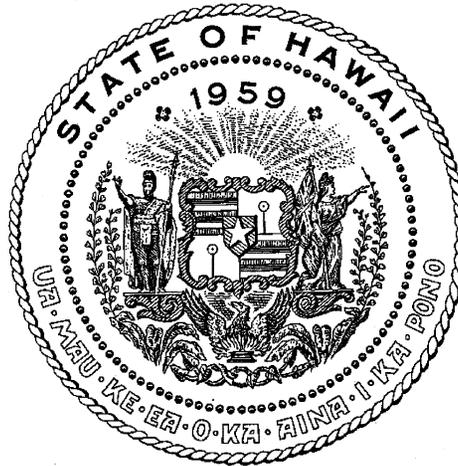


# STATE OF HAWAII



## **EXECUTIVE SUPPLEMENTAL BUDGET (Budget Period 2015-2017)**

Submitted to the Twenty-Eighth State Legislature  
December 21, 2015

EXECUTIVE CHAMBERS  
State Capitol  
Honolulu, Hawaii 96813

**GOVERNOR'S MESSAGE TO THE 28<sup>TH</sup> STATE  
LEGISLATURE OF HAWAII MEETING IN THE REGULAR  
SESSION OF 2016**

In compliance with Article VII, Section 9, of the Hawaii Constitution, I hereby submit to the State Legislature the Executive Supplemental Budget for Fiscal Biennium (FB) 2015-17 and the updated Program and Financial Plan for the period 2015-21.

**OVERVIEW**

The Administration is focused on ensuring the State's fiscal stability now and in the future. Although the State's current economic conditions are favorable – the lowest unemployment rate since February 2008 with the visitor and construction industries leading the way – they cannot be taken for granted.

There are significant and pressing demands on State resources. Our public schools need additional funding at the school level, where it can make the most impact. We must support the development of housing which is affordable by leveraging resources and facilitating the development of low-income rental units.

We must rebuild programs that were severely curtailed during the Great Recession. There are important, though sometimes unpopular, programs that have been passed over for years and should no longer be pushed down the road. Other new and compelling needs must also compete for their share of State funds.

Thus, we must manage the State's resources to provide for the State's priorities and near- and long-term financial

commitments, while building the State's budget reserves and broadening our economic base. The Administration's policies that strengthen the State's financial foundation will help to ensure that the State is able to support program needs and weather future economic downturns.

While we are committed to being fiscally responsible, we must also be responsive to the needs of our residents and our programs. As such, the Executive Supplemental Budget is aligned with the Administration's strategic priorities to provide the most significant impact to Hawaii's residents and State programs.

***Our Mission***

The Administration aims to change the trajectory of Hawaii by restoring faith in government and establishing the Hawaiian Islands as a place future generations choose to call home.

- **Education:** Empower our public schools and university, focus on 21st century skills and learning, and ensure that schools provide a healthy and safe learning environment.
- **Effective, Efficient, and Open Government:** Restore the public's trust in government by committing to reforms that increase efficiency, reduce waste, and improve transparency and accountability.
- **Housing:** Build homes that people can afford, including rentals, to address the needs of those entering the work force and improve the State's public housing facilities. On Oahu, identify State lands near transit stations for the development of housing, employment centers, daycare, senior centers, and community facilities.

- **Health:** Create a 21st century health system that improves access, treatment, and affordability for all Hawaii residents, beginning with our children and our elders, and including rural communities on all islands.
- **Economy:** Promote economic diversification and policies that support growth and attract more air carriers to Hawaii, expand the U.S. Customs Pre-clearance Program, and upgrade and expand broadband infrastructure. Recognize and support renewable energy initiatives and the military as crucial pillars of Hawaii's economy.
- **Energy:** Ensure a 100% renewable energy future in which we work together as a State, focusing on making solar and other technologies available for all.
- **Agriculture:** Double local food production by 2020; develop water and energy resources to support this effort. Provide loans for farmers and more land for agriculture.
- **Environment:** Foster environmental stewardship from mountain to sea. Protect and more efficiently use our fresh water supply. Provide State lands for public use and enjoyment.
- **Native Hawaiians:** Honor, respect, and promote Native Hawaiian culture and sustainability. Support the Native Hawaiian community's ongoing efforts for a Hawaiian-based governance structure.
- **Traffic:** Support the development and completion of public transit systems, including bus and rail. Deploy traffic mitigation initiatives to reduce congestion on our roadways.
- **Taxes:** Modernize our tax system, increase efficiency for taxpayers and hold accountable those who do not pay their taxes.

### ***Budget Considerations***

In the development of the Executive Supplemental Budget, the Administration took a hard look at the State's recent and potential upcoming fiscal challenges to ensure that the State's fiscal health is maintained through FB 2015-17 and beyond.

