EXECUTIVE CHAMBERS

HONOLULU

NEIL ABERCROMBIE
GOVERNOR

June 16, 2011

EXECUTIVE MEMORANDUM

MEMO NO. 11-06

TO: All Department Heads

SUBJECT: 2011 Program Review

House Bill No. 200, H.D. 1, S.D. 1, C.D. 1, Relating to the State Budget, contains a $50 million "fiscal constraints" reduction for FY 12 and FY 13 that must be allocated statewide. The Legislature's intent in imposing the lump-sum reduction was to "provide the Governor with the maximum flexibility to allocate the reduction among the executive branch of government" with the understanding that these allocated reductions were to be made "in conjunction with the Governor's efforts to reprioritize state government."

The Objective

The objective of the 2011 Program Review is to identify $50 million in specific general fund reductions for FY 12 and FY 13 based on a systematic review of State programs and services. This review will be the first step in the Administration's more global effort to reprioritize and retool State government as envisioned in the New Day Plan.

General fund support for programs have been significantly reduced over the past decade, and consequently, the Administration wants to avoid imposing standard across-the-board "horizontal" budget adjustments that would further hobble hard hit, departmental operations. Instead, the thrust of the 2011 Program Review is to have each department make honest and discerning assessments of its programs and services as compared to its primary mission (what is does and who it serves). The aim is twofold:

- The first is to identify programs, services, and/or activities for possible elimination that, although well-intentioned, are of marginal benefit, low performing, or of lesser priority; and

- The second is to identify cost saving opportunities in primary programs and services through tightening program eligibility, reducing program benefits, or cost shifting.

<u>The Process</u>

The general approach and process for the 2011 Program Review is outlined in **Attachment A**. This review will focus on departmental programs that are fully or partially funded by general funds. Departments with programs wholly funded by non-general funds are encouraged to conduct their own modified reviews of such programs with the aim towards increasing program efficiency and effectiveness.

To provide an impetus to facilitate a rigorous review of departmental programs, planning targets are being established for each department with general-funded programs (see **Attachment B**). The planning targets are high because the intent is to evaluate each of the proposed adjustments on a statewide basis to yield $50 million in reductions rather than having each department bear proportional reductions.

<u>Department Deadlines</u>

<u>June 27, 2011</u>. Departments will submit, if necessary, significant budget issue discussion paper(s) to the Department of Budget and Finance (B&F).

<u>July 8, 2011</u>. Departments will submit its program review worksheet and proposed budget reductions to B&F.

Difficult and painful decisions must be made for this review. We cannot afford to continue the status quo, continuing to cut resources from programs which are already hurting and, in some cases, unable to properly function. Let us work together to provide our State with a government that is focused and efficient in serving Hawaii's people and leading them towards the Hawaii we have envisioned in the New Day Plan.

Your full cooperation and serious efforts will be appreciated.

Neil Abercrombie

NEIL ABERCROMBIE
Governor, State of Hawaii

Attachments

2011 PROGRAM REVIEW
GENERAL APPROACH AND PROCESS

- The objective of the program review is to identify $50 million in specific general fund reductions to meet the lump-sum, "fiscal constraints" reduction imposed by the Legislature for FY 12 and FY 13 based on a systematic review of State programs and services. As provided for in Section 97 of House Bill No. 200, H.D. 1, S.D. 1, C.D. 1, Relating to the State Budget, $50 million must be transferred to health premium payments (BUF 761).

- <u>The program review will focus on departmental programs that are fully or partially funded by general funds.</u> Departments with programs wholly funded by non-general funds are encouraged to conduct their own modified reviews of such programs with the aim towards increasing program efficiency and effectiveness.

- General fund support for programs have been significantly reduced over the past decade, and consequently, the Administration wants to avoid imposing standard across-the-board "horizontal" budget adjustments that would further hobble hard hit, departmental operations. Instead, the thrust of the 2011 Program Review is to have each department make honest and discerning assessments of its programs and services as compared to its primary mission (what is does and who it serves). The aim is twofold:

  - The first is to identify programs, services, and/or activities for possible elimination that, although well-intentioned, are of marginal benefit, low performing, or of lesser priority; and

  - The second is to identify cost saving opportunities in primary programs and services through tightening program eligibility, reducing program benefits, and/or cost shifting.

- Difficult and painful decisions must be made for this review, but the alternatives are worse - more vacant positions, more deferred maintenance or payments, etc., for every program and service. Standard "horizontal" budget adjustments such as keeping positions vacant, deferral of payments, deferral of required maintenance, or unspecified lump sum adjustments are not options.

