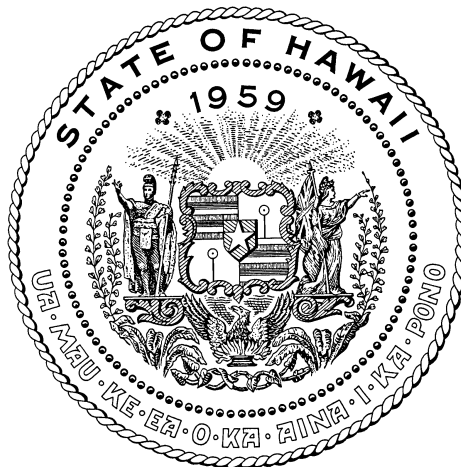


# STATE OF HAWAII



## **THE MULTI-YEAR PROGRAM and FINANCIAL PLAN and EXECUTIVE BUDGET For the Period 2019-2025 (Budget Period 2019-2021)**

Submitted to the Thirtieth State Legislature  
December 17, 2018

EXECUTIVE CHAMBERS  
State Capitol  
Honolulu, Hawai'i 96813

**GOVERNOR'S MESSAGE TO THE  
30<sup>TH</sup> STATE LEGISLATURE OF HAWAI'I  
MEETING IN THE REGULAR SESSION OF 2019**

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) 2019-21 and the Program and Financial Plan for the period 2019-25.

**OVERVIEW**

As our Administration enters its second term, we remain as committed to our core values as when we first took office. We are driven by these values, which provide the backbone for all of our actions.

We have a responsibility to the people of Hawai'i to improve life in the islands and make it more sustainable in all respects. Over the past four years, we have been diligently working towards this goal. We understand the impact that our actions – or inactions – have on Hawai'i's families and our future generations.

Our commitment has never wavered. 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.

Our schools are the foundation of our communities. Much of what we can accomplish as a State starts with providing high quality education for our children. Education can significantly impact their future and our State's future as well.

Research has shown that early childhood education, such as a pre-kindergarten program, is critical for brain development. For the benefit of our keiki, we must provide more early learning opportunities statewide and are working diligently with private sector partners to expand the State's early learning program. In addition, we propose to convert classrooms at public schools to provide pre-kindergarten classrooms.

Improving the quality of education at our public schools has always been one of our highest priorities. Together with more than 3,000 parents, teachers and community members from

around the State, we collaborated to create the “Blueprint for Public Education,” which will help us maximize opportunities and possibilities to transform education in Hawai‘i.

We will continue to work towards getting more funding at the classroom level, where it will have the most impact, and invest in improving our public-school facilities to provide better learning environments. We fulfilled and exceeded our promise to cool 1,000 of the hottest classrooms by cooling over 1,300 classrooms statewide. Working together with the Department of Education (DOE), we can make Hawai‘i’s educational system one of the best in the nation.

A post-secondary education is expected to be needed for 70 percent of jobs by 2020, as noted in a national study. As of 2017, the U.S. Census indicated that 44.9 percent of Hawai‘i’s working age adults had a 2- or 4-year college degree. We will continue to work towards our goal of increasing that amount to 55 percent by the year 2025 because our families deserve the chance to compete for higher-paying jobs.

As part of this effort, the DOE and the University of Hawai‘i (UH) are working to expand the Early College program, which allows high school students to earn college credits, to every public high school in the State. We also propose to expand the Hawai‘i Promise Program, the UH’s “last dollar” scholarship program for community colleges, to include all UH four-year institutions.

Currently, the Hawai‘i Promise Program fills the gap for qualifying families to allow students with financial need to attend UH community colleges at no cost. In 2017, the first year of the program, scholarships were awarded to 1,000 students.

All of our communities have been affected by homelessness. Our consistent and collaborative efforts are showing results and, for the second consecutive year, Hawai‘i’s homeless count has decreased. The decrease from 7,220 persons in

2017 to 6,530 persons in 2018 validates the State’s coordinated approach, focusing on programs that work. However, there is more to do. Ultimately, it is about providing the appropriate services to those in need and getting them into permanent supportive housing.

