



EXECUTIVE CHAMBERS

HONOLULU

NEIL ABERCROMBIE
GOVERNOR

June 19, 2014

EXECUTIVE MEMORANDUM

MEMO NO. 14-04

TO: All Department Heads

SUBJECT: Interim Budget Execution Policies and Instructions for FY 15

After two years of healthy general fund tax revenue growth of 15% in FY 12 and 9.9% in FY 13, revenue growth for FY 14 has flattened. Such high levels of growth, spurred by our collaborative efforts and shared sacrifice, were expected to level off to more sustainable levels over time.

In its June 2, 2014 report, however, the Council on Revenues (COR) lowered its FY 14 general fund tax revenue growth rate forecast from 0% to -0.4%. The COR was concerned that cumulative general fund tax revenue collections to date this fiscal year were lower than expected. This shortfall may be due to a number of factors, including declining visitor spending and the impact of federal fiscal austerity on the spending of Hawaii's residents. Although the COR remained optimistic about the economy for FY 15 through FY 20 and maintained its forecasts for those fiscal years, the change to the FY 14 projection will result in an estimated decrease in general fund tax revenue of approximately \$22 million in FY 14, increasing annually to \$30 million by FY 20 due to the impact of the lower base amount being carried forward.

Preliminary FY 14 general fund tax collections through May 2014 were -0.8% less than the same period in FY 13. General fund tax revenue growth for FY 14 has been negatively impacted by two uncommon events: 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 Hawaii County Surcharge in July of FY 14 compared to an unusually small allocation in July of FY 13. However, beyond the impact of these events, revenue growth has not appeared to be straightforwardly reflective of the performance of Hawaii's economy.

While we are optimistic about Hawaii's economy given the positive outlook for key economic indicators – unemployment is down to 4.4%, a rate unseen since August 2008; the construction industry is continuing to strengthen; and tourism, though growth has somewhat leveled off, is still expected to show gains – the FY 15 general fund revenue forecast seems less clear and more speculative as we come out of FY 14.

Additionally, Hawaii's reliance on the conditions of the national economy and key international economies, especially Japan's, will always necessitate that we keep a watchful eye toward these outside influences.

We are ever mindful of the national and worldwide events to which Hawaii is vulnerable, including reductions in federal spending and unrest in the Middle East. We also recognize that the future demands on the State's resources, including recapitalization of our emergency funds (the Hawaii Hurricane Relief Fund and the Emergency and Budget Reserve Fund) and unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund are truly significant.

To ensure the State's fiscal stability going forward, we remain committed to making sound fiscal decisions. We are focused on managing the fiscal budget to help achieve near term financial stability, while delivering core Administration priorities. We will continue our efforts to deliver State services more efficiently and accelerate the implementation of New Day Work Projects to stimulate job growth and Hawaii's economy.

Full-year budget policies for FY 15 are forthcoming. During the interim, the following actions are hereby authorized:

1. On July 1, 2014, departments will receive their respective budget allocations for the first quarter only.

Exhibit 1 contains your department's First Quarter allocation, which is:

- General funds: One-fourth of 90% of the FY 15 operating program appropriation less vacancy payout and gubernatorial transition appropriations, as applicable, from Act 134, SLH 2013, as amended by House Bill (H.B.) No. 1700, H.D. 1, S.D. 1, C.D. 1.
 - Non-general funds: One-fourth of the FY 15 operating program appropriation from Act 134, SLH 2013, as amended by H.B. No. 1700, H.D. 1, S.D. 1, C.D. 1.
2. Departments should exercise caution with expenditures as final allocations have not been established. Allocations for subsequent quarters will be made upon further consideration of revenue and expenditure requirements.
 3. Release of collective bargaining allocations will be made in September 2014.
 4. Release of grants and other specific appropriations authorized for expenditure in FY 15 by the 2014 Legislature or other legislative sessions will be considered in January 2015 based upon revenue and expenditure requirements.
 5. Except for allocation amounts, all other current budget policies as contained in E.M. No. 13-02, FY 14 Budget Execution Policies and Instructions (dated June 28, 2013), remain in effect.

6. Capital Improvement Program policies and procedures as contained in E.M. No. 97-07, Procedures for Requesting the Implementation of Capital Improvement Projects (dated June 19, 1997), shall continue to be followed.

As in past years, these interim budget policies provide a high level of flexibility which I trust that all departments will responsibly utilize with the utmost accountability. Questions on the specific policies and procedures should be directed to the Department of Budget and Finance analyst assigned to your department or the appropriate agency referenced.

NEIL ABERCROMBIE
Governor, State of Hawaii

Attachment: Exhibit 1

FY 2015 ALLOCATION
 DEPARTMENT OF EDUCATION
 (Interim June 2014)

	General Fund	Special Funds	Federal Funds (N)	Other Federal Funds (P)	Private Contrib.	County Funds	Trust Funds	Inter-dep'tal Transfers	Federal Stimulus	Revolving Funds	Other Funds	Total Allocation	GO Bond Funds (CB)*
Appropriation	19,234.47 1,406,144,711	737.50 55,959,324	5.00 233,651,324	- 17,343,500			- 24,290,000	- 10,545,605		8.00 28,834,438		19,984.97 1,776,768,902	
1st Quarter Allocation	19,234.47 345,296,003	737.50 13,989,831	5.00 58,412,831	- 4,335,875	-	-	- 6,072,500	- 2,636,401	-	8.00 7,208,610	-	19,984.97 437,952,051	-
Restrictions	RESTRICTIONS - TO BE DETERMINED												

Executive Memorandum 14-04 First Quarter Only Allocation Summary

Appropriation

A	DOE's EDN100-700 Appropriation	1,406,144,711
B= A/4	25% of Appropriation	351,536,178
C	1st Quarter Actual Allocation (E.M. 14-04)	345,296,003
D=B-C	Difference (withholding)	6,240,175
E=D*4	Annualized withholding at E.M. 14-04 Level	24,960,700

NOTE 1: 10% withholding for the first quarter allocation was imposed on those general fund amounts determined by the Department of Budget and Finance to be "Discretionary"

FY14-15 General Fund Appropriations

	Non-Discretionary	Discretionary	Total
EDN100 *	811,462,448	1,426,147	812,888,595
EDN150	325,508,663		325,508,663
EDN200		47,429,820	47,429,820
EDN300		43,343,959	43,343,959
EDN400 **	19,566,597	151,651,925	171,218,522
EDN500		2,500,000	2,500,000
EDN700		3,255,152	3,255,152
	1,156,537,708	249,607,003	1,406,144,711

* Grant in Aid appropriations classified as "Discretionary"

** Food Service and Centralized Custodian Programs classified as "Non-Discretionary"

NOTE 2: EDN700 Executive Office on Early Learning was initially classified as "Discretionary" but we understand that has since been revised to "Non-Discretionary"

FY14-15 General Fund Appropriations

	Non-Discretionary	Discretionary	Total
EDN100 *	811,462,448	1,426,147	812,888,595
EDN150	325,508,663		325,508,663
EDN200		47,429,820	47,429,820
EDN300		43,343,959	43,343,959
EDN400 **	19,566,597	151,651,925	171,218,522
EDN500		2,500,000	2,500,000
EDN700	3,255,152		3,255,152
	1,159,792,860	246,351,851	1,406,144,711

NOTE 3: Estimate IF 10% restriction imposed on "Discretionary" budget

24,635,185