- To provide an impetus to facilitate a rigorous review of departmental programs, planning targets are being established for each department with general funded programs (see Attachment B). The planning targets are high because the intent is to evaluate each of the proposed budget reductions on a statewide basis to yield the $50 million reduction target rather than having each department bear proportional reductions. Except for the University of Hawaii (UH) and Hawaii Health Systems Corporation (HHSC), the planning targets are based on 5% of the department's general fund appropriation for FY 12 after subtracting out estimated 5% salary savings, debt service costs, EUTF costs, ERS pension accumulation costs and FICA costs. Because of their autonomous authority and unique abilities to raise non-general fund sources of revenue, the planning targets for UH and HHSC are being established at $10 million, $15 million and $20 million levels.

- The first step in the program review process is to update appropriation information at the program org code level including amounts authorized, number of permanent and temporary positions and other means of financing, if a program is funded partially by non-general funds. The review is being conducted at the program org code level (which is one level of detail down from the program I.D. level that is reflected in the executive budget) because that is the lowest level of budget detail available on a statewide basis. The updated appropriation information should be recorded on Form PR (Program Review). [NOTE: If a program org code in the department is totally funded by non-general fund sources, then that particular program org code may be omitted from the program review.]

- The next step of the process is to review each of the program org codes using the "Criteria for Review of Programs and Services" (see Attachment C). These criteria are intended to assist departments in assessing whether a particular program, service, or activity is a potential candidate for possible elimination. [NOTE: Programs and/or services that are specifically authorized or referenced in the Hawaii Revised Statutes are still subject to this review.] If a program org code is assessed to fall under one (or more) of the criteria, a "X" should be recorded on Form PR in the applicable column(s) labeled "A" through "N" (corresponding to the criterion) for that particular program org code.

- The third step of the process is to analyze each of the program org codes for cost saving opportunities using the framework contained in "Cost Saving Opportunities Analysis" (see Attachment D). Departments need to identify cost saving opportunities based on their primary missions and functions, and the current fiscal realities. If the cost savings analysis determines that there could be cost saving opportunities, a "X" should be recorded on Form PR in the applicable column(s) labeled "1" through "6" (corresponding to the analysis area) for that particular program org code. [NOTE: If comments are needed for a particular program I.D. org code, a "X" should be recorded in the comments column and the comments recorded on a separate sheet in the file. Create as many comments "sheets" as necessary.]

- The fourth step of the process is to develop specific budget reduction proposals based on the reviews and analysis from the first three steps. Please use Form RD (Reduction Details) and the included instructions to present details of each budget reduction proposal. It is noted that estimated savings for FY 12 could be lower than in FY 13 due to lags in implementing reductions and inherent delays associated with closing down programs. As such, departments may not be able to meet their planning targets in FY 12 but should meet their planning targets in FY 13. The specific budget reduction proposals should then be prioritized according to which reduction should be considered first, second and so on (priority no. 1 should reflect the first reduction to be considered).

- The fifth step of the process is to prepare a departmental summary of the budget reduction proposals. Please use Form RS (Reduction Summary) to present a summary of the department's budget reduction proposals, including a brief impact statement on each budget reduction proposal.

- Departmental program review submittals will then be reviewed by B&F and the Governor's Office, and preliminary budget reduction recommendations will be made for each department. Review meetings will be scheduled between departments and B&F and the Governor's Office to discuss these preliminary recommendations. If necessary, review meetings will be scheduled with departments and the Governor to finalize budget reductions. Upon reaching final decisions on budget reductions, departmental general fund allocations will be adjusted accordingly. It is the Administration's intent to release full year allocations at this point, subject to the caveat that the Council on Revenues does not make significant reductions to its forecast and actual tax collections are in line with the Council's projections.

- The final budget recommendations will be incorporated into the FY 13 Executive Supplemental Budget based on the estimated savings identified by departments. If there are any significant budget issues related to legislative budget adjustments and/or non-funding of Administration requested budget items (especially for FY 13), please use the format in Attachment D to discuss these issues. These significant budget issue discussion papers (one per issue) should be submitted to B&F by Monday, June 27, 2011, to ensure timely resolution before finalization of departmental budget reductions.

- The timetable for the program review is outlined in Attachment E. As can be seen, the program review process is quite involved and will take some time to complete. It is imperative that all parties meet the specified deadlines to ensure that the process can be completed as expediently as possible. Please remember that delays in completing the process will result in delays for all departments in receiving their full-year funding allocations.

- Further technical guidance will be issued by B&F under separate cover with respect to costing assumptions to be used for implementation of program eliminations and conversion of programs to special funds.

2011 PROGRAM REVIEW
CRITERIA FOR REVIEW OF PROGRAMS AND SERVICES

The following criteria are to be used to assist in identifying programs, services, or activities that can be considered for possible elimination:

A. Program is not a required government function.

B. Program is not a New Day Plan priority.

C. Program may be privatized or accomplished by the private sector.

D. Another level of government (federal or county) has primary authority and/or responsibility for the program.

E. Requirements and/or objectives behind original establishment of program have been eliminated or significantly reduced but program and/or service continues.

