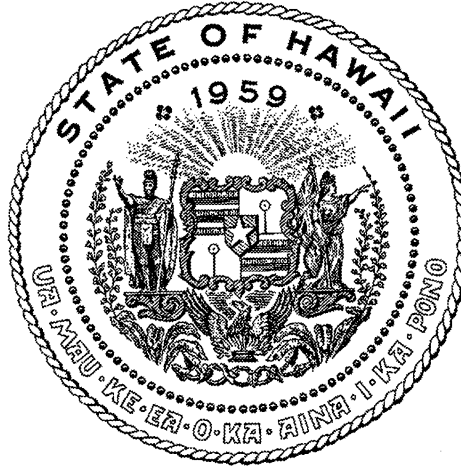


STATE OF HAWAII



EXECUTIVE SUPPLEMENTAL BUDGET (Budget Period 2017-2019)

Submitted to the Twenty-Ninth State Legislature
December 18, 2017

EXECUTIVE CHAMBERS
State Capitol
Honolulu, Hawai'i 96813

**GOVERNOR'S MESSAGE TO THE 29TH STATE
LEGISLATURE OF HAWAI'I MEETING IN THE REGULAR
SESSION OF 2018**

In compliance with Article VII, Section 9, of the Hawai'i State Constitution, I hereby submit to the State Legislature the Executive Supplemental Budget for Fiscal Biennium (FB) 2017-19 and the updated Program and Financial Plan for the Period 2017-23.

OVERVIEW

When we took office over three years ago, our Administration was driven by seven core values. With this focus, we have been working diligently to make life in Hawai'i better and more sustainable. We are committed to being responsible in all respects, ever cognizant of the impact that our choices will have on future generations.

These core values, centered on collaboration and integrity, are even more important today.

- *Aloha.* Treating everyone with dignity, respect and kindness, reflecting our belief that people are our greatest source of strength.
- *Kuleana.* Upholding a standard of transparency, accountability and reliability, performing our work as a government that is worthy of the public's trust.
- *Laulima.* Working collaboratively with business, labor and the community to fulfill our public purpose.

- *Kūlia.* Doing our very best to reflect our commitment to excellence.
- *Pono.* Striving to do the right thing, the right way, for the right reasons to deliver results that are in the best interest of the public.
- *Lōkahi.* Honoring the diversity of our employees and our constituents through inclusiveness and respect for the different perspectives that each brings to the table.
- *Ho'okumu.* Seeking new and innovative ways to accomplish our work and committing to find creative solutions to the critical issues facing this State.

Accordingly, improving the quality of education at our public schools has always been one of our highest priorities. We fulfilled our promise to cool more than 1,000 classrooms in our schools statewide, which will provide better learning environments for our children.

In December 2015, a new national education law was enacted, the "Every Student Succeeds Act" (ESSA). ESSA returns authority over education from the federal government to the local level and will support our efforts to build a future-focused educational system.

We saw this as a major opportunity to make the State of Hawai'i's public school education system the best in the nation. In July 2017, the Governor's ESSA Team finalized "Hawai'i's Blueprint for Public Education," which will help us maximize opportunities and possibilities to transform education in Hawai'i.

A national study stated that a post-secondary education would be needed for 70 percent of jobs by 2020. We need to clear the obstacles to higher education to reach our goal of having 55 percent of Hawai'i's working-age adults earn a 2- or 4-year college degree by the year 2025.

The Department of Education (DOE) and University of Hawai'i (UH) are working to expand the Early College program, which allows high school students to earn college credits. It is our goal to expand this program to every public high school in the State. The UH Community Colleges offer a "last dollar" scholarship program, "Hawai'i's Promise," that will fill in the gap for qualifying families to allow all students with financial need to attend community colleges at no cost.

We have worked collectively with our communities and the counties to address homelessness. The success of our efforts is evidenced by a 9 percent decline in the number of homeless statewide, the first decrease in 8 years. We have taken steps to maintain access to our public spaces and must continue to support programs and services that will get people into permanent housing because that is what works.

We know that the lack of affordable housing is inherently related. Housing production is up and about 5,300 housing units have been produced, of which 40 percent are affordable, since we took office in 2014. While there is more on the way, there will still be much unmet need for housing, especially for affordable units to buy or rent.

Consequently, we are looking for ways to quicken the pace and reduce barriers to development. We must leverage State resources with private funds to continue to develop affordable housing for Hawai'i's families and continue to support the necessary infrastructure development.

Our natural resources are vital to Hawai'i's culture, way of life and economy and it is our responsibility to maintain them for the generations to come. We are working to protect our

watersheds and supporting efforts to double our food production, following through on our Sustainable Hawai'i Initiative commitments.

