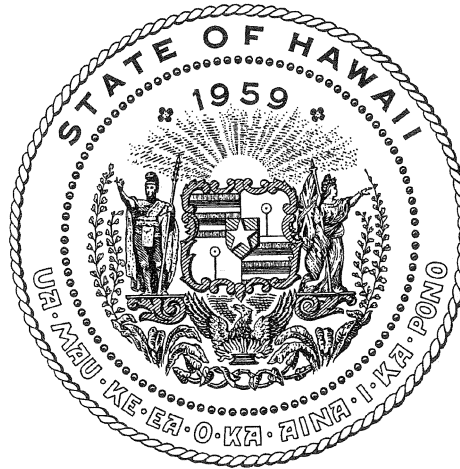


STATE OF HAWAII



THE MULTI-YEAR PROGRAM and FINANCIAL PLAN and EXECUTIVE BUDGET For the Period 2017-2023 (Budget Period 2017-2019)

Submitted to the Twenty-Ninth State Legislature
December 19, 2016

EXECUTIVE CHAMBERS
State Capitol
Honolulu, Hawai'i 96813

**GOVERNOR'S MESSAGE TO THE
29TH STATE LEGISLATURE OF HAWAII
MEETING IN THE REGULAR SESSION OF 2017**

In compliance with Article VII, Section 8, of the Hawai'i Constitution, I hereby submit to the State Legislature the Executive Budget for Fiscal Biennium (FB) 2017-19 and the Program and Financial Plan for the period 2017-23.

OVERVIEW

Since taking office two years ago, our Administration has been working to align the State's resources to solve our most critical problems and better serve the people of Hawai'i. We are committed to being fiscally responsible and to providing a government that is honest, transparent and responsive to its citizens.

Investing in a quality education system will always be one of our highest priorities and a good investment. Our public schools need more resources at the school level, where they will have the most impact. We need to implement the Blueprint for Public Education – a renewed opportunity to build the best school system in the nation. While public school heat abatement efforts, including classroom air conditioning, are underway, we need increased funds for more energy conservation and heat mitigation projects statewide.

While we have made great strides in addressing homelessness, we must continue to invest in programs and services that get people off the streets and into permanent supportive housing. We need to develop additional affordable housing by leveraging State funds with private funds, and we

will continue to support infrastructure development while being mindful of our limited resources.

The closing of the last sugar plantation on Maui marked the end of an era, but we must take this opportunity to advance our path towards food security through doubling local food production by 2020. Additionally, we must diversify and broaden our economic base by nurturing innovators and entrepreneurs.

Hawai'i's natural resources play a critical role in our culture, way of life and economy. Our Sustainable Hawai'i Initiative was introduced at the recent International Union for the Conservation of Nature World Conservation Congress (IUCN Congress) and we are committed to these efforts, which include protecting our watersheds, doubling our food production and reaching 100 percent clean energy use.

Our departments have taken a hard look at their programs to identify changes that could be made to improve the efficiency and transparency of their operations. Last year, we implemented an electronic signature (E-sign) program that helped to eliminate thousands of paper copies and shorten approval processes. We are making a continuous effort to find solutions and provide the tools that are needed to make government more efficient and effective.

We are mindful that the public's trust demands that we use our resources wisely and are committed to addressing the needs of our communities in a sustainable and responsible manner. Our budget approach and the Executive Biennium Budget, which is aligned with our Administration's strategic priorities, reflect that commitment.

Budget Approach

The State's fiscal stability is critical to ensure the continuation of essential State services. We have made significant progress in strengthening our reserves and addressing our unfunded liabilities through our budget approach that includes:

- Adoption of a formal budget reserve policy
- Adoption of a formal debt management policy
- Strategically targeting annual recurring expenditures
- Aggressively addressing pension and Other Post-Employment Benefits (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)

In August 2016, we issued Administrative Directive (AD) No. 16-03, the State Reserve Policy. AD No. 16-03 provides that the State should maintain an amount equal to at least 10 percent of general fund revenue in the EBRF and an amount equal to at least 5 percent of general fund revenue as the general fund balance.

With the Legislature's support, we deposited \$150 million into the EBRF in preparation for future economic downturns. We will also propose to provide additional funding in FY 18 for the EBRF, while resources are available, as we work towards the 10 percent guideline. The proposed Executive Biennium Budget for FY 2017-19 will maintain at least 5 percent of general fund revenue as the general fund balance.

We have also finalized the State's debt management policy, pursuant to Act 149, SLH 2015, and the State's debt affordability study, both of which will be submitted to the 2017 Legislature for your consideration.