Hawaii's economy suffered greatly due to the Great Recession, which distressed economies around the globe. To get through the recessionary and recovery periods, the State implemented drastic measures, including reductions in force, furloughs, hiring freezes, temporary tax increases and deep program cuts, while depleting reserves, delaying income tax refunds, and delaying vendor payments to stay afloat. The Great Recession also adversely affected the investments of the Employees' Retirement System (ERS).

In recent years, the State's fiscal situation has fluctuated significantly and general fund revenue growth trends have often not been clearly reflective of economic activity. Although the Great Recession officially ended in 2009, the State is just beginning to experience the positive effects of economic recovery.

Of note, the State's general fund balance as of June 30, 2015 was \$828.1 million. While this is a reasonable general fund balance, due in part to the Administration's cautious approach to spending, fiscal year end balances are expected to decrease through FY 18 due to annual spending in excess of annual revenues. Additionally, the FY 16 and FY 17 Executive expenditure ceilings have already been exceeded.

For many years, the general fund financial plan has reflected repayments of 1) a general fund cash advance to the general obligation (G.O.) bond fund for the purchase of the Kapalama Military Reservation (\$89.9 million) and 2) a general fund cash advance to the Hawaii Health Systems Corporation (HHSC) (\$13.3 million) which will likely not be realized. As such, to more accurately reflect estimated general fund balances in the

future, the Administration will propose a measure to formally recognize that these amounts will not be repaid to the general fund.

The State is also facing a significant ramp up in funding pension and other post-employment benefits (OPEB) liabilities and negotiations for collective bargaining contracts for upcoming FY 2017-19. Moreover, there are national and global events with potential adverse economic impact and the inevitable trough of every economic cycle that must be taken into consideration.

The actions taken to balance the budget in the past continue to have an impact on our programs and services today and we cannot afford to repeat them. The State must be proactive and transparent in its efforts to maintain a solid fiscal base.

### ***Strengthening Our Foundation***

As the Administration strives to make the most efficient use of our resources and ensure that public funds are prudently spent, we recognize that many State programs were significantly constrained by the reductions imposed due to the Great Recession and have not had the opportunity to rebuild. These programs have been unable to fulfill the full scope of their responsibilities and there is a need to provide additional support.

Other important program needs should be addressed after years of being passed over. For example, rebuilding the Oahu Community Correctional Center (OCCC) has long been discussed but no funds have been appropriated. We will introduce legislation to move this project forward in the upcoming legislative session.

We realize that there are also many other compelling needs. The basic needs of our residents for good schools, housing, and health and social services will always be at the forefront.

Ultimately, the Administration is committed to improving the State's delivery of vital public services by increasing efficiency, transparency, and preparedness. Concomitantly, the Administration recognizes that strengthening the State's fiscal position must be done now, while resources are available.

All of these efforts must be sustainable. Thus, the Administration's budget approach, which is focused on ensuring the State's fiscal stability now and in the future, includes:

- Developing a formal budget reserve policy.
- Developing a formal debt policy.
- Strategically planning expenditures and limiting expansion of annual recurrent spending.
- Aggressively addressing pension and OPEB unfunded liabilities to reduce amounts required in the future.
- Strengthening budget reserves by depositing additional funds into the Emergency and Budget Reserve Fund (EBRF).

While resources are available, the Administration proposes to pay the OPEB annual required contribution (ARC) at the 100% level beginning in FY 17, instead of FY 19. The ARC amortizes the OPEB \$8.52 billion unfunded liability over a 30-year period but, like a mortgage, paying more now will result in significant savings in the future. We also propose to provide funding in FY 17 for the EBRF, which will help to ensure the State's fiscal stability in future economic downturns.

### ***Budget Transparency***

To increase budget transparency, departments were instructed to review their FB 2015-17 operating budget details for items which did not align with anticipated expenditures and could be addressed immediately. Requests include those to correct the following:

- Negative adjustments.
- Underfunded, unfunded, or unbudgeted positions.
- Specific budget line items which do not align with anticipated expenditures.

Additionally, Act 160, SLH 2015, which becomes effective July 1, 2017, provides that no funds shall be expended to fill a permanent or temporary position if the filling of that position causes the position ceiling to be exceeded, with specified exceptions. Act 160 defines “position ceiling” as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program.

In anticipation of these requirements, all departments were instructed to specifically review their unbudgeted positions to determine which were critical and should continue as budgeted positions. Because the unbudgeted positions are currently funded, only cost neutral requests (i.e., tradeoff/transfer requests with related increases in permanent or temporary position counts) were allowed.

Hence, the Executive Supplemental Budget includes requests to convert such unbudgeted positions to budgeted positions. Many other unbudgeted positions are still under review by their respective departments and may take longer to convert depending upon the types of positions.