Hawai'i was once at the forefront of pineapple and sugarcane production. Now, we look towards diversified agriculture to advance our path toward food security by doubling local food production by 2020. The agricultural industry makes significant contributions to our economy and lifestyle which we cannot afford to take for granted.

The beauty and aloha of our islands provide a unique sense of place that is a natural draw for visitors. The tourism industry continues to achieve record levels of growth and is a significant contributor to the State's economy.

Part of this growth is due to the reestablishment of the federal inspection station at the Ellison Onizuka Kona International Airport at Keahole in December 2016. Through October 2017, the Island of Hawai'i experienced double digit growth in visitor spending, arrivals and days compared to the same 10-month period last year due to international arrivals.

While the tourism industry will always play a significant role in Hawai'i's economy, we must broaden our economic base by nurturing innovators and entrepreneurs. Whether developing new clean energy and agricultural technologies, applications for computers and phones, or locally created digital media or making advances at the cutting edge of healthcare, building an innovation economy can help us develop high-quality, high-wage jobs. We can provide opportunities for the future by investing in our people and ensuring that the appropriate educational programs and training are available.

We have looked at State operations to find ways to make them better. We have made significant strides to convert paper-based processes to electronic processes, many of them web-based, which improve the efficiency of our State programs and our ability to service the public. To date, the

State has processed over 275,000 eSign (electronic signature) transactions, saving not only time and money but natural resources.

Other important conversion efforts include the ongoing Enterprise Payroll and Time and Attendance Modernization (Hawai'iPay) and Tax System Modernization (TSM) projects which will provide greater functionality and efficiencies. Both projects present statewide opportunities to accelerate the adoption of more efficient, less paper-dependent ways of doing business throughout and with State government.

We are committed to being fiscally responsible and providing a government that is honest, transparent and responsive. We will continually look for new and innovative ways to improve efficiency and our service to the public. Our budget approach and the Executive Supplemental Budget, which is aligned with our Administration's strategic priorities, reflect that commitment.

Our Mission

The Administration aims to change the trajectory of Hawai'i 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 O'ahu, 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 Hawai'i 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 Hawai'i, 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 Hawai'i's economy.
- **Energy:** Ensure a 100 percent 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 and Fiscal Considerations

The State's fiscal stability is critical to ensure the continuation of essential State services. In the development of the Executive Supplemental Budget, the Administration took a hard look at the State's current fiscal health and potential upcoming fiscal challenges to ensure that the State's fiscal health is maintained through FB 2017-19 and beyond.

The State's fiscal situation has fluctuated significantly over the past few years and general fund revenue growth trends have not always been consistent with economic activity. This fiscal year, general fund revenue collections have been consistently positive, an improvement from the fluctuations between negative and low positive growth in the beginning of FY 17. The cumulative November 2017 general fund tax revenue growth rate is 4.7 percent, down from 11.8 percent in July 2017, but it is premature to predict a trend in revenues for the remainder of the fiscal year.

The State's fiscal situation may appear optimistic in view of general fund revenue growth thus far and the carryover general fund balance of \$893.8 million from FY 17. However, as we have seen in the past several years, changes in revenue growth can be unpredictable over a 12-month period.

While the carryover balance will help to support our increasing operating costs, we are seriously concerned that the State's expenditures are still projected to exceed revenues for the next few years until FY 22. Our commitments to fund collective bargaining increases and the State's unfunded pension and other post-employment benefits (OPEB) liabilities have added significant amounts to the operating budget. In addition, the FY 19 Executive expenditure ceiling has already been exceeded.

The State must also be prepared to bear the costs of federal programs for services which the State deems critical should the federal government reduce or discontinue funding. The impact of significant federal fund reductions may be twofold, as the State will bear the economic impact of the reduced funding while providing additional funds for federal programs.

The instability in Congress is also a concern due to the economic and fiscal impact of the absence of a federal budget for the federal fiscal year. A federal government shutdown, which could result if no federal budget is passed, could significantly impact our State. In addition, there is uncertainty about pending federal tax reform.

Inevitably, there are other pressing demands for State resources that must be considered. Providing good schools, housing, and health and social services will always be at the forefront of our priorities but we also need to support programs which are still rebuilding after suffering the impact of the Great Recession. It has been a gradual process to restore these programs, many of which provide essential services and have been unable to fulfill the full scope of their statutory responsibilities.

When these significant factors are looked at together, they reinforce the need to be prudent and conservative with our expenditures to ensure the State's fiscal stability through FB 2017-19 and beyond. We must responsibly control our expenditures to prepare, to the extent possible, for uncertain revenue collections and reductions in federal funds, while supporting the increased cost of our daily operations.

As such, very limited general fund appropriations are proposed for the Executive Supplemental Budget. We will continue to work to align our current resources to solve our most critical problems and better serve the people of Hawai'i.

