EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

August 29, 2017

EXECUTIVE MEMORANDUM MEMO NO. 17-04

TO: All Department Heads

SUBJECT: FY 18 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 18.

With general fund revenues lagging through much of FY 17, the Council on Revenues (COR) reduced its September 2016 general fund tax revenue projection of 5.5% to 2.5% as the fiscal year progressed. Although the COR maintained its general fund tax revenue growth projections of 2.5% for FY 17, 4% for FY 18 and FY 19, and 4.5% for FY 20 through FY 23 at its last meeting on May 30, 2017, general fund tax revenue collections have, for the most part, continued to not meet expectations.

Preliminary FY 17 general fund tax revenue collections as of June 2017 were 2.0% more than in FY 16 but fell short of the COR's 2.5% projection. This raises serious concerns as the decreased revenues for FY 17 lowers the general fund base for subsequent years and brings into question whether the level of growth for FY 18 will be on pace to meet the COR's projection of 4%.

Thus, while the preliminary general fund tax revenue growth for July 2017 was 11.8%, it is still too early to predict how tax collections for the remainder of the fiscal year will come in. The monthly swings in revenue growth over the past several years are a constant reminder that significant changes can be fast and unpredictable.

We understand the optimism that may have been generated by the first sign that FY 18 general fund revenue collections were off to a good start, especially in view of the preliminary FY 17 general fund balance of $893.8 million. While this balance will help to support the increasing operating costs of State programs, there are other factors which must also be considered.

Of continued concern is that the State's expenditures are expected to outpace revenues for the next few years until FY 21. At the end of FY 21, the State's general fund balance is expected to be at its lowest point over the current biennium and four-year planning period – at a level which would only cover the State's operations for one to two weeks.

The State must also continue to meet significant financial commitments to address our unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund (EUTF) in the coming years. Additionally, the State must be prepared to bear the costs of federal programs for services which the State deems critical should the federal government choose to reduce or discontinue funding. The impact of significant federal fund reductions may be twofold, as the State will bear the economic impact of the reduced funding while providing additional funds for federal programs.

After several years of positive economic growth, we remain cautiously optimistic about the State's economy but it is showing signs of slowing. Preliminary seasonally adjusted unemployment was at 2.7% in June 2017, nearing the 40-year historical low of 2.4% and what economists consider "full employment." The tourism industry continues to expand, with year-to-date increases through June 2017 in visitor expenditures (8.7%) and arrivals (4.3%) primarily due to increases from traditional markets (i.e., U.S. mainland, Japan and Canada). Visitor spending and arrivals declined for all other international markets by 3.8% and 4.3%, respectively.

When these significant factors are looked at together, they reinforce the need to be prudent and conservative with our expenditures to ensure the State's fiscal stability through FB 2017-19 and beyond. We must responsibly control our expenditures to prepare, to the extent possible, for uncertain revenue collections and reductions in federal funds, while supporting the increased cost of our daily operations.

In this context, we will continue the 10% restriction (5% restriction and 5% contingency restriction) on general funded discretionary appropriations less a $4 million discretionary adjustment, as applicable (restrictions shall not be applied to Chapter 42F general funded grants). The 5% contingency restriction is intended as a contingency reserve for FY 18 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.

These budget execution policies delegate many responsibilities to the department level to facilitate the efficiency of your operations. The budget controls are necessary to manage the State's finances to enable the State to meet current and future demands. All departments are expected to make a sincere effort to enhance the efficiency of their operations and stay within their departmental allocation.

Our efforts to improve our program operations should not only be driven by the budget. They should reflect our commitment to improve government transparency and accountability and be more effective in our delivery of public services. We can strengthen the foundation of our State government by working together towards this common goal.

The flexibility and authority provided to your department should not be taken lightly. These processes deserve your appropriate attention and should be executed responsibly with the utmost care to maintain the State's fiscal health now and in the future.

Exhibit 1 contains your department's FY 18 allocation of operating program appropriations and permanent and temporary position ceilings from Act 49, SLH 2017, which includes a 10% restriction (5% restriction and 5% contingency restriction) on your department's discretionary general fund appropriations less a $4 million discretionary adjustment, as applicable.

Exhibit 1 also reflects included and excluded (if applicable) collective bargaining (CB) allocations for Bargaining Units (BU) 2, 3, 4, 5, 6, 9, 11, and 13 for the applicable negotiated agreements. CB amounts for BUs 1, 7, 10, and 14 for EUTF only are allocated to the Department of Budget and Finance (B&F).

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 18 budget execution to provide for prudent and efficient implementation of legislative intent.

Questions on the specific policies and instructions should be directed to B&F or the appropriate agency referenced. Electronic files of the budget execution forms will be provided for your use.

/s/

DAVID Y. IGE
Governor, State of Hawaii

Exhibit 1
Attachment A
Attachment B