Act 160 also requires that permanent and temporary position ceilings for each program be provided in the budget documents after July 1, 2017. In advance of this deadline, the Executive Supplemental Budget provides permanent and temporary position ceilings by program ID and department in interim report formats.

The Administration will also submit a measure to initially authorize permanent civil service positions and funds for services currently performed under contracts with various State agencies, pursuant to an agreement between the United Public Workers and the State of Hawaii.

### **THE ECONOMY**

Hawaii’s economy continues to show positive growth, which is expected to continue into 2016 and beyond. The visitor industry is still a solid performer, with 2015 year-to-date increases of 4.2% in visitor arrivals and 2.2% in visitor spending compared to 2014.

Monthly total visitor counts have consistently reached record levels since March 2015. The month of October 2015 was no exception, with preliminary total visitor arrivals to the Hawaiian Islands reaching a new record of 692,930 visitors, an increase of 4.8% compared to October 2014.

However, monthly visitor spending per person per day has lagged, resulting in a 2.2% decrease in total visitor expenditures for October 2015. Softening conditions in global markets may pose further challenges to industry growth as visitors stay for shorter periods and spend less.

The construction industry has seen marked improvement. There are construction projects in many of our neighborhoods, such as new housing developments, commercial improvements, roadwork, and Honolulu’s rail project. Current and planned projects will contribute to an expansion of the construction industry that is projected to last several years.

The construction industry, a major driver of Hawaii's economy, has been a significant contributor to the State's job growth. In the third quarter of 2015, 1,700 jobs were added in the construction sector, which is an increase of 5.2% compared to the third quarter of 2014.

Hawaii's seasonally adjusted unemployment rate of 3.3% for October reflects the lowest rate since February 2008 and the fourth lowest rate in the nation. The State's unemployment rate has consistently declined since July 2015, due in large part to the growth of the visitor and construction industries, and is an indicator of the health of Hawaii's economy.

On the national level, there are again concerns about potential economic and fiscal impacts due to the absence of a federal budget for the current federal fiscal year. The U.S. and the State's economic health also remain vulnerable to the potential impact of the unrest in the Middle East and economic volatility in China and Europe.

### **REVENUE PROJECTIONS**

In its September 10, 2015 report to the Governor, the Council on Revenues (COR) revised its May 2015 general fund revenue forecast significantly. The FY 16 projection was increased from 2.7% to 6.0%, the FY 17 projection was decreased from 6.4% to 5.5%, the projections of 5.5% for FY 18 and 5.0% for FY 19 were left unchanged, the projections for FY 20 and FY 21 were lowered from 5.0% to 4.5% and 4.5% growth was forecast for FY 22. The estimated impact of the COR's revisions to general fund tax revenues for the current and two upcoming biennium total \$255.6 million for FB 2015-17, \$227.6 million for FB 2017-19, and \$141.0 million for FB 2019-21.

The adjustments made by the COR for FY 16 were due to the strength of labor, tourism and construction indicators and the less than anticipated impact of slower processing of tax refunds in FY 15, which had been expected to result in more

tax refunds paid out in FY 16. Thus far, preliminary general fund tax collections for FY 16 are exceeding the COR's projection, coming in at 9.3% for the first five months of FY 16 (as of November 2015) compared to the same period in FY 15.

### **THE FY 17 EXECUTIVE SUPPLEMENTAL BUDGET**

	<u>FY 16</u> <u>Appropriations</u> (\$million)	<u>FY 16</u> <u>Adjustments</u> (\$million)	<u>FY 16</u> <u>Requests</u> (\$million)
<b>Operating Budget</b>			
All Means of Financing (MOF)	12,874.4	0.0	12,874.4
General Funds	6,584.7	0.0	6,584.7
<b>Capital Improvements</b>			
All MOF	1,628.4	-20.9	1,607.5
G.O. Bond Funds	640.6	0.0	640.6
	<u>FY 17</u> <u>Appropriations</u> (\$million)	<u>FY 17</u> <u>Adjustments</u> (\$million)	<u>FY 17</u> <u>Requests</u> (\$million)
<b>Operating Budget</b>			
All MOF	13,296.5	433.1	13,729.6
General Funds	6,834.3	297.6	7,131.8*
<b>Capital Improvements</b>			
All MOF	767.0	1,767.8	2,534.8
General Funds	0.0	14.3	14.3
G.O. Bond Funds	188.5	891.8	1,080.3

\* / Total differs due to rounding.

## The Operating Budget

The Executive Supplemental Budget includes requests for FY 17 that propose a number of changes and adjustments to Act 119, SLH 2015, the General Appropriations Act of 2015, which authorized funding for the two-year fiscal period that began on July 1, 2015 and ends on June 30, 2017.

The Executive Supplemental Budget includes amendments for FY 17 that total \$433.1 million from all MOF for operating costs. This represents an increase of 3.3% over FY 17 appropriations in the FB 2015-17 Executive Budget.

