EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

June 22, 2018

EXECUTIVE MEMORANDUM MEMO NO. 18-03

TO: All Department Heads

SUBJECT: FY 19 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 19.

At its May 24, 2018 meeting, the Council on Revenues (COR) raised its FY 18 general fund tax revenue growth rate forecast from 5.3% to 7.3%, increased its FY 19 projection from 4.5% to 5.0% and maintained out-year projections of 4.0% for FY 20 to FY 24. The COR took this action due to the higher than forecast revenue collections for the first ten months of FY 18 (8.3% versus 5.3%) and continued robust economic activity. No changes were made to the four out-years due to uncertainty regarding economic conditions, including the potential impact of recent natural disasters, such as the floods on Kaua'i and ongoing volcanic eruption on the island of Hawai'i, and the end of the economy's expansionary cycle.

Preliminary FY 18 general fund tax revenue collections through May 2018 support the COR's action. Collections for the first 11 months of FY 18 were 8.5% more than in FY 17, higher than the COR's projection of 7.3%. General fund tax revenue growth has improved since FY 17, which had a 2.0% growth rate and has been consistently positive throughout FY 18.

Hawai'i's economic expansion is in its ninth year and it is expected to continue. The tourism industry continues to exhibit robust growth with 2018 year-to-date increases through April 2018 of 10.8% in visitor spending and 8.7% in visitor arrivals. Statewide average daily visitor spending also rose by 3.6% to $210 per person. In addition, Hawai'i's preliminary seasonally adjusted unemployment has reached historically low levels - 2.0% in May 2018, the same as it was in April 2018.

We are optimistic but know that things can change rapidly. The outlook for Hawai'i's economy is positive but continued growth will be impacted by the tight labor market and the strains on the State's infrastructure. On the national and international level, there are uncertainties due to possible trade wars and increased tensions in the Middle East. The COR's concern regarding the end of the economy's expansionary cycle is warranted.

Our management of the State's finances demands that we always prepare for the future. It is of continued concern that, despite the projected increase in revenues, State expenditures are expected to outpace revenue collections until FY 21. At the end of FY 21, the State's general fund balance is expected to be at its lowest point over the current biennium and four-year planning period.

We must keep in mind our commitment to fund the State's unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund (EUTF) in the years to come. The amounts needed to address these liabilities are quite significant.

Further, reductions to federal grant programs continue to be a possibility. Should federal funds be cut, the State must be prepared to provide the necessary funds to support the continuation of programs which the State deems critical. The impact to the State would be twofold as the State will bear the economic impact of reduced federal funds being spent, as well as the costs to transition federal programs to State funding.

There are substantial demands on the State's resources - outside of our current budget - that we must be prepared for. This reinforces the need to be prudent with our expenditures now to prepare for times when revenues are more uncertain.

For this reason, we will continue the 5% contingency restriction on general funded discretionary appropriations less a $4.0 million discretionary adjustment, as applicable (restrictions shall not be applied to Chapter 42F general funded grants). The 5% contingency restriction is intended as a contingency reserve for FY 19 and may be adjusted during the second half of the fiscal year based on actual tax collection trends and the COR's updated forecasts later in the fiscal year.

These budget execution policies delegate many responsibilities to the department level to facilitate the efficiency of your operations. The budget controls are necessary to manage the State's finances to enable the State to meet current and future demands.

All departments are expected to continue their efforts to enhance the efficiency of their operations and stay within their departmental allocation. Our goal of improving government transparency and accountability goes hand-in-hand with improving our delivery of services. We can strengthen the foundation of our State government by working together towards this common goal.

The flexibility and authority provided to your department should not be taken lightly. These processes deserve your appropriate attention and should be executed responsibly with the utmost care to maintain the State's fiscal health now and in the future.

Exhibit 1 contains your department's FY 19 allocation of operating program appropriations and permanent and temporary position ceilings from Act 49, SLH 2017, as amended by House Bill No. 1900, H.D. 1, S.D. 2, C.D. 1, which includes a 5% contingency restriction on your department's discretionary general fund appropriations less a $4.0 million discretionary adjustment, as applicable.

A revised Exhibit 1, which will contain included and excluded (if applicable) collective bargaining (CB) allocations for Bargaining Units (BU) 2, 3, 4, 5, 6, 9, 11, 13 and 14 for the applicable negotiated agreements, will be distributed under separate cover. CB amounts for BUs 1, 7, 10, and 14 for EUTF only are allocated to the Department of Budget and Finance (B&F).

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 19 budget execution to provide for prudent and efficient implementation of legislative intent.

Questions on the specific policies and instructions should be directed to B&F or the appropriate agency referenced. Electronic files of the budget execution forms will be provided for your use.

David Y. Ige

DAVID Y. IGE
Governor, State of Hawai'i

Exhibit 1
Attachment A
Attachment B