Our Administration will again propose to pay the OPEB annual required contribution (ARC) at the 100 percent level in FY 18, ahead of FY 19, as originally scheduled. The ARC amortizes the OPEB \$9.06 billion unfunded liability over a 30-year period so restructuring payments to pay this down more quickly than required by statute should result in significant future savings to the State.

We have worked diligently over the past two years to improve our credit ratings for general obligation (G.O.) bonds. As a result of our Administration's strong budget and financial policies and the actions taken by the Legislature, Hawai'i became the only state to receive multiple rating upgrades in 2016 when both Moody's Investors Service and Standard and Poors upgraded the State's bond ratings from Aa2 to Aa1 and from AA to AA+, respectively, this past September.

Both rating agencies noted the State's strong revenue and financial performance, proactive measures to reduce unfunded liabilities and budgetary control as factors for the upgrades. Consequently, the State was able to issue G.O. bonds at a historically low interest rate after the rating upgrades.

Proceeds from the bond sale will be used to fund improvements to the State's infrastructure and other capital improvement program (CIP) projects that will contribute to the State's economy. The sale also refinanced bonds previously issued at higher interest rates. Because of these efforts, the State will realize lower debt service payments which will allow additional resources to be put toward other State priorities.

Budget Considerations

With the expansion of the visitor and construction industries, both fundamental contributors to Hawai'i's economy, the State's economic outlook has been positive. In recent years, however, general fund tax revenue collections have not been clearly reflective of economic activity, especially when measured against prior year fluctuations in collections.

Further, the State is facing significant increases in funding pension and OPEB liabilities. As we consider the needs of our citizens against this financial backdrop, we must determine what is reasonable and sustainable in the future.

The basic needs of our residents for quality public schools, affordable housing, primary health care and essential social services will always be at the forefront. Our Administration highlights the following:

- The U.S. Congress passed the Every Student Succeeds Act (ESSA) in late 2015. In response, we have formed the Governor's ESSA Team to assist in the implementation of the federal law in our schools, and we have requested funding to support the implementation.

We are committed to supporting ESSA through our Hawai'i Blueprint for Public Education, which will provide us with a renewed opportunity to build the best school system in the nation. To make this possible, we are targeting additional support through the Weighted Student Formula and School Innovation Grants, both of which will most directly support the classroom and improve the learning environments for our students.

- We have been working hard – and working together – to address homelessness, which has affected many communities across the State. It is not only about providing shelters; we must also provide ready access to support services and assistance to transition more individuals and families to permanent housing.

The tight housing market, where it is difficult to find a home to rent or purchase at a reasonable price, exacerbates the situation. Therefore, we must leverage our limited resources to support the development of low-income rental units and housing infrastructure by private developers.

- Due to a delay in the execution of the transfer agreement for the Maui Region health care facilities of the Hawaii Health Systems Corporation (HHSC), additional funding is being requested for HHSC to complete the transfer of the operations of the Maui Region facilities to Kaiser Foundation Hospitals.
- The Aloha+ Challenge established measureable sustainability targets for both the public and private sectors relating to clean energy, local food production, natural resource management, waste reduction, smart sustainable communities and green workforce. As part this effort, our Sustainable Hawai'i Initiative was introduced at the recent IUCN Congress and we are committed to reaching our goals to protect our watersheds and double food production.
- The sugar industry was part of Hawai'i's history for over 180 years. The closing of the last sugar plantation on Maui was significant. Our farmers and our agricultural industry need our support during this transition to more diversified agriculture.

As significant as sugar was to Hawai'i's economy, however, our visitor industry has long been the strongest player. While it has taken 50 years for the maturation of our key industry, we must broaden our economic base by nurturing our innovators and entrepreneurs.

- Although it has been a few years since the Great Recession, we are still in the process of rebuilding many State programs that endured extensive reductions. Many of these programs provide essential services and have been unable to fulfill the full scope of their statutory responsibilities.

Budget Transparency

To increase budget transparency, departments were instructed to review their FY 17 operating budget details for items which did not align with anticipated expenditures. Requests are included to correct the following:

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

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.

As such, the Executive Biennium 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. As such, the Executive Biennium Budget provides permanent and temporary position ceilings by program ID, department and program structure.

THE ECONOMY

The State's economic expansion continued into 2016. Hawai'i's economy continues to show positive growth which is expected to continue into 2017 and 2018.

