

Capitol Connection

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The budget process is a complex one and in this issue of *Capitol Connection*, we present a general overview of how State funds are appropriated.

The House Print Shop has copies of **HB1800 HD1** and the Senate Print Shop has copies of **HB1800 SD1**. Both versions of the budget bill along with the **Budget Worksheets** can be found online at the **Hawaii State Legislature website** (www.capitol.hawaii.gov).

The Governor's Executive Budget and Variance Reports are usually available for viewing at the **Legislative Reference Bureau Library**.

Sincerely,

David Ige

David Y. Ige
State Senator
17th District

Basics of the Budget

The Legislature, which creates Hawaii's laws, is also responsible for appropriating money for various programs and services that benefit Hawaii's citizens.

In odd-numbered years, the Governor and the Legislature formulate the General Appropriations Budget for the fiscal biennium. In even-numbered years, they formulate what is called a Supplemental Budget, which amends, deletes, or adds items from the previous year.



The budget process begins with the constitutionally mandated **Council on Revenues** (www.state.hi.us/tax/cor.html), which is responsible for preparing revenue estimates of the state government. The law requires that the Governor when preparing the budget, and the Legislature when appropriating funds, must consider the estimates by the Council on Revenues.

The Governor formulates Administration budget policies and guidelines and solicits input from his departments, which is analyzed by the **Department of Budget and Finance** (<http://www.state.hi.us/budget/>). Budget and Finance is responsible for administering the State budget, preparing the Governor's budget for submission to the Legislature, and supervising the implementation of fiscal policies established by the Governor or mandated by the Legislature.

The Governor then makes the final decision on departmental budget recommendations. After that, the Governor submits the Executive Budget to the Legislature no later than 30 days before it convenes. The Executive Budget includes budgets for the current fiscal biennium and the next fiscal biennium along with a projection for the following four years.

The Senate Ways and Means (WAM) and the House Finance (FIN) committees hold informational briefings on the budget. These briefings usually take place in late December and early January and give department administrators the opportunity to provide testimony regarding their budget requests.

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Last session, the Legislature increased appropriations for the Department of Education by \$185.9 million for fiscal year 2001-2002 and \$235.3 million for fiscal year 2002-2003, for a total budget of \$3 billion for the biennium.

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House Finance introduces the bill as the General Appropriation Bill in odd-numbered years or as the Supplemental Appropriations Bill in even-numbered years.

Senate and House subject matter committees then hold briefings on budget programs under their jurisdiction and make recommendations to their respective WAM and FIN chairs.

House Finance holds hearings on the budget bill, which must pass Third Reading and cross over to the Senate. Senate Ways and Means then holds hearings on the budget bill, which must also pass Third Reading. Towards the end of the legislative session, House Finance and Senate Ways and Means negotiate their differences during conference committee meetings to produce a final draft of the budget.

The final draft needs to be passed by both chambers before the Legislature adjourns. The Governor has 45 days from adjournment of the Legislature to veto specific line items or provisos in the budget bill. This year's Legislature is scheduled to adjourn Thursday, May 2nd.

\$\$\$ Budget Terms \$\$\$

Budget - A plan for expending funds by program for a given fiscal year or biennium and the means of financing the expenditures.

Capital Improvement Project (CIP) - Major capital expenditures for land acquisition, equipment, plans, design, and construction and the method of financing them.

Operating Budget - A budget, which applies to all expenditures other than capital expenditures for general governmental expenses.

Appropriation Bill - A proposed piece of legislation authorizing an appropriation.

General Appropriation Bill - An appropriation bill covering all estimated expenses of the executive branch of state government for a fiscal biennium; initially introduced at the request of the Governor.

Supplemental Appropriation Bill - An appropriation bill authorizing appropriations supplementing the general appropriation act of the previous session.

General Fund - The largest fund in which public revenues are kept and the primary account in which most state tax revenues are deposited.

Special Fund - Accounts established by law to earmark specific revenues for specific program expenditures and are intended to be self-supporting through the imposition of taxes, fees, or charges.

Revolving Fund - Accounts established with seed money from the general fund and are intended to be self-sustaining with money revolving in and out of the account. Money is expended for goods or services, which is paid for by users, and those receipts go back to replenish the fund.

Bond - A certificate of indebtedness issued by the government in return for money it has borrowed; a promise to pay a specified sum of money at a fixed time in the future and carrying interest at a fixed rate.

General Obligation Bonds - Bonds for whose payment the full faith and credit of the issuing government are pledged.

Revenue Bonds - A bond which is to be paid off by revenues produced from the facility it finances, such as user fees for a parking garage or room fees for a student dormitory.

Proviso - A provision in the budget bill directing an executive agency how to expend an appropriation.

Budget Factoids

- By law, the budget must balance revenues and expenditures.
- The top three sources of State revenue are general excise tax, state income tax, and federal funds.
- Virtually all taxes go into the General Fund, which is the major source for the State Operating Budget.
- The State also borrows money by selling general obligation (GO) bonds and revenue bonds.
- Historically, the top three departments that receive the most money are EDN (Education), HMS (Human Services), and BUF (Budget and Finance).

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