has been authorized to provide dedicated funds for such purposes.

Departments should consider the impact such authorizations would have on their departmental special fund operating budget requirements and ceilings and should ensure that sufficient revenues are available to fund the related operating and CIP costs.

9. Projects funded by "financing agreements" instead of long-term debt proceeds:
  - Whenever the financing transaction used in any project (or cost element therein) does not entail funding by G.O. bonds or other long-term debt, but entails a "financing agreement" as defined by Chapter 37D, HRS, the portion thus financed shall be submitted as a separate and distinct project. The title of such a project shall refer to the financing mechanism as well as the project (e.g., "Lease-purchase of Land for Kamehameha Highway Extension," to be funded by special funds).
  - When "financing agreements" are being considered, departments must inform B&F of such plans and obtain an initial consent regarding the appropriateness of such agreements.

Departments with projects funded by "*financing agreements*" instead of long-term debt proceeds should refer to additional guidelines in E.M. No. 96-17, dated November 15, 1996, for further clarification.

10. Agencies should consider the feasibility of participating in the development of a joint use facility before requesting CIP funding for single agency facilities.
11. Works of Art. Departments are reminded that CIP budget requests should include 1% for Works of Art in accordance with Section 103-8.5, HRS, as amended, and criteria set forth by the State Comptroller.
12. **Form PAB** (*Questionnaire - G.O. Bond Fund Appropriations*) must be completed and submitted for every project to be funded with G.O. and G.O.R. bond funds.

User and expending agencies of CIP which are funded by G.O. or G.O.R. bonds are reminded of compliance requirements of the Tax Reform Act of 1986, including amendments thereto. In order for G.O. and/or G.O.R. bonds to qualify for federal tax-exemptions, the Internal Revenue Code (IRC) requires that bond proceeds be used only for governmental purposes. Expending agencies undertaking G.O. and G.O.R. funded projects are responsible for monitoring project use and reporting to B&F at certain stages of the project. See Attachment 6, Item 7.2, for more information.

If assistance in completing this form is required, the Financial Administration Division of B&F should be contacted.

#### C. OTHER REQUIREMENTS

1. Where program or budget requests entail coordination between programs or departments, participating agencies shall ensure that clear delineations of responsibility have been mutually established and are legally permissible; and that appropriate implementation and/or funding mechanisms are available, including the necessary budget language.
2. Special and other non-general funded departments and programs must conform to these budget submission requirements. Further, such departments and programs should be reminded of Section 37-52, HRS, which provides that "*. . . departments and establishments shall not be authorized to make expenditures out of any special fund in excess of the monies available in the special fund.*"

Operating and CIP budget requests, therefore, should not exceed anticipated total resources available in the (non-general) fund for the specified fiscal year. Any changes should be reported to B&F. A financial plan shall accompany the budget request of each special or revolving fund to verify the availability of adequate resources. Numbers should be consistent with those provided in the

budget requests (operating and CIP) and in the Quarterly Update of Revenue Estimates.

3. State agencies contemplating the creation of new programs should be aware of Section 37-68(1), HRS, which requires departments to justify proposed requests for new programs by first demonstrating that such programs: a) are appropriate functions of State government, and b) can be implemented by government as cost-effectively as the private sector.
4. Departments and agencies are reminded that administration decisions to recommend approval of program and capital improvement requests shall be determined by the conformance of such requests with the overall theme, goals, objective, policies, and priority guidelines contained in Chapters 226 and 225M, HRS, Relating to State and Functional Plans.
5. Before submitting operating and capital budget requests for energy funding, departments and agencies shall consult with the energy coordinator at the Department of Business, Economic Development and Tourism for specific energy-related standards, guidelines, and goals pursuant to:
  - Administrative Directive No. 06-01 (Energy & Resource Efficiency and Renewable Energy & Resource Development).
  - State energy policies in accordance with Chapter 196, HRS.

All energy-related budget requests must be consistent with such standards, guidelines, and goals.

#### D. SUBMISSION REQUIREMENTS AND FORMATS

##### 1. Operating Submission Requirements

The following forms, as applicable, must be completed as part of your department's operating budget submission:

- a. Use **Form C** (*Summary of Current Operating Base*) to provide a breakdown of the department's budget base in FY 18 and FY 19 by Program ID, Organization Code and MOF.
- b. Use **Form A** (*FB 2017-19 Operating Budget Adjustment Request*) to:
  - Propose budget requests for FB 2017-19.
  - Identify details of plus or minus funding in requests for trade-offs/transfers or conversion of unbudgeted positions requests. Use **Form A-Attachment** (*FB 2017-19 Operating Budget Trade-Off/Transfers*) to list multiple trade-off and transfer or conversion of unbudgeted positions requests.

Budget information on **Form A** should be as detailed as possible to facilitate the update of BJ tables by cost element (to be completed if the request is approved).