Financial Stability

Our budget approach for the past three years has put us in a much better fiscal position now than when we took office. We have adopted formal budget reserve and debt management policies. With the Legislature's support, we have made significant progress in strengthening our reserves and addressing our unfunded liabilities.

We have built up our Emergency and Budget Reserve Fund to \$310.7 million in preparation for future economic downturns. Moody's Analytics recently "stress tested" all 50 states and assessed that Hawai'i was one of 16 states that was prepared for a recession in consideration of our available reserve funds and budget policies.

By continuing to aggressively address pension and OPEB unfunded liabilities, we will reduce the amounts needed in the future. The State's OPEB prefunding contributions, totaling \$800 million through FY 17, are expected to save over \$1.6 billion over the next 20 years.

Additionally, Act 49, SLH 2017, the General Appropriations Act, appropriates funds to step up the OPEB annual required contribution from 90 percent in FY 18 to 100 percent in FY 19. We have also adopted a schedule of increased pension contributions pursuant to Act 17, SLH 2017, which will result in full funding within a 30-year horizon and approximately \$15 billion in expected savings over the funding period.

We have worked diligently over the past three 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 received 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 has allowed the State to issue G.O. bonds at lower interest rates, allowing general funds that would have

been used for debt service to address the State's other critical needs like education, housing, homelessness and sustainability.

Budget Transparency

To increase budget transparency, departments were instructed to review their FY 19 operating budget details for items which did not align with anticipated expenditures. Requests are included to correct the following:

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

Section 37-74(f), HRS, and Section 96 of Act 49, SLH 2017, prohibit funds to be expended to fill a permanent or temporary position for the lowest level of a program if the filling of that position causes the position ceiling for that level of the program to be exceeded with specified exceptions. "Position ceiling" is defined as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program.

As such, 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., trade-off/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.

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 Hawai'i.

THE ECONOMY

Hawai'i's economy continues to show positive growth that is expected to slow as we move into 2018 and 2019. Tourism and construction continue to be major factors as our State economy expands.

The tourism industry is still experiencing record growth, having had only one quarter of negative growth between the third quarter of 2009 to the third quarter of 2017. Based on preliminary data year-to-date through October 2017, visitor spending increased by 6.8 percent compared to last year, while visitor arrivals also increased by 4.7 percent. Even daily spending has increased by 2.2 percent, though primarily due to higher hotel room rates.

The growth is bolstered by visitors from the U.S. West and East, Japan and Canada. The resumption of international flights into Ellison Onizuka Kona International Airport at Keahole has had a positive impact on the Island of Hawai'i and the State as a whole by bringing more visitors from Japan.

In the third quarter of 2017, most economic indicators for the construction industry were negative, with only State capital improvement program (CIP) expenditures increasing. The completion or near completion of many large construction projects in the Kaka'ako area contributed to the loss of 500 construction jobs over the first three quarters of 2017 compared to the same period last year. Growth projections for construction are expected to flatten through 2018, though there are many new projects planned.

Hawai'i's seasonally adjusted unemployment rate has dropped from 2.5 percent in September 2017 to 2.2 percent in October 2017. This is a significant decrease, making Hawai'i's unemployment rate the lowest in the nation and nearly 2.0 percent less than the National unemployment rate of 4.1 percent. As the health of the U.S. economy significantly impacts Hawai'i, it is encouraging that the seasonally adjusted national unemployment rate of 4.1 percent for October 2017 is the lowest rate since December 2000.

We are optimistic about Hawai'i's economy, but recognize that there are many potential challenges. 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, 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 7, 2017 meeting, the Council on Revenues (COR) raised its general fund tax revenue growth projections for FY 18 and FY 19 from 4.0 percent to 4.3 percent and lowered its forecast for FY 20 to FY 24 from 4.5 percent to 4.0 percent. However, because FY 17 general fund tax revenue collections came in lower than expected at only 2.0 percent more than FY 16, there were serious concerns about the impact of the lower general fund base going into FY 18, which would offset the higher growth rates.

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.

THE FY 19 EXECUTIVE SUPPLEMENTAL BUDGET

Given the significant demands on State resources, very limited funds were available for supplemental budget requests. The Executive Biennium Budget already provides for the most critical and core program needs; thus, the Executive Supplemental Budget is intended for other critical requests to supplement the funds which have already been appropriated and cannot wait until the upcoming biennium.

The Executive Supplemental Budget includes requests for FY 19 that propose changes and adjustments to Act 49, SLH 2017, the General Appropriations Act of 2017, which authorized funding for the two-year fiscal period that began on July 1, 2017 and ends on June 30, 2019.

