

## Definitions (Section 37-62, Hawai‘i Revised Statutes)

**“Operating costs”** means recurring costs of operating, supporting and maintaining authorized programs, including costs for personnel salaries and wages, employee fringe benefits, supplies, materials, equipment and motor vehicles.

**“General Fund”** means the fund used to account for all transactions which are not accounted for in another fund.

**“Revolving fund”** means a fund from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds.

**“Special funds”** means funds which are dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.

**“Trust fund”** means a fund in which designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.

**“Capital investment costs”** means costs, beyond the research and development phase, associated with capital improvements, including the acquisition and development of land, the design and construction of new facilities, and the making of renovations or additions to existing facilities. Capital investment costs for a program are the sum of the program’s capital improvement project costs.

**“General obligation bonds”** means bonds, notes or other instruments of indebtedness for the payment of the principal and interest of which the full faith and credit of the State are pledged.

**“General obligation reimbursable bonds”** means general obligation bonds issued for a public undertaking, improvement, or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the general fund and for which reimbursement is required by law, and in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the general fund is required by law to be made from the revenue of the political subdivision.

**“Reimbursable general obligation bonds”** means general obligation bonds issued for a public undertaking, improvement, or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the general fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision,

general obligation bonds for which the payment of the principal and interest as reimbursement to the general fund required by law to be made from the revenue of the political subdivision.

“Revenue bonds” means all bonds payable from the revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system, or loan program and any loan made thereunder and secured as may be provided by law.



State of Hawai'i

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## ABOUT STATE BUDGETING

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### BUDGET SYSTEM

Pursuant to the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of the State was adopted. The purpose of this act is to integrate the planning, programming and budgeting processes to improve decisions on the allocation of resources. The act established a comprehensive system for State programs and their related costs over a time frame of six years. The operating and capital improvement requirements are evaluated together to insure compatibility and mutual support. Systematic evaluations and analyses are conducted to ascertain the attainment of program objectives and alternative means or methods of improving current State services. The act provides that the Director of Finance and the Governor may modify or withhold planned expenditures if such expenditures would be in excess of authorized levels of service or in the event that State receipts and surpluses would be insufficient to meet authorized expenditure levels.

Further information can be found on this link to Chapter 37, HRS, Budget –

[http://www.capitol.hawaii.gov/hrscurrent/Vol01\\_Ch0001-0042F/HRS0037/HRS\\_0037-.htm](http://www.capitol.hawaii.gov/hrscurrent/Vol01_Ch0001-0042F/HRS0037/HRS_0037-.htm)

([http://www.capitol.hawaii.gov/hrscurrent/Vol01\\_Ch0001-0042F/HRS0037/HRS\\_0037-.htm](http://www.capitol.hawaii.gov/hrscurrent/Vol01_Ch0001-0042F/HRS0037/HRS_0037-.htm)) .

### LEGISLATIVE PROCESS

The Legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of 30 days. Any session may be extended by no more than 15 days. At least 30 days before the Legislature convenes in regular session in an odd numbered year, the Governor shall submit to the Legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The budgets of the judicial branch, the legislative branch, and the Office of Hawaiian Affairs are submitted by their respective leaders to the Legislature for its consideration. In such regular session, no appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the bill authorizing the operating expenditures for the executive branch for the ensuing fiscal biennium, to be known as the general appropriations bill, shall have been transmitted to the Governor.

In each regular session in an even numbered year, the Governor may submit to the Legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill. In such session to which the Governor submits to the Legislature a supplemental appropriations bill, no other appropriations bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the supplemental appropriations bill shall have been transmitted to the Governor.

To become law, a bill must pass three readings in each house on separate days. Each bill passed by the Legislature shall be certified by the presiding officers and clerks of both houses and thereupon be presented to the Governor. If the Governor approves and signs the bill, it becomes law. If the Governor does not approve a bill, the Governor may return it, with the Governor's objections, to the Legislature. Except for items appropriated to be expended by the judicial and legislative branches, the Governor may veto any specific item or items in any bill that appropriates money for specific purposes by striking out or reducing the same; but the Governor shall veto other bills only as a whole.

The Governor has ten days to consider bills presented to the Governor ten or more days before the adjournment of the Legislature sine die, and if any such bill is neither signed nor returned by the Governor within that time, it shall become law in like manner as if the Governor had signed it.