Homelessness often hinges on the lack of affordable housing. Addressing this basic unmet need is amongst our highest priorities. We have made great progress towards our goal of producing 10,000 new housing units by 2020 and have added a new goal of 22,500 affordable rentals by 2026.

We will continue to work together with the counties, developers and housing advocates to increase housing production and reduce barriers to development. We must leverage State resources with private funds to develop more affordable housing and support the necessary infrastructure development.

With the support of the Legislature, our Administration has secured record amounts of funding for the State’s Rental Housing Revolving Fund (RHRF) to help developers finance affordable construction. The Ige administration has prioritized this program because it has been effective.

Over the past 3-1/2 years, 21 projects, totaling 1,872 units, received RHRF awards. By way of comparison, in the previous 7 years, 21 projects, totaling 1,816 units, received RHRF awards. We must sustain this momentum for the sake of Hawai‘i’s families.

Hawai‘i is a very special place. As the stewards of these islands that we call home, we cannot take that for granted. 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.

The Aloha+ Challenge established ambitious goals for sustainability for the public and private sectors. The Sustainable Hawai'i Initiative reflects the State's commitment to this effort by setting the following goals:

- Doubling local food production by 2020;
- Implementing the interagency biosecurity plan by 2027;
- Protecting 30 percent of priority watersheds by 2030;
- Effectively managing 30 percent of nearshore ocean waters by 2030; and
- Achieving 100 percent renewable electricity by 2045.

We are diligently working together with our partners and the community towards these goals. We are halfway to our goal of protecting 30 percent of priority watersheds and must continue these efforts. Supporting the agricultural industry, a significant contributor to our economy, will bring us closer to food security and doubling local food production by 2020.

Hawai'i's natural resources and beauty draw visitors to our islands. The visitor industry continues to experience strong growth and will be a significant contributor to the State's economy, despite the recent flood on Kaua'i and volcanic eruption on the island of Hawai'i which impacted visitor arrivals on those islands.

To support our communities and our visitor industry, we must advance sustainable growth. We must make infrastructure improvements to our airports, roads and harbors while preserving public parks, hiking trails and watersheds.

At our airports, we have reestablished the federal inspection station at the Ellison Onizuka Kona International Airport at Keahole and put into motion \$2.7 billion in modernization projects at airports across the state. We have also begun the harbors modernization project at Honolulu and other harbor around the State which will benefit our residents and visitors alike.

While the visitor industry will always play a significant role in Hawai'i's economy, we must broaden our economic base by nurturing innovators and entrepreneurs. It is time to find other means of economic growth to support our children and their families in the years to come.

Hawai'i's location in the middle of the Pacific is no longer the barrier it once was – technology has changed all that. Building an innovation economy can help us develop high-quality, high-wage jobs. By investing in our people by providing the appropriate training and education, we can provide opportunities for the future.

Technology is also helping the State to convert many of our paper-based processes and make them electronic, enhancing efficiency and our ability to serve the public. The State's Enterprise Payroll and Time and Attendance Modernization (Hawai'iPay) and Tax System Modernization (TSM) projects have been successfully rolled out, helping to save time and resources. While these projects are ongoing, they present statewide opportunities to accelerate the adoption of more efficient, less paper-dependent ways of doing business throughout and with State government.

Our commitment to provide a government that is honest, transparent and responsive is stronger than ever. Our budget approach and the Executive 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***

Maintaining the State's fiscal stability is critical to ensuring the continuation of essential State services. In developing the Executive 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 2019-21 and beyond.

Our responsibility to ensure the State's fiscal stability has never been taken lightly. Since taking office four years ago, our Administration has generally approached the budget in a cautious manner, often because fluctuating general fund revenue growth did not reflect the State's economic situation and expansion of the economy.

As in past years, we are closely monitoring general fund tax revenues, as FY 19 collections through November 2018 are 4.8 percent more than last year, after two months of less than 1 percent growth and an uptick to 3.8 percent in October 2018. Changes in revenue growth over a fiscal year have often proven to be unpredictable.