Hawai'i is consistently a top visitor destination and is still thriving. Based on preliminary data for October 2016, visitor spending increased by 6.8 percent compared to last year for the fifth straight month of year-over-year growth. Visitor arrivals also increased by 4.3 percent, which set a new record of 717,486 visitors for the month of October. The resumption of international flights into Kona International Airport will have a wide-ranging and positive impact on Hawai'i island and the State as a whole.

Since the third quarter of 2009, our visitor industry has only experienced one quarter negative growth (in the fourth quarter of 2014). Year-to-date through October 2016, total visitor spending increased by 4 percent and total visitor arrivals grew by 2.8 percent, on track for another record year.

During the first three quarters of 2016, construction jobs increased by 16.5 percent compared to the same period of 2015, due to the many large developments which began. Major indicators of construction activity for the first two or three quarters of 2016 were mixed and growth projections for construction are expected to flatten through 2017.

Since December 2014, Hawai'i's seasonally adjusted unemployment rate has dropped from 4.1 percent to 3.2 percent in October 2016. While the current rate is slightly higher than the lower rate of 3.1 percent in February and March of this year, it is significant to note that the size of the labor force (692,792) and number of people employed (670,955) are both at record high levels. There are more residents employed than ever before.

Compared to the rest of the nation, only four other states have unemployment rates as low as or lower than 3.2 percent. Hawai'i is faring better than much of the nation, in large part due to the gains made by our visitor and construction industries. As the health of the U.S. economy significantly impacts Hawai'i, it is encouraging that the seasonally adjusted national unemployment rate of 4.6 percent for November 2016 is the lowest since August 2007.

There are concerns, however, about the potential economic and fiscal impacts of actions which may be taken regarding the federal budget. Some federal programs may require State financial support if we want to continue them at current funding levels.

We are optimistic about Hawai'i's economy, but recognize that there are many potential challenges, as cautioned by the Department of Business, Economic Development and Tourism:

- The economies of most countries worldwide are experiencing slowdowns
- Many Hawai'i industries are still recovering
- The Counties of Hawai'i and Kaua'i have just recovered
- Air seat growth is slowing down significantly, which will lead to a slowing down of visitor industry growth
- Construction industry momentum is weakening

Economic downturns are part of every economic cycle. While we cannot predict when things will happen, we can do our best to be prepared. Thus, while the State is in a better financial situation today than ever before, we will continue to work with the Legislature to further support the State's economic growth and improve the State's fiscal position.

REVENUE PROJECTIONS

At its September 9, 2016 meeting, the Council on Revenues (COR) revised its May 2016 general fund tax revenue forecast upward for FY 17 and downward for FY 19 through FY 22. After adjusting the base for FY 16 for actual general fund collections, which came in at 8 percent instead of the projected 6.1 percent, the COR increased its FY 17 projection from 5 percent to 5.5 percent. The cumulative impact of the higher base in FY 16 and increased growth rate is that FY 17 general fund tax revenue is roughly \$145 million more than projected in May 2016.

The FY 18 projection remains unchanged at 5 percent but the projection for FY 19 was decreased from 5 percent to 4.4 percent. The forecast for FY 20 through FY 22 decreased from 4.5 percent to 4.4 percent, while the COR also added the forecast for FY 23 of 4.4 percent. Due to the increased base for FY 16 and the higher projection for FY 17, however, the current forecast results in increased revenue from FY 18 through FY 22.

The COR noted that while Hawai'i's economy continues to be strong, there is uncertainty about the future. The Council raised concerns about the economy reaching the end of its expansionary cycle during the seven-year budget period and the construction cycle having possibly reached its peak.

Preliminary general fund tax revenue collections for the first five months of FY 17 are 0.7 percent more compared to the same period in FY 16. Transient Accommodations Tax collections have increased by 21.1 percent for the four month period, reflecting the strength of the tourism industry and outpacing the growth rates for all other taxes collected.

THE EXECUTIVE BUDGET REQUEST FOR FB 2017-19

The Operating Budget

The development of the Executive Budget for FB 2017-19 began with an operating base budget amount for each department, equivalent to their FY 17 appropriation, less non-recurring expenses and plus collective bargaining, as applicable. These base budget amounts were adjusted by requests for:

- Trade-offs and transfers and conversion of unbudgeted positions to align the budget with current operational requirements
- Select fixed costs and entitlements

- Federal funds based on anticipated grant awards
- Health and safety or immediate requirements of court orders or federal mandates
- Full-year funding for new positions
- Restoration of budget items which had been identified as non-recurring by the Legislature; and
- Other sustainable and reasonable requests necessary for program implementation

For FB 2017-19, the budget includes \$14.254 billion in FY 18 and \$14.377 billion in FY 19 from all means of financing for operating costs. This represents an increase of 4 percent and 4.9 percent, respectively, over the current level. Of these amounts, the net request for general funds is \$7.378 billion in FY 18 and \$7.529 billion in FY 19, resulting in increases of 4.9 percent and 7 percent, respectively.