The Governor has forty-five days, after the adjournment of the Legislature sine die, to consider bills presented to the Governor less than ten days before such adjournment, or presented after adjournment, and any such bill shall become law on the forty-fifth day unless the Governor by proclamation shall have given ten days' notice to the Legislature that the Governor plans to return such bill with the Governor's objections on that day. The Legislature may convene on or before the forty-fifth day in special session, without call, for the sole purpose of acting upon any such bill returned by the Governor. In case the Legislature shall fail to so convene, such bill shall not become law. Any such bill may be amended to meet the Governor's objections and, if so amended and passed, only one reading being required in each house for such passage, it shall be presented again to the Governor, but shall become law only if the Governor shall sign it within ten days after presentation.

## **EXPENDITURE CONTROL**

The Constitution provides that no public money shall be expended except as appropriated by law. It also requires that provision for the control of the rate of expenditures of appropriated State moneys, and for the reduction of such expenditures under prescribed conditions, shall be made by law and that General Fund expenditures for any fiscal year shall not exceed the State's current General Fund revenues and unencumbered cash balances, except when the Governor publicly declares the public health, safety or welfare is threatened, as provided by law.

**Expenditure Ceiling.** The Constitution provides that, notwithstanding any other provision to the contrary, the Legislature shall establish a General Fund expenditure ceiling which shall limit the rate of growth of General Fund appropriations, excluding federal funds received by the General Fund, to the estimated rate of growth of the State's economy as provided by law and that no appropriations in excess of such ceiling shall be authorized during any legislative session unless the Legislature shall, by a two-thirds vote of the members to which each house of the Legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor. Pursuant to such Constitutional provision, Part V of Chapter 37, HRS, provides, in general, that appropriations from the General Fund for each year of the biennium or each supplementary budget fiscal year shall not exceed the expenditure ceiling for that fiscal year. The expenditure ceiling is determined by adjusting the immediate prior fiscal year expenditure ceiling by the applicable "state growth." State growth means the estimated growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which appropriations from the General Fund are to be made. The Governor is required to submit to the Legislature a plan of proposed aggregate appropriations for the State which includes the executive budget, proposed grants to private entities, any specific appropriation measures to be proposed by the executive branch and estimates of the aggregate proposed appropriations of the judicial and legislative branches of government. In any year in which this plan of proposed General Fund appropriations exceeds the estimated expenditure ceiling, the Governor must declare the dollar amount, the rate by which the expenditure ceiling would be exceeded and the reasons for proposing appropriations in excess of the ceiling amount.

**Operating Expenditures.** Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. Pursuant to Part II, Chapter 37, HRS, moneys can be withheld by the Governor or the Director of Finance to ensure the solvency of each fund. Expenditure plans consisting of quarterly requirements of all State programs are prepared at the beginning of each fiscal year by the respective departments of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by HRS Chapter 37. Allotment transfers between different appropriation items within individual departments can be made after approval is obtained from the Governor, or if delegated, the Director of Finance. Unencumbered allotment balances at the end of each quarter shall revert to the related appropriation account, except for the Department of Education and the UH. Requests to amend allotments must be approved by the Director of Finance. Although the State has a biennial budget, appropriations are made for individual fiscal years and may not be expended interchangeably, except for 5% of appropriations to the Department of Education, which by statutory authority may be retained up to one year into the next fiscal biennium.

**Capital Improvement Expenditures.** Annual capital improvement implementation plans are also prepared to control and monitor allotments and expenditures. Prior to the initiation of a project, it is reviewed for compliance with legislative intent and other economic considerations, and as to its

justification. The Governor must approve the release of funds before any action can be taken. Change orders during construction must be substantiated and approved by the expending agency. The need for additional capital improvement funds for each project must be approved by the Governor and must be funded from available balances of other capital improvement project appropriations.

## REVENUE PROJECTIONS

The Constitution requires that there be established by law a Council on Revenues (the “Council”) to prepare revenue estimates of the State government and to report such estimates to the Governor and the Legislature. The revenue estimates serve as the basis for the Governor’s budget preparation and the Legislature’s appropriation of funds and enactment of revenue measures. If the Council’s latest revenue estimates are not used by the Governor or the Legislature for budget preparation or appropriations, respectively, then the party not using the latest estimates must publicly state the reasons for using a differing revenue estimate. Act 278, SLH 1980, provided for the establishment of such a council consisting of seven members, with three members appointed by the Governor and two members each appointed by the President of the Senate and the Speaker of the House. The Council regularly reports its estimates and revisions each June 1, September 10, January 10, and March 15. The Council also revises its estimates when it determines that such revisions are necessary or upon request of the Governor or the Legislature. The Council’s estimates are used by the Department of Budget and Finance in formulating the State Multi-Year Program and Financial Plan, the Executive Budget, and the Executive Supplemental Budget for submission to the Legislature.