The State ended FY 18 with a general fund balance of approximately \$750 million. While this carryover balance will help to support the increasing costs of State programs, it

remains a concern that State expenditures are still projected to exceed revenues until FY 21. The State's commitments to fund its unfunded pension and other post-employment benefits (OPEB) liabilities and collective bargaining increases have significantly impacted the operating budget.

For many programs, federal funding has become uncertain or nonexistent. Consequently, the State must support the costs of federal programs which the State deems critical when federal funding has been reduced or discontinued. The impact of significant federal fund reductions is twofold, as the State will bear the economic impact of the reduced funding while providing additional funds for federal programs.

The constant instability in Congress adds another layer of uncertainty. Although most major federal programs have been funded through the current federal fiscal year, many discretionary and mandatory programs are operating on a continuing resolution. Problems could arise should a continuing resolution or federal FY 19 funding not be passed by Congress in a timely manner.

There are many competing demands for State resources, and providing the necessary funding for fixed costs and entitlements (i.e., debt service, pension and retirement benefits, Medicaid) and priority needs such as schools, housing, health and human services often leaves little for other programs. There are many pent-up demands, often for 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.

These factors reinforce the continual need to be fiscally prudent and responsible with our expenditures to ensure the State's fiscal stability through FB 2019-21 and beyond. We must 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.

We continue to work to align resources to address our most critical issues and better serve the public. As such, the Executive Budget proposes limited general fund appropriations for FB 2019-21 beyond those for non-discretionary costs.

### ***Financial Stability***

Our Administration's focused approach to the budget over our first term improved the State's fiscal position. We adopted formal budget reserve and debt management policies and made considerable progress addressing our unfunded liabilities and strengthening our reserves with the Legislature's support.

We have built up our Emergency and Budget Reserve Fund to \$375.7 million in preparation for future economic downturns. In 2017, Moody's Analytics "stress tested" all 50 states and assessed that Hawai'i was one of 16 states that was prepared for a recession. This past September, Moody's Analytics determined that Hawai'i was one of 23 states prepared for a moderate recession after applying similar stress tests.

The State is committed to fund the annual required contribution (ARC) for OPEB unfunded liabilities. These payments, which will gradually increase to almost a billion dollars annually by the end of the planning period in 2025, will result in full funding of OPEB over the 30-year period and will substantially reduce OPEB costs in the future.

Our Administration implemented strong budget and financial policies and has continuously worked to improve and maintain the State's credit ratings for general obligation (G.O.) bonds. With actions taken by the Legislature, the State of Hawai'i currently has the highest bond rating in its history of AA+.

This higher bond rating allows the State to issue G.O. bonds at lower interest rates, freeing up general funds that would have been used for debt service to address the State's other critical needs like education, housing, and homelessness while providing funding for much needed capital improvements at a lower cost to taxpayers.

### ***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 63 of Act 49, SLH 2017, as amended by Act 53, SLH 2018, 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 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 ECONOMY**

Hawai'i's economy continues to show positive growth that is expected to continue into 2019, though at lower levels. The visitor industry and construction industry will remain major contributors to the State's economic expansion.

The visitor industry is still experiencing record growth. Through October 2018, year-to-date visitor expenditures and arrivals have increased by 8.8 and 6.3 percent, respectively. The growth is bolstered by visitors from the U.S. West and East and Canada, as well as visitors from other markets, which are not specifically tracked.

The major indicators of Hawai'i's construction industry were also positive during the first two to three quarters of 2018. The contracting tax base increased 13.3 percent during the first half of 2018. The value of private building authorizations and government contracts awarded increased by 3.6 percent and 39.3 percent, respectively, while State capital improvement program (CIP) expenditures also increased by 35.9 percent during the first nine months of 2018.

Hawai'i's seasonally adjusted unemployment rate for October 2018 is 2.3 percent, having gradually increased from a very low rate of 2.0 percent in May 2018. Since July 2017, Hawai'i's unemployment rate has been at 2.3 percent or less. Hawai'i's unemployment rate is still the lowest in the nation and is much lower than the national seasonally adjusted unemployment rate of 3.7 percent.