Significant general fund requests for fixed costs and entitlements include (totals may differ due to rounding):

- -\$18.1 million in FY 18 and \$64.8 million in FY 19 for debt service for CIP projects
- \$77.7 million in FY 18 and \$133.1 million in FY 19 for health premium payments for the Department of Education (DOE), University of Hawaii (UH) and other State programs, which includes \$43.6 million in FY 18 and \$47.4 million to pay OPEB at 100 percent of the ARC
- \$11.5 million in FY 18 and \$28.1 million in FY 19 for retirement benefit payments for DOE, UH and other State programs

- \$22.3 million in FY 18 and \$59.4 million in FY 19 for Medicaid (\$131 million in FY 18 and \$246.2 million in FY 19 in federal funds also requested) which includes:
 - \$9.1 million in FY 18 and \$39.3 million in FY 19 for health care payments (\$115.6 million in FY 18 and \$221.2 million in FY 19 in federal funds also requested)
 - \$4.7 million in FY 18 and \$9.4 million in FY 19 to restore the adult dental benefit (\$7.1 million in FY 18 and \$14.1 million in FY 19 in federal funds also requested)
 - \$1.9 million in FY 18 and \$4.1 million in FY 19 to resume the nursing facility inflation factor (\$2.3 million in FY 18 and \$5 million in FY 19 in federal funds also requested)
 - \$6.6 million in FY 18 and FY 19 for increases in Medicare Part B premiums (\$6 million in FY 18 and FY 19 in federal funds also requested)

Significant requests for priority areas include (general funds unless otherwise noted; most new positions funded for six-months; totals may differ due to rounding):

Education

- \$28 million in FY 18 and FY 19 for DOE's Weighted Student Formula to support the goals and objectives of each school. The \$28 million each year includes \$10 million to close achievement gaps for English Language Learners and \$18 million for a 2 percent increase for inflation.
- \$10 million in FY 18 and FY 19 for DOE's School Innovation Grant Program to support the implementation of ESSA through school level grants to be awarded by the Board of Education

- \$7.7 million in FY 18 and \$8 million in FY 19 for the per pupil adjustment for the Charter Schools
- 10.50 FTE permanent positions and \$185,148 in FY 18 and 10.50 FTE permanent positions and \$370,296 for FY 19 for the Hawai'i State Public Library System (HSPLS) for staffing at the new Nānākuli, 'Aiea, and Naalehu public libraries; Statewide homeless support; and improvement of the HSPLS website
- 4.00 FTE permanent positions and \$5 million in FY 18 and FY 19 for UH's Cancer Center
- 5.00 FTE permanent positions and \$3.5 million in FY 18 and FY 19 for UH's Hawai'i Research and Innovation Initiative
- \$3 million in FY 18 and \$6 million in FY 19 to support the early college high school initiative to achieve the "55 by 25" goal
- \$1.6 million in FY 18 and \$1.5 million in FY 19 for UH's Hawai'i Graduation Initiative
- \$10 million in FY 18 and FY 19 for UH's systemwide needs

Homelessness and Housing

- \$7 million for FY 18 and FY 19 for State rent supplement to provide housing subsidies for homeless families
- \$3 million for FY 18 and FY 19 for the Housing First program which provides housing and supportive services to homeless who may have mental health or addiction issues
- \$2.5 million for FY 18 and FY 19 for the Rapid Re-housing program to move capable families out of shelters

- \$2.1 million in FY 18 and FY 19 for the Department of Human Services (DHS) State Family and Elderly Housing program
- \$1.5 million for FY 18 and FY 19 for DHS' homeless outreach services
- \$1 million for FY 18 and FY 19 for the Department of Health's (DOH) homeless outreach services to persons with serious and persistent mental illness (Interim Case Management)
- \$800,000 in FY 18 and FY 19 for DOH's homeless outreach, counseling and diversion services for unsheltered homeless persons experiencing substance abuse
- \$2 million for FY 18 and FY 19 for homeless property storage
- \$1 million in FY 18 and FY 19 for assistance for highways, security, health and safety relating to homelessness issues

Hawai'i Sustainability Initiative

- \$5 million in FY 18 for a general fund supplement to the Agricultural Loan Revolving Fund
- \$2.5 million in general funds and \$2.5 million in special funds in FY 18 for a general fund supplement to the Hawai'i Water Infrastructure Special Fund and establishment of the special fund ceiling
- \$2 million in FY 18 for the Livestock Feed Subsidy Program