Additional information on funding distribution by MOF and department may be found in the sections that follow.

The net request for general funds totals \$297.6 million in FY 17, resulting in an increase of 4.4% in FY 17. Of the requested general funds in FY 17, \$20.3 million is for non-recurring costs (e.g., one-time cash infusions to special funds, relocation costs, equipment, motor vehicles).

Additionally, a significant portion of general funds - \$163.9 million of the \$297.6 million requested - is to increase the funding level for OPEB to 100% of the ARC in FY 17. The State has an obligation to pay these already earned benefits and it is fiscally responsible to increase the OPEB funding now, while the funds are available, to significantly lessen the amounts that the State will be required to pay in the future.

The OPEB request, along with other fixed cost requests for \$8.4 million for health premium payments and \$23.2 million for health care payments (total \$31.6 million - total differs due to rounding) are partially offset by reductions of \$23.2 million for debt service and \$13.7 million for retirement benefits payments (total \$36.9 million).

Significant FY 17 requests for priority areas include (general funds unless otherwise noted; most positions funded for six-months):

### Education

- \$26.5 million for the Department of Education's (DOE) Weighted Student Formula to support the goals and objectives of each school. \$10 million of this amount is specifically for English Language Learners as recommended by the Committee on Weights.
- \$2 million to provide skilled nursing services to eligible students, ages 3-22, at public schools in compliance with federal law.
- \$9 million and \$7 million for DOE's utility and student transportation costs, respectively.
- 8.50 FTE permanent positions and \$0.8 million in general funds and \$0.5 million in special funds for the Hawaii State Public Library System for security services, repair and maintenance (R&M) and new positions at Aiea, Nanakuli, and Naalehu public libraries.
- \$6 million for the Preschool Open Doors program which assists low and moderate income families to send their children to preschool. 1.00 FTE permanent position and \$0.2 million (0.55 permanent position and \$0.2 million in general funds; 0.45 permanent position and \$21,888 in federal funds) also provided for program administration.
- \$4 million for the University of Hawaii's (UH) Cancer Center.
- 12.00 FTE permanent positions and \$0.7 million to support growth at UH West Oahu.

- \$1.3 million for critical equipment needs for UH Community Colleges.

#### Effective, Efficient, and Open Government

- 8.00 FTE permanent positions and \$0.3 million for the Department of Accounting and General Services (DAGS) to implement and support the State's new accounting systems.
- 25.00 FTE permanent positions and \$0.8 million for the Office of Enterprise Technology Services (ETS) for web developers, systems engineers, and network technicians to support new enterprise technology initiatives and 6.00 FTE permanent positions and \$0.2 million for technology security positions to staff the State's Security Operations Center.
- \$7 million in other funds for the implementation of critical security features and equipment to protect the ERS' computer system, conversion of employer provided personnel data, internal audit functions to access security threats and upgrade of the ERS pension system.
- \$5.9 million in general funds and \$17.7 million in federal funds for maintenance and operation of the Department of Human Services' (DHS) integrated eligibility enterprise system.

#### Housing

- \$3 million for the DHS' State family and elderly housing facilities to stabilize operations and mitigate rent increases.
- 22.00 FTE permanent positions, 7.00 FTE temporary positions and \$1.1 million to convert the Hawaii Public Housing Authority's (HPHA) administrative positions from federal funds to general funds to allow HPHA to maximize the amount of federal funds used for housing vouchers.

Related reduction to federal funds has also been requested.

- 64.00 FTE permanent positions and \$4.5 million in revolving funds to restore positions which were used for HPHA's multi-skilled worker program.

An Administration measure will also be submitted to eliminate the cap on conveyance tax revenues which go into the Rental Housing Revolving Fund.

#### Homelessness

The Administration also recognizes that as important as it is to provide a variety of housing opportunities, there are many in need of immediate assistance with shelter. Homelessness is far reaching in its impact to all of our communities and we must find near- and long-term solutions.

- \$3 million for DHS' Housing First program which provides housing and supportive services to homeless who may have mental health or addiction issues.
- \$0.4 million for a new Stored Property program.
- \$2 million for Homeless Outreach services.
- \$2 million to establish a new Rapid Re-housing program to move capable families out of shelters.
- \$0.4 million for ongoing R&M of the State's homeless shelters.
- 3.00 FTE temporary positions and \$0.2 million for the Governor's Homelessness special project.
- 12.00 FTE permanent positions and \$0.4 million to provide additional deputy sheriffs at the State Capitol and to assist with homeless enforcement efforts.

- \$0.4 million in highway special funds for assistance from the Department of Public Safety to deal with homeless-related highway safety issues.
- 7.00 FTE permanent positions and \$0.8 million in highway special funds for two Highways Maintenance Units to work with homeless enforcement issues on a daily basis.