	<u>FY 18</u> <u>Appropriations</u> (\$million)	<u>FY 18</u> <u>Adjustments</u> (\$million)	<u>FY 18</u> <u>Requests</u> (\$million)
Operating Budget			
All Means of Financing (MOF)	14,110.6	0.0	14,110.6
General Funds	7,248.5	0.0	7,248.5
Capital Improvements			
All MOF	2,289.7	0.0	2,289.7
General Funds	10.5	0.0	10.5
G.O. Bond Funds	1,028.0	0.0	1,028.0
	<u>FY 19</u> <u>Appropriations</u> (\$million)	<u>FY 19</u> <u>Adjustments</u> (\$million)	<u>FY 19</u> <u>Requests</u> (\$million)
Operating Budget			
All MOF	14,308.9	85.5	14,394.3*
General Funds	7,421.6	21.3	7,442.9
Capital Improvements			
All MOF	695.2	1,497.4	2,192.5
General Funds	10.8	0.5	11.2*
G.O. Bond Funds	49.4	620.0	669.5*

*/ Total differs due to rounding.

The Operating Budget

The Executive Supplemental Budget includes amendments for FY 19 that total \$85.5 million from all MOF for operating costs. This represents an increase of 0.6 percent over FY 19 appropriations in the FB 2017-19 Executive Budget.

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

Significant FY 19 requests for priority areas include (general funds unless otherwise noted; most positions funded for six-months):

Education

Public School System

- Add \$2 million for DOE’s Weighted Student Formula, which supports goals and objectives of schools based on enrollment and weighting factors.
- Add \$4.1 million for DOE’s workers’ compensation expenses.
- Add \$3.1 million for equipment for newly constructed public school buildings and classrooms.
- Add \$2.8 million for the Hawai’i Keiki program that provides school-based health services.
- Add \$1 million for the Early College High School Initiative to give students the opportunity to earn a high school diploma and college credits.
- Add \$749,893 for the newly authorized charter school DreamHouse.

- Add \$762,050 for hard to staff and national board-certified teacher incentives for Charter Schools.
- Add \$1.3 million for the per pupil funding adjustment for Charter Schools based on the DOE's FY 19 Supplemental Budget and projected enrollment.

University System

- Add \$700,000 for the Hawai'i Promise Scholarship Program for the Community Colleges.
- Add 15.00 full-time equivalent (FTE) permanent positions and \$1.2 million to support underserved regions and populations at UH Manoa and the Community Colleges.
- Add 7.00 FTE permanent positions and \$1.5 million for facilities maintenance, upkeep and security access at UH Manoa.
- Add 11.00 FTE permanent positions and \$600,000 to support Academic and Student Affairs programs at the UH West O'ahu to address enrollment growth and campus development additions.

Public Library System

- Add 3.50 FTE permanent positions and \$1.1 million for staffing for the Nanakuli Public Library, and Hawai'i State Public Library System repair and maintenance and books and materials.

Effective, Efficient, and Open Government

- Decrease debt service payments by \$12.5 million, retirement benefits payments by \$32.9 million, and health premium payments by \$72.7 million.

- Add 2.00 FTE permanent positions and \$544,242 for the Department of Accounting and General Services (DAGS) for full year funding for new positions, cemetery grounds crew, and repricing for Purchasing Specialist series.
- Add \$265,000 in special funds for equipment for the Digital Archives Project.
- Add 3.00 FTE temporary positions and \$280,000 for implementation of Act 1, First Special Session of 2017, Relating to Government, for certification of disbursements related to rapid transit.
- Add \$1.5 million in other funds for the Employees' Retirement System to upgrade its computer system to implement the requirements of Act 263, SLH 2016.

Homelessness

- Add \$15 million for Housing First, Rapid Re-Housing, housing subsidies, homeless outreach services, and other homeless initiatives.
- Add \$800,000 for homeless outreach and counseling services for chronically homeless persons experiencing severe substance use disorders.
- Add 8.00 FTE permanent positions and \$419,302 for deputy sheriff positions to support homeless and illegal camping operations.
- Add \$330,000 for special fund ceiling increase for overtime, other payroll costs and equipment to support homelessness policy enforcement statewide for the Department of Land and Natural Resources (DLNR).

Health

- Add \$4.7 million in general funds and \$7.1 million in federal funds to restore adult dental benefits for Medicaid recipients.
- Add \$1.7 million for the Department of Health's Aging Disability Resource Center.
- Add \$4.5 million for the Kupuna Care and Kupuna Caregiver programs.
- Add \$3.6 million for statewide emergency ambulance services.
- Add \$2 million for increased costs for early intervention services.
- Add \$5.3 million for the maintenance and operation costs of the Kauhale On-Line Eligibility Assistance system.
- Add \$11.2 million for collective bargaining raises for the Hawai'i Health Systems Corporation (HHSC).
- Add \$28.8 million for an operating subsidy for Maui Health Systems.