- c. Use **Form B** (*FB 2017-19 Department Summary of Operating Budget Adjustment Requests*) to list all budget adjustment requests of the department, by Program ID and Organization Code. List the requests sequentially by department priority, with a separate priority order for each section (trade-off and transfer and conversion of unbudgeted position requests, allowable non-discretionary expense requests, federal fund adjustment requests, and other requests) with (1) indicating the "highest priority." Do not use duplicate or sub-priority numbers, such as 1A, 1B, etc., within a section; however, duplicate numbers may be used for corresponding trade-off/transfer requests or requests with multiple MOFs.
- d. An updated six-year financial plan shall be submitted for each special or revolving fund with related budget requests. The updated financial plan amounts should be consistent with those provided in the budget requests (operating and CIP) and in the Quarterly Update of Revenue Estimates. Discussion of assumptions used for revenue estimates should be provided.
- e. Use **Form FF** (*Federal Awards for FB 2017-19*) to list all federal grants by Program ID, organizational code and MOF for all programs which require federal fund ceilings for FB 2017-19. OFAM will send out instructions for the new online form and electronic workflow under separate cover.
- f. Update **BJ Summary Tables**. Please note that all departments are required to provide temporary position counts (in addition to the permanent position counts which are already provided) on their BJ Summary tables pursuant to Act 160, SLH 2015, which requires that permanent and temporary position ceilings be included in the budget documents. Refer to the attached Instructions for BJ Summary Tables Update, Budget Narratives, and CIP Requests for details.
- g. Prepare **Budget Narratives** (also referred to as Program Plan Narratives). Refer to the attached Instructions for BJ Summary Tables Update, Budget Narratives, and CIP Requests for details. Budget Narratives should be prepared using the new "Narrative" feature in eBUDDI.
- h. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable. Legislative proposals shall be coordinated with the Governor's Office. Additionally, the Department of Budget and Finance (B&F) analyst assigned to your department should be informed of the applicable proposals as part of the budget review.

## 2. CIP Submission Requirements.

CIP budget requests and/or adjustments shall be submitted according to the following procedures:

a. All departments are required to use eCIP, B&F's web-based CIP system, to update the CIP tables and prepare their CIP budget request:

- Use **Table P** (*Capital Project Details*) to request appropriations for allowable projects.
- Use **Table Q** (*Capital Project Details*) to provide project schedule, expenditures, and other information for each respective CIP request.
- Use **Table R** (*Capital Project Information and Justification Sheet*) to provide narrative project information and justification for each respective CIP request.
- Use **Form S** (*FB 2017-19 Department Summary of Proposed CIP Lapses and New CIP Requests*) to summarize projected CIP requests and to identify appropriations for trade-off or lapsing. Requests on **Form S** shall be prioritized with (1) as "highest priority," and so on. Projects proposed for lapsing shall be prioritized with (1) as "first to be lapsed," and so on. All requests shall be listed sequentially using unique priority numbers. Do not use duplicate or sub-priority numbers, such as 1A, 1B, etc.; duplicate priority numbers may only be used for corresponding requests with multiple MOF.

**Form S (Biennium)** shall be downloaded from eCIP in blank form or prefilled with Table P data from projects which have already been inputted for FB 2017-19.

- b. **Form PAB** (*Questionnaire - General Obligation Bond Fund Appropriations*) (revised September 2013) must be completed for all G.O. and G.O.R. bond funded CIP requests to indicate anticipated private activity use of State facilities.
- c. **Form CIP Op** (*Estimated Operating Costs Related to CIP Requests*) and **Form CIP Op B** (*Department Summary of Estimated Operating Costs Related to CIP Requests*) must be completed for all CIP requests to indicate the anticipated operating costs related to each CIP project requested.

## 3. Additional Requirement.

Act 150, SLH 2015, also requires that each agency responsible for operating or maintaining a State-owned building, facility or other improvement furnish B&F with an estimate of the deferred maintenance costs for the building,

facility or other improvement. Deferred maintenance cost refers to the cost of R&M of the State-owned building, facility or other improvement which has been delayed past the ordinary R&M cycle.

A summary of the deferred maintenance costs must be provided in the Supplemental Budget document. As such, all departments responsible for operating or maintaining a State-owned building, facility or other improvement must complete and submit **Form DMC** (*Department Summary of Estimated Deferred Maintenance Costs*). Detailed worksheets and other supporting details should be available upon request.

#### **E. AVAILABILITY OF ELECTRONIC FORMS**

Electronic files for budget forms, other than those noted below, will be e-mailed to your Administrative Services/Budget Officers and will also be available on the B&F website.

The following forms should be completed on the online systems indicated:

- **Budget narratives** shall be filled out online, using the new "Narrative" feature in eBUDDI. Your department will be notified when the feature is available for inputting.
- **Form S (Biennium)** (*FB 2017-19 Department Summary of Proposed CIP Lapses and New CIP Requests*) shall be downloaded in blank form or prefilled with Table P data from projects which have already been inputted for FB 2017-19.
- **Form FF**, prefilled with information from your department's FY 17 Form FF, will also be available to fill out online with electronic workflow on Datamart, Federal Awards Management System (FAMS). OFAM will provide additional information regarding the new **Form FF** process under separate cover.