- 3.00 FTE temporary positions and \$18 million in FY 18 and FY 19 to incorporate funds from Act 84, SLH 2015 for native resources, fire protection, forestry, natural area reserves, watershed management, invasive species eradication, and ocean resources
- \$3.5 million in FY 18 and FY 19 for Rapid 'Ōhi'a Death Response, watershed forests, and invasive species control

Innovation Economy

- \$10 million in general funds and \$10 million in revolving funds in FY 18 for Hawai'i Strategic Development Corporation Revolving Fund infusion for the HI Growth Initiative and related revolving fund ceiling increase

Effective, Efficient, and Open Government

- \$2.4 million in FY 18 and \$2.5 million in FY 19 for implementation of the new Hawai'iPay time and attendance project that will convert the current 40-year-old manual and paper-intensive system to meet modern security and disaster recovery standards, including timeliness and accuracy of payments
- \$4 million in FY 18 and FY 19 to restore carrier circuit costs and collocation costs for Enterprise Technology Services (ETS)
- 8.00 FTE temporary positions and \$2.1 million in FY 18 and 11.00 FTE temporary positions and \$2.2 million in FY 19 for staffing support and third party independent verification and validation analysis services for the new payroll and time and attendance system, and integration with the new Human Resources Management System
- \$7.8 million in special funds in FY 18 for the Enhanced 911 Board to upgrade the computer-aided dispatch software on O'ahu and Maui

- \$4.5 million in FY 18 and FY 19 for centralized vacation payouts for all departments
- \$3.1 million in FY 18 and \$2.6 million in FY 19 in trust funds to support a State institutional network (INET)/broadband project
- \$5.3 million in general funds and \$15.8 million in federal funds in FY 18 and FY 19 for the maintenance and operations of DHS' Enterprise System, known as Kauhale On Line Eligibility Assistance (KOLEA), which supports the eligibility determination process for the medical assistance programs

Native Hawaiians

- 15.00 FTE temporary positions and \$1.1 million in FY 18 and FY 19 for the Kaho'olawe Island Reserve Commission

Health

- \$2.8 million in FY 18 and \$7.1 million in FY 19 for Medicaid 1915(c) I/DD Home and Community Based Services Waiver rates adjustments
- \$1.3 million in FY 18 and \$1.6 million in FY 19 for purchase of service contract adjustments for the Child and Adolescent Mental Health Division
- 12.00 FTE permanent positions and \$741,996 in FY 18 and 12.00 FTE permanent positions and \$613,876 in FY 19 to restore the Vector Control Branch to prevent and manage disease outbreaks and public health threats from vector-borne diseases
- \$3 million in FY 18 and FY 19 for the Home Visitation Program and \$6.5 million in FY 18 and FY 19 for the Chronic Disease Prevention and Health Promotion Division to incorporate the funds from Act 118, SLH 2015

- \$4.1 million in FY 18 and FY 19 for the Kupuna Care program
- \$1.7 million in FY 18 and FY 19 for the Aging and Disability Resource Center
- \$36.5 million in FY 18 and \$34.7 million in FY 19 for operational costs for HHSC-Regions

The following requests reduce the HHSC-Regions base budget by the Maui Region subsidy amount and add funds to Maui Health System to initiate the transfer agreement with Kaiser Foundation Hospital.

- -\$33.4 million in FY 18 and FY 19 to reduce HHSC-Regions base budget for Maui Region subsidy
- \$38 million in FY 18 and \$33.4 million in FY 19 for Maui Health System subsidy
- \$10 million in FY 18 for Maui Health System working capital
- \$9.5 million in FY 18 for Maui Health System incremental cost for transition delay

Traffic

- 12.00 FTE permanent positions and \$832,372 in special funds in FY 18 and 12.00 FTE permanent positions and \$1.5 million in special funds and \$216,000 in federal funds in FY 19 to establish the Intelligent Transportation System Branch

Public Safety

- \$3.3 million in FY 18 to house inmates from Halawa Correctional Facility (HCF) in Arizona for six months due to HCF's security electronic project

The Capital Improvements Program Budget

For the CIP budget, a total of \$2,366.5 million in FY 18 and \$781.8 million in FY 19 has been recommended. Of these amounts, the requests for G.O. bonds total \$1,338.8 million and \$151.7 million, respectively.

Our Administration proposes to fund a large amount of the requested projects with G.O. bond funds. Many of these requests address health and safety concerns or critical program needs that have been passed over for many years.