Economy

- Add \$2.3 million to support business development through the Aquaculture Accelerator/Incubator Initiative for the Natural Energy Laboratory of Hawai'i Authority, the Hawai'i Small Business Innovation Research Program, the Excelerator Program and Manufacturing Assistance Program grants.
- Add 10.00 FTE temporary positions and trade-off and transfer of \$543,852 for the Small Business Development Center.

Agriculture

- Add \$410,000 in special funds for the Hawai'i Water Infrastructure Special Fund.
- Add 2.25 FTE temporary positions and \$258,737 in revolving funds for the Agribusiness Development Corporation for irrigation workers and a maintenance worker.

Environment

- Add \$536,819 for Maui and Kaua'i County lifeguard protection at beaches under the jurisdiction of DLNR's Division of State Parks.
- Add 2.0 FTE permanent positions and \$500,928 for establishment of DLNR Division of Conservation and Resources Enforcement training academy to train newly hired resource conservation officers and 3.0 FTE permanent positions and \$84,816 to fund a resource enforcement dispatch center.
- Add \$315,812 for the State Historical Preservation Division for 10 new positions statewide.
- Add \$1.8 million special fund ceiling increase for the Legacy Land Conservation Fund for priority natural, cultural and agricultural protection statewide.
- Add \$800,000 (\$450,000 in general funds and \$350,000 in special funds) for digital records management systems for State Historical Preservation Division and Bureau of Conveyances, respectively.

Native Hawaiians

- Add 9.00 FTE permanent positions and \$1.2 million to support Native Hawaiian students at UH Manoa, UH Hilo and the Community Colleges.

Transportation

- Add special funds for Consolidated Rental Car Facilities (CONRAC): \$39 million for Daniel K. Inouye International Airport and Kahului Airport, \$27 million for shuttle buses and \$7 million for pilot program at Daniel K. Inouye International Airport and \$5 million for operation of the tram at Kahului Airport.
- Add \$13.7 million in special funds for consultant services for Department of Transportation (DOT) special maintenance projects, architectural and engineering mechanical systems, and environmental consultant services, statewide.
- Add \$11 million in special funds for 10 additional Wiki-Wiki buses at Daniel K. Inouye International Airport.
- Add 25.00 FTE permanent positions and \$1.1 million in special funds for staffing at various airports for the Visitor Information Program, Airports Operations Controllers, Aircraft Rescue and Fire Fighting, and Grounds Maintenance Program.
- Trade-off and transfer \$15 million in special funds for special maintenance projects from various Harbors Division programs to Administration.
- Add \$4.2 million in special funds for back rent for Kapalama Military Reservation from the Harbors Division to the Airports Division.

- Add \$2.5 million for Harbors Division central service assessment expenses.

Taxes

- Convert 13.00 positions from temporary to permanent for Tax Services and Processing.

Public Safety

- Add \$912,000 for special maintenance projects at Department of Defense (DOD) facilities, statewide.
- Transfer 59.00 FTE permanent positions for the airport security detail from the Department of Public Safety (PSD) to DOT, Airports Division. The transfer will delete \$6.6 million in interdepartmental transfer funds for PSD as DOT will fund the positions directly.
- Add \$1.7 million for the continued housing of 248 Halawa Correctional Facility (HCF) inmates in Arizona for an additional 3 months in FY 19, due to delays in the HCF security systems project.
- Add \$2.7 million for medical health care and pharmacy expenses for correctional facilities.

The Capital Improvements Program Budget

The State's improved G.O. bond ratings and lower interest rates make it a favorable time to invest in the State's infrastructure. We need to make the most of this opportunity to invest in our public schools and the UH system to provide facilities which will provide improved learning environments for our children.

We must also continue to provide housing which is affordable for Hawai'i's families to rent or buy. Infrastructure development is also a necessary part of the process to provide homes.

We have also requested funding for improvements at our correctional facilities. These improvements are necessary to alleviate current overcrowded conditions and to plan for future, more efficient, facilities.

The investment in the State's infrastructure is twofold as implementation of the State's CIP also has broader economic impact. The Administration's supplemental CIP request, totaling \$1,497.4 million from all MOF, could support an estimated 13,977 jobs, of which 5,520 would be in the construction industry.

The request is an increase of 215 percent over FY 19 in the FB 2017-19 Executive Budget, which was front loaded with the bulk of appropriations in FY 18. There are no G.O. bond fund requests for FY 18; thus, the net request for G.O. bond funds totals \$620 million in FY 19, resulting in an increase of 1,254 percent.