F. Program serves more as another layer of oversight than direct service delivery or critical service support.

G. Program has limited impact and/or serves a largely advisory function.

H. Program does not have enough resources to carry out services and/or perform activities effectively.

I. Program is not cost effective to carry out.

J. Program serves a limited target group/population.

K. Program serves a target group/population that has other support.

L. Program overlaps or duplicates program and/or service of another department/agency.

M. Program can be carried out more efficiently and/or effectively by another department/agency.

N. Program does not fit/mesh with primary mission of the department/agency.

2011 PROGRAM REVIEW
COST SAVING OPPORTUNITIES ANALYSIS

The following are suggested areas to be analyzed to determine if there are cost saving opportunities that can be made in programs, services, or activities. Departments should be guided by their primary missions and functions, and the current fiscal realities.

1. Further opportunities for tightening program eligibility to reduce costs (such as lowering eligibility levels from 175% of the federal poverty level to 150%, or eliminating optional coverage groups)?

2. Further opportunities for reducing program benefits to reduce costs (such as reducing frequency of services, or eliminating low priority services), or for reducing types, levels, and/or frequency of activities (such as mowing lawns once a week instead of twice)?

3. Further opportunities for cost shifting through:

   a. Establishing co-payments for program to defray expenses or to control service utilization?
   b. Limiting or reducing program's share of general fund support?
   c. Converting program to non-general funds?

4. Further opportunities for amending statutes and/or rules to implement program efficiencies (such as statutes requiring an aide in every school)?

5. Further opportunities for consolidating operations/offices for efficiency and economy (such as consolidating office space to reflect smaller number of authorized positions, or combining branches as a result of reduced staffing and/or program funding)?

6. Further opportunities for reducing low priority/discretionary expenditures?

ATTACHMENT E

2011 PROGRAM REVIEW
SIGNIFICANT BUDGET ISSUE WITH H.B. NO. 200, C.D. 1

Department/Agency:

Affected Program I.D. & Title:

Nature of Problem/Issue:

Impact on Program:

Proposed Corrective Action:

ATTACHMENT F

2011 PROGRAM REVIEW
TIMETABLE AND DEADLINES

Date:	Action Taken:
6/16	FY 12 Budget Execution Policies with 1st Quarter Allocations and program review instructions distributed to departments.
6/16 - 7/07	Departments conduct their program reviews.
By 6/27	Departments (if necessary) submit to B&F significant budget issue discussion papers.
By 7/8	Departments submit to B&F program review worksheet and proposed budget reductions. 50M addressed
7/9 - 7/21	B&F and Governor's Office review departments' program review worksheets and proposed budget reductions.
7/22	Preliminary budget reductions distributed to departments.
7/25 - 7/29	Departments meet with B&F and Governor's Office to discuss preliminary budget reductions.
8/1 - 8/5	Departments meet with Governor, as necessary, to discuss budget reductions.
8/8	Budget reductions and full year allocations are distributed to departments.
8/9	Departments begin implementation of budget reductions, including preparation of necessary Administration Proposals, instituting rule changes, etc.

FORM RD INSTRUCTIONS

Proposed Reduction Priority No. [Please prioritize the proposed reductions according to which reduction should be considered first, second and so on. As such, priority no. 1 should reflect the first reduction to be considered.]

Nature of Proposed Reduction: [Please indicate by placing an "X" in the appropriate blank space whether the proposed reduction is a "Program/service elimination," which is a vertical reduction, or a "Cost savings reduction."]

Program I.D. No./Org Code & Title Affected: [Please fill in the program I.D. number/org code and title that is affected by the proposed reduction.]

Description of Proposed Reduction: [Please describe the program, function or activity to be eliminated or reduced, or the cost savings reductions to be implemented. Identify what is to be reduced/eliminated, personnel/cost savings, and time frame for implementation. Note if savings are one-time.]

Impact of Proposed Reduction: [Please discuss any adverse impacts associated with the proposed reduction and identify, if possible, the specific target population that could be affected.]

Estimated Savings: [Please provide estimated savings by FY and MOF and number of permanent and temporary positions being eliminated by the proposed reduction. It is noted that estimated savings for FY 12 may be lower than in FY 13 due to lags in implementing reductions and inherent delays associated with closing down programs. Please delete or add rows for means of financing, as necessary, to reflect the appropriate means of financing for the proposed reduction.]

Other Departments/Agencies Affected: [Please indicate if the proposed reduction will have a significant impact on other departments/agencies or other levels of government, and identify those departments/agencies specifically. Note if the program/service/activity must be continued by another agency, such as federal or county government.]

Legislation/Rule Change/Federal Approval Required to Implement: [Please identify any related actions required to implement the proposed reduction such as statutory amendments or authorizations, administrative rule changes, federal approval, etc.]

Other Comments: [Use this area as may be necessary to discuss other aspects of the proposed reduction not covered in the topics above. If relevant to a better understanding of the impact of the proposed reduction, information as to when and how the program was established, target group description and number, activities, etc., can be included here.]