Costs will continue to mount the longer these projects are delayed. It makes good financial sense to address these projects while the State's bond rating is at its highest, which will help to reduce debt service costs. Despite the large issuance, however, the State will still have a host of unmet needs that will need to be addressed in the future.

We have requested a significant amount of funding – \$700 million in G.O. bond funds over the biennium – for projects to address capacity, equity and program support issues at our public schools. Our public school heat abatement efforts, including classroom air conditioning, are underway and we have requested increased funds for more energy conservation and heat mitigation projects statewide.

We have also requested a substantial amount of G.O. bond funds for projects at UH campuses systemwide. Other requests support our Administration's priorities to provide housing which is affordable, to support our agricultural industry, and to support our environmental efforts. Ultimately, all of the requested projects are necessary to maintain and improve our State facilities and resources to allow our programs to better serve Hawai'i's people.

The proposed FB 2017-19 requests support the following priority areas (G.O. bond funds unless otherwise noted; totals may differ due to rounding):

Education

- \$61.7 million for heat abatement improvements at public schools, Statewide
- \$373.7 million in FY 18 to address enrollment capacity issues at public schools, Statewide
- \$138 million in FY 18 to improve the condition of public schools, Statewide
- \$60.5 million in FY 18 for public school equity projects, Statewide
- \$66.2 million in FY 18 for public school program support projects, Statewide
- \$10 million in FY 18 for health and safety projects at public libraries, Statewide
- \$150 million in FY 18 for lump sum CIP at UH campuses, Statewide

Housing

- \$15 million in FY 18 for Phase 1 construction of mixed-use affordable rental housing, juvenile services and shelter center at 902 Alder Street, O'ahu
- \$50 million in FY 18 for the Dwelling Unit Revolving Fund, Statewide
- \$50 million in FY 18 for the Rental Housing Revolving Fund, Statewide
- \$8.4 million in FY 18 for Low Income Housing Tax Credit loans, Statewide

- \$50 million in FY 18 for public housing development, improvements, and renovations, Statewide
- \$5 million in FY 18 for public housing security improvements, Statewide
- \$4 million in FY 18 for public housing vacant unit repairs and renovation, Statewide

Hawai'i Sustainability Initiative

- \$7 million in FY 18 for improvements to the Waiahole Water System, O'ahu
- \$8 million in FY 18 for improvements to the Kunia Agricultural Park, O'ahu
- \$4 million in FY 18 for a State packing and processing facility in Whitmore, Oahu
- \$3.7 million in FY 18 for improvements to the Waimanalo Irrigation System, O'ahu
- \$7.5 million in special funds in FY 18 and FY 19 for the Watershed Initiative, Statewide
- \$5 million in FY 18 for Ala Wai Canal Dredging, O'ahu
- \$6 million in G.O. bond funds and \$100,000 in federal funds in FY 18 and \$3 million in G.O. bond funds and \$100,000 in federal funds in FY 19 for State parks infrastructure and facility improvements, Statewide
- \$12 million in FY 18 for flood damage reconstruction at 'Iao Valley State Monument, Maui

Economy

- \$10 million in FY 18 and \$9 million in FY 19 to address health and safety at Aloha Stadium, O'ahu
- \$1 million in FY 18 for Aloha Stadium Optimization Study, O'ahu
- \$1.5 million in special funds, \$2 million in G.O. bond funds, \$4.7 million in private contribution funds, and \$1.2 million in trust funds in FY 19 for Ka'anapali Beach Restoration and Berm Enhancement, Maui
- \$1 million in FY 18 and FY 19 for master planning of State agency transit-oriented development, Statewide
- \$3 million in FY 18 to complete the Kalaeloa Enterprise Avenue energy corridor to Midway Road, O'ahu

Effective, Efficient, and Open Government

- \$10 million in FY 18 and FY 19 for maintenance of existing State facilities, Statewide
- \$15.2 million in FY 18 for rehabilitation of chambers and parking level waterproofing systems for the State Capitol, O'ahu
- \$3 million in FY 18 and \$1.5 million in FY 19 for State office building remodeling, Statewide
- \$18.8 million in FY 18 for the Tax System Modernization Project

Native Hawaiians

- \$5 million for FY 18 and FY 19 for repair and maintenance of Hawaiian Home Lands existing infrastructure, Statewide

- \$20 million for FY 18 and FY 19 for Hawaiian Home Lands lot development, Statewide
- \$15 million in federal funds for FY 18 and FY 19 for Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) grant development projects, Statewide