The proposed FY 19 requests support the following priority areas (G.O. bond funds unless otherwise noted):

Education

Public School System

- Add \$90 million to improve the condition of public schools, statewide. The project will include school building improvements, electrical and infrastructure improvements, removal of hazardous materials, converged network infrastructure improvements, structural improvements, playground equipment replacement or upgrade, and whole school classroom renovations.

- Add \$60 million for a new Pohukaina Elementary School, O'ahu.

University System

- Add \$76 million for projects to renew, improve and modernize UH facilities, statewide.
- Add \$20 million for the renovation of Sinclair Library at UH Manoa, O'ahu.
- Add \$12 million for capital renewal and deferred maintenance for the UH Community Colleges, statewide.
- Add \$10 million for minor CIP projects for UH Community Colleges, statewide.
- Add \$2 million for the campus development design of Hawai'i Community College in Hilo, Hawai'i.

Public Library System

- Add \$3.5 million for health and safety projects at public libraries, statewide.

Effective, Efficient, and Open Government

- Add \$10 million for maintenance of existing facilities managed by DAGS, statewide.
- Add \$5.9 million for health and safety improvements for critical communication systems, statewide, maintained by the Information and Communication Services Division.
- Add \$10 million for the Hawai'i Resilience and Sustainability Strategy update, statewide. This request is for reappropriation of a portion of the funds previously appropriated in Act 143, SLH 2015.

Housing

- Add \$25 million for a cash infusion for the Dwelling Unit Revolving Fund, statewide.
- Add \$50 million for a cash infusion for the Rental Housing Revolving Fund, statewide.
- Add \$5.5 million for improvements to the Waiāhole water system to meet county standards, O'ahu.
- Add \$29 million for public housing improvements and renovations, statewide.
- Add \$4.5 million for Mayor Wright Homes on-site infrastructure improvements, O'ahu.

Health

- Add \$2.1 million in G.O. bond funds and \$10.3 million in federal funds for the Wastewater Treatment Revolving Fund, statewide.
- Add \$1.6 million in G.O. bond funds and \$8.2 million in federal funds for the Safe Drinking Water Revolving Fund, statewide.
- Add \$7.6 million for health and safety improvements for DOH facilities, statewide.
- Add \$5.5 million for Hawai'i State Laboratories improvements, O'ahu.
- Add \$950,000 for Hawai'i State Hospital improvements, O'ahu.
- Add \$15 million for improvements and renovations to HHSC facilities, statewide.

- Add \$6 million for Maui Health System facilities repair, renovations and upgrades, Maui.

Economy

- Add \$15 million for health and safety improvements at Aloha Stadium, O'ahu.

Agriculture

- Add \$1.4 million for health, safety, code and other requirements at Department of Agriculture facilities, statewide.
- Add \$2.3 million for Kahuku Agricultural Park improvements, O'ahu.
- Add \$2.8 million for agricultural infrastructure improvements, statewide.
- Add \$3.6 million for Kekaha ditch irrigation system improvements, Kaua'i.
- Add \$4 million for Waiāhole water system improvements in Kunia, O'ahu.
- Add \$5 million for cash infusion for the Agricultural Loan Revolving Fund, statewide.

Environment

- Add \$8.3 million (\$1.6 million in G.O. bond funds and \$6.5 million in special funds) for watershed protection, initiatives and protective fencing, statewide.
- Add \$4.5 million for flood damage reconstruction at Iao Valley State Monument, Maui.

- Add \$4.4 million for natural hazard mitigation for public safety, statewide.
- Add \$7 million in special funds for land acquisition for forest reserve expansions on O‘ahu and Maui.
- Add \$8.6 million in G.O. bond funds and \$200,000 in federal funds for State Parks infrastructure and facility improvements, statewide.

Native Hawaiians

- Add \$10 million for repairs and maintenance of existing infrastructure for Hawaiian Home Lands, statewide.
- Add \$15 million for Hawaiian Home Lands lot development, statewide.

Transportation

- Add \$76 million in revenue bond funds for Daniel K. Inouye International Airport, EB-5 Loan Repayment, O‘ahu.
- Add \$69 million in revenue bond funds for the federal inspection station at Ellison Onizuka Kona International Airport at Keahole, Hawai‘i.
- Add \$67 million in revenue bond funds for Rental Car Facility improvements, statewide.
- Add \$53 million in other funds (passenger facility charges) for airport improvements, statewide.
- Add \$22.3 million (\$22.3 million in revenue bond funds and \$1,000 in federal funds) for reconstruction of Runway 3-21 at Lana‘i Airport, Lana‘i.