Further information can be found on this link to the Council on Revenues’ webpage – [http://tax.hawaii.gov/useful/a9\\_1cor/](http://tax.hawaii.gov/useful/a9_1cor/) ([http://tax.hawaii.gov/useful/a9\\_1cor/](http://tax.hawaii.gov/useful/a9_1cor/)) .



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## GENERAL BUDGET PROCESS AND TIMETABLE

### State of Hawaii Executive Branch

The State budgets on a biennium basis with the Executive biennium budget submitted to the Legislature for action on odd numbered years and the Executive supplemental budget submitted on even numbered years. The State’s fiscal year runs from July 1st to June 30th. Generally, operating appropriations are effective for a one-year period and any unexpended or unencumbered appropriations lapse at the end of the fiscal year. Generally, capital improvement program appropriations are effective for a three-year period (the fiscal biennium plus an additional year) and any unexpended or unencumbered appropriations lapse at the end of the three-year period.

The Constitution requires that the Governor consider the Council on Revenues’ revenue forecasts in preparing the Executive budget and the Legislature consider the Council’s forecasts in appropriating funds. If the Governor or Legislature does not use the Council’s forecasts, a public statement must be made to that effect along with the reason(s) for not using the forecasts. The Council makes quarterly forecasts that coincide with various phases of the budget preparation and execution process: the September 10th forecast is used by the Executive in preparing the Executive budget; the January 10th forecast is used by the Legislature in planning for appropriations during the legislative session; the March 15th forecast is used by the Legislature in making appropriations; and the June 1st forecast is used by the Executive in budget execution.

The following is the general timetable for preparation and execution of the State’s Executive Branch budget. Please note that departments usually begin their budget planning (either informally or formally for the Department of Education and University of Hawaii) well in advance of issuance of the budget preparation instructions by the Department of Budget and Finance.

<u>Timeframe</u>	<u>Activity Undertaken</u>
Apr:	Program structure update for upcoming biennium issued by DB&F (even numbered years)

Late Jun:	Program structure updates due from departments (even numbered years)
Late Aug-early Sep:	Budget preparation instructions issued by DB&F
Sep 10 <sup>th</sup> :	Deadline for Council on Revenues quarterly general fund revenue forecast
Early-mid Oct:	Departments submit budget requests to DB&F for review
Early-mid Nov:	DB&F transmits initial budget recommendations to departments & conducts budget appeals
Late Nov:	DB&F transmits revised budget recommendations to departments; departments may appeal DB&F recommendations to Governor
Early-mid Dec:	Executive budget decisions are finalized & transmitted to departments
Mid Dec:	Executive budget documents are prepared
30 days to start of session:	Executive Biennium Budget (odd numbered years) or Executive Supplemental Budget (even numbered years) & Variance Report submitted to Legislature
Beginning of Jan:	Legislative money committees start conducting departmental budget hearings
Jan 10 <sup>th</sup> :	Deadline for Council on Revenues quarterly general fund revenue forecast
3 <sup>rd</sup> Wed in Jan:	Start of regular legislative session; Executive budget bill submitted to Legislature



1 <sup>st</sup> Working Day of Week	Traditionally Governor's State of State Address & deadline to submit Executive's legislative package
Following Start of Session:	
Mar 15 <sup>th</sup> :	Deadline for Council on Revenues quarterly general fund revenue forecast
End of Apr-beginning of May:	End of regular legislative session (60 <sup>th</sup> session day excluding recesses)
35 <sup>th</sup> day from end of session:	Deadline for Governor to give notification of possible bill vetoes
45 <sup>th</sup> day from end of session:	Deadline for Governor to veto bills or automatically becomes law
Jun 1 <sup>st</sup> :	Deadline for Council on Revenues quarterly general fund revenue forecast
Early-mid Jun:	Budget execution policies issued by Governor; appropriation warrants issued by DAGS