Health

- \$2.1 million in G.O. bond funds and \$10.3 million in federal funds in FY 18 for Wastewater Treatment Revolving Fund, Statewide
- \$1.7 million in G.O. bond funds and \$8.3 million in federal funds in FY 18 for Safe Drinking Water Revolving Fund, Statewide
- \$4.4 million in FY 18 for health and safety projects at DOH facilities, Statewide
- \$4.5 million in FY 18 for Hilo Counseling Center and Keawe Health Center Improvements, Hawai'i
- \$6 million in FY 18 and FY 19 for the Maui Health System
- \$21.6 million in FY 18 and \$4.5 million in FY 19 for improvements at various HHSC facilities, Statewide

Public Safety

- \$2.8 million in G.O. bond funds and \$7.7 million in other federal funds in FY 18 and \$1.5 million in G.O. bond funds and \$4.5 million in other federal funds in FY 19 for Upgrades and Improvements to National Guard Readiness Centers and Facilities, Statewide

- \$170,000 in G.O. bond funds and \$750,000 in other federal funds in FY 18 and \$1.6 million in G.O. bond funds and \$5.8 million in other federal funds in FY 19 for Energy Resiliency and Physical Security Projects for Hawai'i Army National Guard Facilities, Statewide
- \$2.5 million in G.O. bond funds and \$1,000 in federal funds in FY 18 and FY 19 for Disaster Warning and Communications Devices, Statewide
- \$38.3 million in FY 19 for additional funding for existing projects at various facilities under the Department of Public Safety, Statewide, to include fire alarm upgrades, domestic water supply upgrades, reroofing, electronic security, electronic door replacements, and various facility renovations
- \$9 million in FY 18 for new consolidated housing for the Women's Community Correctional Center
- \$11 million in FY 18 and \$9.5 million in FY 19 for electrical system infrastructure improvements and upgrades for correctional facilities, Statewide
- \$8.5 million in FY 18 and \$9.5 million in FY 19 for mechanical system infrastructure improvements and upgrades for correctional facilities, Statewide

Airports and Harbors Modernization

- \$50 million in FY 18 for a permanent Federal Inspection Station (Customs) at Kona International Airport at Keahole, Hawai'i
- \$170 million in revenue bond funds in FY 18 for Honolulu International Airport, Ticket Lobby Improvements, O'ahu
- \$50 million in revenue bond funds in FY 18 for Elliott Street support facilities at Honolulu International Airport, O'ahu

- \$30 million in revenue bond funds in FY 18 for Honolulu International Airport, Terminal Improvements at Gates 29 and 34, O'ahu
- \$29.6 million in FY 18 and \$9.7 million in FY 19 in revenue bond funds for holdroom and gate improvements at Kahului Airport, Maui
- \$16.4 million in revenue bond funds and \$3,000 in special funds in FY 18 and FY 19 for Commercial Harbor Facility Improvements, Statewide
- \$7.5 million in revenue bond funds and \$2,000 in special funds in FY 18 for Improvements at Pier 2 and 3 Areas, Nawiliwili Harbor, Kaua'i

Highway Improvements

- \$17.8 million in revenue bond funds and \$71.2 million in federal funds in FY 18 for Daniel K. Inouye Highway Extension, Mamalahoa Highway to Queen Ka'ahumanu Highway, Hawai'i
- \$4.4 million in revenue bond funds and \$17.6 million in federal funds in FY 18 and \$4 million in revenue bond funds and \$16 million in federal funds in FY 19 for Interstate Route H-1, Airport Viaduct Improvements, Vicinity of Valkenburgh Street to Middle Street, O'ahu
- \$19.9 million in revenue bond funds and \$78.5 million in federal funds in FY 18 and \$16.5 million in revenue bond funds and \$66 million in federal funds in FY 19 for various bridges, Statewide

A COLLABORATIVE EFFORT

Our core values – doing the right thing, the right way, for the right reasons – have guided our actions through the past two years. Our Cabinet agencies, through our myriad programs, have been responding to our constituents, and in partnership with the Legislature have worked diligently to improve our State programs and, more importantly, the quality of life for our residents.

Though we may have different perspectives, we can find better solutions when we understand each other's points of view.

Like our parents before us, we will keep striving to make Hawai'i a better place for our keiki while recognizing that our actions today must be sustainable for future generations. And we will always take care of our kupuna and those less fortunate.

It may not always be easy, but we can do this together. We look forward to working with all of you.