- Add \$20.2 million (\$20.2 million in revenue bond funds and \$2,000 in special funds) for Pier 1 and 2 Improvements at Honolulu Harbor, O‘ahu.
- Add \$19.3 million (\$19.3 million in revenue bond funds and \$2,000 in special funds) for improvement of the Ke‘ehi Industrial Lots at Honolulu Harbor, O‘ahu.
- Add \$17.6 million (\$17.6 million in revenue bond funds and \$2,000 in special funds) for Kahului Harbor improvements, Maui.
- Add \$17 million (\$17 million in revenue bond funds and \$2,000 in special funds) for Kahului Harbor land acquisition and improvements, Maui.
- Add \$176.5 million (\$35.3 million in revenue bond funds and \$141.2 million in federal funds) for major pavement improvements, statewide.
- Add \$73.2 million (\$16.2 million in revenue bond funds and \$57 million in federal funds) for various bridges, statewide.
- Add \$13 million (\$2.6 million in revenue bond funds and \$10.4 million in federal funds) for highway lighting at various locations, O‘ahu.

Taxes

- Add \$16.5 million for the TSM project, statewide.

Public Safety

- Add \$1.6 million for the Hawai‘i State Fusion Center, O‘ahu.
- Add \$1.3 million for the DOD’s Birkhimer Emergency Operating Center Modernization, O‘ahu

- Add \$10 million for PSD's Statewide Facility, ADA and Sustainability Master Plans project.
- Add \$25.8 million for medium security housing at Kaua'i, Hawai'i and Maui Community Correctional Centers.
- Add \$4.7 million for improvements at correctional facilities, statewide.
- Add \$2.5 million for Women's Community Correctional Center to renovate Hookipa Makai Cottage for new women's housing, O'ahu.
- Add \$5 million for site assessment studies for new community correctional centers on Kaua'i and Hawai'i.

WORKING TOGETHER

We can do anything if we work together. As individuals, we each have great untapped potential. As a community, that potential grows exponentially.

As we remember the hard work of our parents and grandparents and the sacrifices that they made for us to give us the lives we have today, we can harness that strength and carry it forward. Together with the Legislature and our communities, we have worked diligently to improve State programs and Hawai'i's quality of life and will continue to do so.

We will work collaboratively to find sustainable solutions. We look forward to the future, when our children have the opportunities they deserve and can call Hawai'i home. Our core values – doing the right thing, the right way, for the right reasons – will always guide us.

Let us live each day with purpose. We can all make a difference and impact someone else's life for the better.

Sincerely,



DAVID Y. IGE
Governor of Hawai'i

APPENDIX TO THE GOVERNOR'S MESSAGE

A. THE FY 19 EXECUTIVE SUPPLEMENTAL BUDGET RECOMMENDATIONS

THE OPERATING BUDGET

General Funds

For **FY 18**, there are no proposed general fund adjustments to the operating budget. The current general fund appropriation level is \$7,248.5 million.

For **FY 19**, total proposed general fund adjustments to the operating budget amount to a net increase of \$21.3 million, or 0.3% more than the current appropriation level of \$7,421.6 million. The recommended general fund amount for FY 19 is \$7,442.9 million.

All Means of Financing

For **FY 18**, there are no proposed adjustments to the operating budget. The current appropriation level for all means of financing (MOF) is \$14,110.6 million.

For **FY 19**, total proposed adjustments to the operating budget for all MOF amount to a net increase of \$85.5 million, or 0.6% more than the current appropriation level of \$14,308.9 million for all MOF. The recommended amount for all MOF for FY 19 is \$14,394.3 million.

Breakdowns by MOF are as follows:

Means of Financing	FY 18 Act 49/2017 Appropriation (\$)	FY 18 Proposed Adjustment (\$)	FY 18 Recommended Appropriation (\$)
General Funds	7,248,455,293	.....	7,248,455,293
Special Funds	2,858,578,242	.....	2,858,578,242
Federal Funds	2,763,388,945	.....	2,763,388,945
Other Federal Funds	241,389,838	.....	241,389,838
Private Contributions	738,352	.....	738,352
County Funds	2,209,721	.....	2,209,721
Trust Funds	431,780,888	.....	431,780,888
Interdept. Transfers	102,080,623	.....	102,080,623
Revolving Funds	444,667,505	.....	444,667,505
Other Funds	<u>17,279,607</u>	<u>.....</u>	<u>17,279,607</u>
Total	14,110,569,014	.....	14,110,569,014