### Health

- \$4.9 million in general funds and \$5.7 million in federal funds to provide Autism Spectrum Disorder services for Medicaid children through age 6.
- \$8 million in general funds and \$9.4 million in federal funds to provide Solvaldi treatment for Medicaid patients with chronic Hepatitis C infections.
- \$4.8 million in general funds and \$7.7 million in federal funds to restore adult dental benefits for Medicaid recipients.
- \$4.3 million in general funds and \$3.3 million in federal funds for increase in Medicare Part B premiums.
- \$4.7 million for the Hawaii State Hospital for projected shortfall due to continued high patient census and acuity.
- \$2.8 million for increase in State match for Department of Health's (DOH) intellectual and developmental disabilities home and community based services.
- 2.00 FTE permanent positions and \$8 million for DOH's Aging Disability Resource Center.
- \$4.1 million for the Kupuna Care program.

Additionally, the State is in negotiations to implement Act 103, SLH 2015, and transfer the HHSC, Maui Region's facilities to Kaiser Foundation Hospital. Once the Transfer Agreement is finalized, the Administration will make an appropriate request for funding via Governor's message to the 2016 Legislature, if necessary.

### Economy

- \$5 million for Hawaii Strategic Development Corporation Revolving Fund infusion for the HI Growth Initiative. \$5 million revolving fund ceiling also requested for expenditure of the funds.
- 2.00 FTE temporary positions and \$0.3 million for the Office of Military Affairs and Federal Grant Maximization.
- 20.00 FTE permanent positions and \$3.5 million for UH's Hawaii Research and Innovation Initiative to develop an innovation-based entrepreneurial system to create high quality jobs.

### Agriculture

- 4.00 FTE temporary positions and \$0.3 million for UH's Agriculture Extension Service to provide a specialist for each county for livestock, organic agriculture, food production and federal food safety compliance.

### Environment

- \$2 million for the Aloha + Challenge to support the Department of Land and Natural Resources' (DLNR) Wildfire Contingency Fund, Kawainui Restoration Project, Kure Atoll Management, endangered species programs and the Na Ala Hele program to enhance the State's trail and access systems.

- \$4 million in special funds to host the International Union of Conservation of Nature World 2016 Congress.
- \$1.5 million for DLNR to conduct a stream study necessary to establish instream flow standards pursuant to Section 174C-71, HRS.

#### Native Hawaiians

- 2.00 FTE permanent positions and \$0.1 million for the Papahānaumokuākea Marine National Monument as federal funds will no longer be available.
- 6.00 FTE permanent positions and \$0.1 million for the State's Historical Preservation Division.

#### Traffic

- 10.00 FTE and \$0.8 million in special funds for the new Intelligent Transportation Systems Branch to be located at the Joint Traffic Management Center.

#### Taxes

- 14.00 FTE permanent positions and \$0.6 million for new Investigation Branch, which includes new Tax Fraud Section.
- 16.00 FTE permanent positions converted from temporary in the Tax Services and Processing Division to support recruitment and retention.

#### **The Capital Improvements Program Budget**

For the CIP budget, proposed FY 16 amendments total -\$20.9 million and FY 17 amendments total \$1.8 billion from all MOF. This represents a decrease of 1% from FY 16 and an increase of 230% over FY 17 in the FB 2015-17 Executive Budget.

There are no G.O. bond fund requests for FY 16; thus, the net request for G.O. bond funds totals \$891.8 million in FY 17, resulting in an increase of 473%. However, \$125.4 million is to reauthorize funding which supports expenditures from prior year encumbered appropriations from the State Educational Facilities Improvement (SEFI) Special Fund.

While the Administration recognizes that the proposed G.O. bond fund issuance is large, there are many factors which support the need for an issuance of this size. The Administration requests funding for critical program needs which have been long passed over. Despite the large issuance, the State will still have significant unmet needs to address in future years.

The DOE was unable to provide air conditioning for our public schools when temperatures reached record highs making students miserable and unable to perform to their potential. We have requested funding for heat mitigation at our public schools. Additionally, the Executive Supplemental Budget includes funds for deferred major R&M and other renovations needed to provide appropriate learning environments for our public school students.

We have also requested funding for improvements to our correctional facilities in the State of Hawaii. Such improvements are necessary to alleviate current overcrowded conditions and could generate program savings.

The State can no longer put off replacing the DOH's Forensics Building at the Hawaii State Hospital to reduce overcrowding and to address the safety concerns of the public and the hospital's staff. As such, \$160.5 million has been requested for a new patient care facility.

We also cannot wait to address the need to provide housing which is affordable for Hawaii's families; thus, over \$100 million has been included in the Executive Supplemental Budget Request to support such efforts.