Sincerely,



DAVID Y. IGE
Governor of Hawai'i

APPENDIX TO THE GOVERNOR'S MESSAGE

A. THE EXECUTIVE BUDGET RECOMMENDATIONS

The Operating Budget

All Means of Financing

For FB 2017-19, total operating budget requests from all sources of funding amount to \$14,254.3 million in FY 18 and \$14,376.7 million in FY 19, resulting in increases of 4 percent and 4.9 percent, respectively.

<u>Means of Financing</u>	<u>FY 17 Appropriation (\$million)</u>	<u>FY 18 Request (\$million)</u>	<u>FY 19 Request (\$million)</u>
General Funds	7,036.6	7,377.9	7,528.5
Special Funds	2,768.1	2,877.5	2,803.7
Federal Funds	2,587.6	2,750.8	2,821.1
Other Federal Funds	221.9	240.7	225.8
Private Contributions	0.4	0.7	0.7
County Funds	0.2	2.2	2.2
Trust Funds	527.7	431.4	434.6
Interdept. Transfers	97.2	100.5	100.7
Revolving Funds	442.1	453.3	443.3
Other Funds	<u>20.4</u>	<u>19.3</u>	<u>16.0</u>
Total	13,702.3*	14,254.3	14,376.7*
Increase over FY 17		550.0*	672.4*
Percentage increase		4.0%	4.9%

* - Total differs due to rounding

The increases are primarily due to escalating non-discretionary costs (general funds for debt service; health premium payments; retirement benefit payments; and federal and general funds for Medicaid). Also contributing are increases to support lower and higher education and transportation.

General Fund

Total requests from the general fund amount to \$7,377.9 million in FY 18 and \$7,528.5 million in FY 19, which represents an increase of \$341.3 million (4.9 percent) in the first year and \$492 million (7 percent) in the second year over the FY 17 appropriation level. Increased non-discretionary (debt service, health premium payments, retirement benefit payments, and Medicaid) and lower and higher education costs are the primary reasons for these differences.

The Capital Improvement Program Budget

For FB 2017-19, total requests for capital improvements amount to \$2,366.5 million in FY 18 and \$781.8 million in FY 19, to be funded from the following sources:

Means of Financing	FY 18 Request (\$million)	FY 19 Request (\$million)
General Funds	12.7	13.0
Special Funds	59.2	103.4
G.O. Bonds	1,338.8	151.7
G.O. Reimbursable	-	-
Revenue Bonds	618.6	248.1
Federal Funds	306.7	219.7
Other Federal Funds	11.1	12.0
Private Contributions	-	4.7
County Funds	-	-
Trust Funds	-	1.2
Interdept. Transfers	-	-
Revolving Funds	-	-
Other Funds	<u>19.3</u>	<u>25.1</u>
Total	2,366.5*	781.8*

* - Total differs due to rounding

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, Article VII of the Hawaii State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level, including all branches of government, total proposed appropriations from the general fund are within the expenditure ceilings for FYs 17-19.

For the Executive Branch, including appropriations made up to and including the regular session of 2016, the Executive Branch appropriation ceiling has already been exceeded for FY 17 by \$460.8 million (or 6.5 percent). Total proposed appropriation measures from the general fund to be submitted to the Legislature during the regular session of 2017 will result in the appropriation ceiling for the Executive Branch to be exceeded in FY 17 by an additional \$6.1 million or 0.1 percent. These proposed FY 17 appropriations are necessary to cover the current estimated requirements for workers' compensation and claims against the State.

For FB 2017-19, total proposed appropriations from the general fund (which include the Executive Budget for FB 2017-19 and other specific appropriation measures to be submitted) are within the appropriation ceiling in both FY 18 and FY 19.

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 percent 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, Hawaii Revised Statutes, provides that whenever general fund revenues for each of two successive fiscal years exceed revenues for each of the preceding fiscal years by 5 percent, the Director of Finance is required to transfer 5 percent of the general fund balance to be deposited into the Emergency and Budget Reserve Fund (EBRF) provided that the EBRF balance is less than 10 percent of general fund revenues for the preceding fiscal year.

For FYs 15 and 16, general fund balances were greater than 5 percent of general fund revenues, FYs 15 and 16 general fund revenues were greater than 5 percent of the previous year's revenues, and the FY 16 EBRF balance was less than 10 percent of general fund revenues for FY 15. Accordingly, the Director of Finance transferred 5 percent of the FY 16 general fund balance (\$51.4 million) to the EBRF in FY 17. This action satisfies the Article VII, Section 6 requirements.

D. THE DEBT LIMIT

Section 13, Article VII of the Hawaii State Constitution places a debt limit on general obligation 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 Budget, including State guaranties, will not cause the debt limit to be exceeded at the time of each bond issuance.