Means of Financing	FY 19 Act 49/2017 Appropriation (\$)	FY 19 Proposed Adjustment (\$)	FY 19 Recommended Appropriation (\$)
General Funds	7,421,597,622	21,256,787	7,442,854,409
Special Funds	2,842,844,254	81,854,945	2,924,699,199
Federal Funds	2,818,249,291	12,540,370	2,830,789,661
Other Federal Funds	226,255,940	(24,207,847)	202,048,093
Private Contributions	747,510	.....	747,510
County Funds	2,209,721	.....	2,209,721
Trust Funds	432,113,524	.....	432,113,524
Interdept. Transfers	102,100,099	(6,687,179)	95,412,920
Revolving Funds	446,796,181	(1,260,390)	445,535,791
Other Funds	<u>15,945,718</u>	<u>1,965,760</u>	<u>17,911,478</u>
Total	14,308,859,860	85,462,446	14,394,322,306

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 PROGRAM BUDGET

General Funds

For **FY 18**, there are no proposed capital improvement program (CIP) adjustments for general funds. The current general fund appropriation level is \$10.5 million.

For **FY 19**, total proposed CIP adjustments for general funds amount to an increase of \$0.5 million, or 4% more than the current general fund appropriation level of \$10.8 million. The recommended general fund amount for FY 19 is \$11.2 million.

General Obligation Bond Funds

For **FY 18**, there are no proposed CIP adjustments for general obligation (G.O.) bond funds. The current G.O. bond fund appropriation level is \$1,028 million.

For **FY 19**, total proposed CIP adjustments for G.O. bond funds amount to a net increase of \$620 million, or 1,254% more than the current G.O. bond appropriation level of \$49.4 million. The recommended G.O. bond amount for FY 19 is \$669.5 million.

All Means of Financing

For **FY 18**, there are no proposed CIP adjustments for all MOF. The current appropriation level for all MOF is \$2,289.7 million.

For **FY 19**, total proposed CIP adjustments amount to a net increase of \$1,497.4 million, or 215% of the current level for all MOF of \$695.2 million. The recommended amount for all MOF for FY 19 is \$2,192.5 million.

Breakdowns by MOF are as follows:

Means of Financing	FY 18 Act 49/2017 Appropriation (\$)	FY 18 Proposed Adjustment (\$)	FY 18 Recommended Appropriation (\$)
General Funds	10,477,000	.....	10,477,000
Special Funds	50,700,000	.....	50,700,000
G.O. Bonds	1,027,951,000	.....	1,027,951,000
G.O. Reimbursable	.....	.....	.....
Revenue Bonds	794,537,000	.....	794,537,000
Federal Funds	369,663,000	.....	369,663,000
Other Federal Funds	11,092,000	.....	11,092,000
Private Contributions	5,000,000	.....	5,000,000
County Funds	1,000,000	.....	1,000,000
Trust Funds	.....	.....	.....
Interdept. Transfers	.....	.....	.....
Revolving Funds	.....	.....	.....
Other Funds	<u>19,325,000</u>	<u>.....</u>	<u>19,325,000</u>
Total	2,289,745,000	.....	2,289,745,000

Means of Financing	FY 19 Act 49/2017 Appropriation (\$)	FY 19 Proposed Adjustment (\$)	FY 19 Recommended Appropriation (\$)
General Funds	10,783,000	452,000	11,235,000
Special Funds	93,513,000	(26,980,000)	66,533,000
G.O. Bonds	49,445,000	620,048,000	669,493,000
G.O. Reimbursable	.....	.....	.....
Revenue Bonds	270,777,000	570,237,000	841,014,000
Federal Funds	219,744,000	275,615,000	495,359,000
Other Federal Funds	11,972,000	.....	11,972,000
Private Contributions	9,651,000	5,003,000	14,654,000
County Funds	.....	.....	.....
Trust Funds	1,150,000	.....	1,150,000
Interdept. Transfers	.....	.....	.....
Revolving Funds	.....	.....	.....
Other Funds	<u>28,125,000</u>	<u>53,000,000</u>	<u>81,125,000</u>
Total	695,160,000	1,497,375,000	2,192,535,000

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 Hawai'i 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 18 and FY 19.

For the Executive Branch, total appropriations from the general fund (which include appropriations from the 2017 Legislature and the first special session) are within the appropriation ceiling for the Executive Branch for FY 18, but has already exceeded the appropriation ceiling for FY 19 by \$15.2 million (or 0.2%). Total proposed appropriation measures from the general fund to be submitted to the Legislature during the regular session of 2018 (which include FY 18 emergency appropriations, the Supplemental Budget for FY 19 and other specific appropriation measures for FY 19) are within the appropriation ceiling for FY 18 but will exceed the appropriation ceiling by \$36.7 million (or 0.5%) in FY 19. 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 Hawai'i 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 16 and 17, general fund balances were greater than 5% of general fund revenues. FY 16 general fund revenues exceeded the previous year's revenues by 5% or more and FY 17 general fund revenues did not exceed the previous year's revenues by 5%. Accordingly, the 2018 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 Hawai'i 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.