The proposed FY 17 requests support the following priority areas (G.O. bond funds unless otherwise noted):

### Education

- \$30 million for heat abatement improvements at public schools, statewide.
- \$16.1 million to address enrollment capacity issues at public schools, statewide.
- \$10.1 million for R&M to improve the condition of public schools, statewide.
- \$13.1 million for public school equity projects, including high school science facility upgrades and special education renovations, statewide.
- \$10.6 million for program support at public schools, including libraries, cafeterias, and administration renovations, statewide.
- \$35 million for a new classroom building at Campbell High School, necessary due to high enrollment.
- \$125.4 million reauthorization to support prior year encumbered appropriations from SEFI Special Fund.
- \$1.5 million for health and safety projects at public libraries, statewide.
- \$2.5 million for design of Snyder Hall renovation project at UH Manoa.
- \$10 million for improvements, which may include modernization, to UH Community College campuses, statewide.

- \$60 million for capital renewal and deferred maintenance projects at UH campuses, statewide.

### Effective, Efficient, and Open Government

- \$14.3 million in general funds to convert G.O. bond funded CIP project funded staff cost appropriations for the DAGS; Hawaii Community Development Authority (HCDA); DOE; HPHA and DLNR to a more appropriate means of financing. We note that HCDA has a FY 16 G.O. bond funded staff cost appropriation but does not have one for FY 17; thus, the request is not a conversion of a current G.O. bond fund appropriation. Also, appropriation amounts have been adjusted to delete fringe benefit costs and reflect current salaries, if available.
- \$15 million for the government financial system which would replace FAMIS, Datamart and the Payroll system for statewide use.

### Housing

- \$15 million for construction of mixed-use affordable rental housing, juvenile services and shelter center at 902 Alder Street, Oahu.
- \$25 million for the Dwelling Unit Revolving Fund.
- \$75 million for the Rental Housing Revolving Fund.
- \$31 million for public housing improvements and renovations, including expedited repair of vacant units, statewide.

### Health

- \$6.5 million for Kona Community Hospital for ceiling mitigation and expansion of the wastewater treatment facility.

- \$160.5 million for a patient care facility at the Hawaii State Hospital, Oahu, to replace the Forensics building.
- \$6.8 million for improvements to the Hilo Counseling Center and Keawe Health Center, Hawaii.
- \$6.5 million for improvements to Waimano Ridge buildings and site, Oahu.

### Economy

- \$5.2 million in reimbursable G.O. bond funds for improvements and upgrades to the seawater system at the Natural Energy Lab of Hawaii Authority, Hawaii.
- \$6 million for the completion of the Kalaeloa energy corridor, Oahu.
- \$50 million for a permanent Federal Inspection Station (Customs) at Kona International Airport at Keahole, Hawaii.
- \$350 million in revenue bond funds, \$50 million in other federal funds, and \$2,000 in private funds for improvements at Kapalama Military Reservation, Oahu, as part of the Department of Transportation's Harbors Modernization Program.
- \$62 million in revenue bond funds for Elliott Street support facilities at Honolulu International Airport, Oahu.
- \$47 million in revenue bond funds for new mauka concourse improvements at Honolulu International Airport, Oahu.
- \$20 million in revenue bond funds for ticket lobby improvements at Honolulu International Airport, Oahu.

### Energy

- \$1 million for retro-commissioning at public libraries, statewide.

### Agriculture

- \$8.2 million in G.O. bond funds and \$1 million in federal funds for irrigation system projects, including improvements to Molokai, Waimanalo, and Waimea irrigation systems.
- \$2 million in G.O. bond funds and \$2 million in federal funds for the lower Hamakua Ditch watershed.

### Environment

- \$8 million for dredging of the Ala Wai Canal, Oahu
- \$2 million for the acquisition of 1,735 acres of land for the Hilo Forest Reserve, Hawaii.

### Native Hawaiians

- \$9 million for Papakolea sewer system improvements for the Hawaiian Home Lands on Oahu.
- \$2.5 million for remediation improvements to Hawaiian Home Lands' dams and reservoirs on Kauai.
- \$2 million for mitigation and removal of unexploded ordinances on existing Hawaiian Home Lands lots on the island of Hawaii.

### Traffic

- \$4 million in revenue bond funds and \$16 million in federal funds for airport viaduct improvements for Interstate Route H-1, Oahu.

- \$5.8 million in revenue bond funds and \$23.2 million in federal funds for Hana Highway widening from Kaahumanu Avenue to Haleakala Highway, Maui.

### Public Safety

The Administration finds that there are significant capital improvement needs in the area of public safety, which have long been neglected.

- \$45 million (\$15 million each) to construct housing and associated support spaces at Kauai Community Correctional Center (KCCC), Hawaii Community Correctional Center (HCCC), and Maui Community Correctional Center (MCCC).
- \$39.5 million for maintenance, repairs, and related projects at Waiawa Correctional Facility (\$4.5 million), OCCC (\$6.5 million), Women's Community Correctional Center (\$8.5 million), KCCC (\$7 million), MCCC (\$3.5 million), HCCC (\$9.5 million).

### COLLABORATION AND INTEGRITY

Many years of fiscal uncertainty have depleted essential State programs. These programs are resilient but need our support to rebuild if we are to continue providing vital services for our residents. And we can no longer put off funding important programs that have long been passed over.

The Administration will continue to work to improve government efficiency and transparency. While resources are available, we must take steps to strengthen the State's fiscal foundation by increasing our OPEB payments, increasing our reserves and broadening our economic base.

Our core values – doing the right thing, the right way, for the right reasons – will guide us in these efforts. We will work collaboratively with the community and our employees to find the best solutions. Integrity will be the hallmark of our actions.

Our work must be in the best interest of the public and our government must be worthy of the public's trust. These core values will guide us every day, through all that we do. We look to the future, excited about its potential.

Sincerely,

/s/

DAVID Y. IGE  
Governor of Hawaii

APPENDIX TO THE GOVERNOR'S MESSAGE

**A. THE FY 17 EXECUTIVE SUPPLEMENTAL BUDGET RECOMMENDATIONS**

**THE OPERATING BUDGET**

**General Funds**

For **FY 16**, there are no proposed general fund adjustments to the operating budget. The current general fund appropriation level is \$6.6 billion.

For **FY 17**, total proposed general fund adjustments to the operating budget amount to a net increase of \$297.6 million, or 4.4% more than the current appropriation level of \$6.8 billion.

**All Means of Financing**

For **FY 16**, there are no proposed adjustments to the operating budget. The current appropriation level for all means of financing (MOF) is \$12.9 billion.

For **FY 17**, total proposed adjustments to the operating budget amount to a net increase of \$433.1 million, or 3.3% more than the current appropriation level of \$13.3 billion for all MOF.

Breakdowns by MOF are as follows:

<u>Means of Financing</u>	<u>FY 16 Act 119/2015 Appropriation (\$)</u>	<u>FY 16 Proposed Adjustment (\$)</u>	<u>FY 16 Recommended Appropriation (\$)</u>
General Funds	6,584,744,854	.....	6,584,744,854
Special Funds	3,052,155,064	.....	3,052,155,064
Federal Funds	2,354,297,462	.....	2,354,297,462
Other Federal Funds	191,674,013	.....	191,674,013
Private Contributions	433,067	.....	433,067
County Funds	209,721	.....	209,721
Trust Funds	142,040,426	.....	142,040,426
Interdept. Transfers	87,333,736	.....	87,333,736
Revolving Funds	448,516,011	.....	448,516,011
Other Funds	<u>13,014,314</u>	<u>.....</u>	<u>13,014,314</u>
Total	12,874,418,668	.....	12,874,418,668

<u>Means of Financing</u>	<u>FY 17 Act 119/2015 Appropriation (\$)</u>	<u>FY 17 Proposed Adjustment (\$)</u>	<u>FY 17 Recommended Appropriation (\$)</u>
General Funds	6,834,254,853	297,593,774	7,131,848,627
Special Funds	3,141,781,448	(345,971,976)	2,795,809,472
Federal Funds	2,440,479,609	55,357,238	2,495,836,847
Other Federal Funds	186,001,628	18,321,430	204,323,058
Private Contributions	433,067	.....	433,067
County Funds	209,721	.....	209,721
Trust Funds	145,983,446	386,589,298	532,572,744
Interdept. Transfers	87,320,264	4,256,790	91,577,054
Revolving Funds	446,565,221	10,020,453	456,585,674
Other Funds	<u>13,468,249</u>	<u>6,950,000</u>	<u>20,418,249</u>
Total	13,296,497,506	433,117,007	13,729,614,513

The distribution by department and the significant changes in the Operating Supplemental Budget by department are presented in the sections that follow.

**THE CAPITAL IMPROVEMENT (CIP) BUDGET**

**General Funds**

For **FY 16**, there are no proposed CIP adjustments for general funds and no current general fund appropriation level.

For **FY 17**, total proposed CIP adjustments amount to a net increase of \$14.3 million in general funds, increasing the current general fund appropriation level from \$0 to \$14.3 million.

**General Obligation Bond Funds**

For **FY 16**, there are no proposed CIP adjustments for general obligation (G.O.) bond funds. The current G.O. bond appropriation level is \$640.6 million.

For **FY 17**, total proposed CIP adjustments amount to a net increase of \$891.8 million in G.O. bond funds (includes \$6.2 million in G.O. reimbursable bond funds), increasing the current G.O. bond appropriation level from \$188.5 million to \$1.1 billion.

**All Means of Financing**

For **FY 16**, total proposed CIP adjustments amount to a net decrease of \$20.9 million, or 1%, decreasing the current appropriation level to \$1.6 billion.

For **FY 17**, total proposed CIP adjustments amount to a net increase of \$1.8 billion, or 230%, increasing the current appropriation level to \$2.5 billion.

Breakdowns by MOF are as follows:

Means of Financing	FY 16 Act 119/2015 Appropriation (\$)	FY 16 Proposed Adjustment (\$)	FY 16 Recommended Appropriation (\$)
General Funds	.....	.....	.....
Special Funds	123,686,000	(925,000)	122,761,000
G.O. Bonds	640,617,000	.....	640,617,000
G.O. Reimbursable	.....	.....	.....
Revenue Bonds	668,016,000	(20,000,000)	648,016,000
Federal Funds	193,937,000	.....	193,937,000
Other Federal Funds	.....	.....	.....
Private Contributions	.....	.....	.....
County Funds	2,000,000	.....	2,000,000
Trust Funds	.....	.....	.....
Interdept. Transfers	.....	.....	.....
Federal Stimulus Funds	.....	.....	.....
Revolving Funds	.....	.....	.....
Other Funds	125,000	.....	125,000
<b>Total</b>	<b>1,628,381,000</b>	<b>(20,925,000)</b>	<b>1,607,456,000</b>
Means of Financing	FY 17 Act 119/2015 Appropriation (\$)	FY 17 Proposed Adjustment (\$)	FY 17 Recommended Appropriation (\$)
General Funds	.....	14,336,000	14,336,000
Special Funds	35,200,000	68,250,000	103,450,000
G.O. Bonds	188,504,000	885,645,000	1,074,149,000
G.O. Reimbursable	.....	6,200,000	6,200,000
Revenue Bonds	273,074,000	673,360,000	946,434,000
Federal Funds	265,321,000	58,329,000	323,650,000
Other Federal Funds	.....	51,910,000	51,910,000
Private Contributions	1,750,000	4,759,000	6,509,000
County Funds	.....	5,000,000	5,000,000
Trust Funds	3,000,000	.....	3,000,000
Interdept. Transfers	.....	.....	.....
Federal Stimulus Funds	.....	.....	.....
Revolving Funds	.....	.....	.....
Other Funds	125,000	.....	125,000
<b>Total</b>	<b>766,974,000</b>	<b>1,767,789,000</b>	<b>2,534,763,000</b>

The distribution by department and the highlights of the CIP program by department are presented in the sections that follow.

## **B. THE GENERAL FUND EXPENDITURE CEILING**

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Section 9 of Article VII of the State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level that includes all branches of government, the total proposed appropriations from the general fund are within the expenditure ceilings for both FY 16 and FY 17.

For the Executive Branch, including appropriations made up to and including the regular session of 2015, the Executive Branch appropriation ceiling has already been exceeded for FY 16 by \$57,056,901 or 0.9%, and for FY 17 by \$14,892,787 or 0.2%. Total proposed appropriation measures from the general fund to be submitted to the Legislature during the regular session of 2016 will result in the appropriation ceiling for the Executive Branch to be exceeded in FY 16 by an additional \$21,289,815 or 0.3% and in FY 17 by an additional \$536,076,489 or 7.7%. The reasons for this excess are the substantial costs of social assistance entitlements, support for public education, fringe benefits and other critical requirements.

## **C. TAX REFUND OR CREDIT AND DEPOSIT TO THE EMERGENCY AND BUDGET RESERVE FUND**

Article VII, Section 6 of the Hawaii State Constitution, requires that whenever the State general fund balance at the close of each of two successive fiscal years exceeds 5% of general fund revenues for each of the two fiscal years, the Legislature must provide for a tax refund or tax

credit to the taxpayers of the State or make a deposit into one or more emergency funds, as provided by law. Section 328L-3, HRS, provides that whenever general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%, 5% of the general fund balance shall be deposited into the Emergency and Budget Reserve Fund (EBRF).

For FYs 14 and 15, general fund balances were greater than 5% of general fund revenues. FY 14 general fund revenues were less than 5% of the previous year's revenues and FY 15 general fund revenues were greater than 5% of the previous year's revenues. Accordingly, the 2016 Legislature must provide for a tax refund or tax credit but need not make a deposit into the EBRF.

## **D. THE DEBT LIMIT**

Section 13 of Article VII of the State Constitution places a debt limit on G.O. bonds that may be issued by the State. It has been determined that the total amount of principal and interest calculated on: a) all bonds issued and outstanding; b) all bonds authorized and unissued; and c) all bonds proposed in the Executive Supplemental Budget (including State guaranties) will not cause the debt limit to be exceeded at the time of each bond issuance.