The recent disasters, such as the flooding on Kaua'i and O'ahu and the volcanic eruption on the island of Hawai'i and Hurricanes Lane and Olivia, serve as timely reminders of how quickly things can change. We are fortunate but vulnerable in the middle of the Pacific. Beyond our shores, the potential impact from national and international actions, such as possible trade wars and increased tensions in the Middle East, must always be considered.

While we are optimistic about Hawai'i's economy, we recognize that downturns are part of every economic cycle. There is significant pressure on the labor market and infrastructure to keep pace with a continually expanding economy. The low unemployment rate may also indicate nearly "full employment" which could stifle growth.

We cannot predict when things will happen but we can do our best to be prepared. Thus, we will continue to work together with the Legislature to further support the State's economic growth and improve the State's fiscal position.

## **REVENUE PROJECTIONS**

At its September 6, 2018 meeting, the Council on Revenues (COR) maintained its general fund tax revenue growth projection for FY 19 of 5.0 percent. The COR expects slightly lower growth for FY 19 following the robust growth of FY 18 of 7.6 percent, 0.3 percent higher than the COR had projected.

For FY 20 through FY 24, the COR projected 4.0% growth annually. In addition, the COR forecasted growth of 4.0% for FY 25, which was not previously projected.

While the COR believes that Hawai'i's economy continues to be strong, it is uncertain about the future. The Council raised concerns about the economy reaching the end of its expansionary cycle during the seven-year budget window and other international, national and State events affecting

Hawai'i's economy. However, it also noted that visitor arrivals and expenditures, job counts and construction activity continued to be strong.

Preliminary actual general fund tax revenue growth for FY 19 is approaching the level projected by the COR, coming in at 4.8 percent through November 2018. Growth for the first four months of FY 19, with two months at less than 1 percent and an uptick to 3.8 percent in October 2018, has been uneven. It is a concern that general excise tax revenue growth is lagging at 2.2 percent for November 2018 while growth for September and October was negative.

As collections are uncertain going forward, with an abundance of caution, the Administration has based the Executive Budget for FB 2019-21 and the Program and Financial Plan for the period 2019-25 on a 3.5 percent growth rate for FY 19.

## **THE EXECUTIVE BUDGET REQUEST FOR FB 2019-21**

### **The Operating Budget**

The development of the Executive Budget for FB 2019-21 began with an operating base budget amount for each department, equivalent to its FY 19 appropriation, less non-recurring expenses, plus collective bargaining (except for federal and other federal funds) and other adjustments, as applicable. These base budget amounts were adjusted by requests that included:

- Governor's initiatives
- 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 2019-21, the budget includes \$15.475 billion in FY 20 and \$15.699 billion in FY 21 from all means of financing (MOF) for operating costs. This represents increases of \$1.037 billion (7.2 percent) and \$1.261 billion (8.7 percent), respectively, over the current level appropriated for FY 19 in Act 49, SLH 2017, as amended by Act 53, SLH 2018. Of these amounts, the net request for general funds is \$8.046 billion in FY 20 and \$8.295 billion in FY 21, resulting in increases of \$534.1 million (7.1 percent) and \$783.0 million (10.4 percent), respectively.

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

Significant general fund requests to provide additional funding for fixed costs and entitlements include:

- \$67,847,411 in FY 20 and \$62,217,195 in FY 21 for debt service for DOE, UH and other State CIP projects.
- \$51,020,981 in FY 20 and \$57,340,240 in FY 21 for health premium payments for active employees for DOE, UH and other State programs.
- \$161,031,051 in FY 20 and \$267,248,138 in FY 21 for retirement benefit payments for DOE, UH and other State programs.

- -\$16,511,000 in FY 20 and \$38,369,000 in FY 21 for Medicaid health care payments.

In addition, we propose to consolidate all amounts currently budgeted for DOE, UH and other State programs for OPEB to a new program ID, BUF 762, Health Premium Payments – ARC, because the actuarial valuation reports will not provide a breakdown of the costs between DOE, UH and other State programs and request additional funds for FY 20 and FY 21:

- \$814,659,000 in FY 20 and \$847,680,000 in FY 21 for OPEB payments at 100 percent of the ARC. These amounts include increases of \$27,549,000 in FY 20 and \$60,570,000 in FY 21 along with transfers totaling \$787,110,000 in both FY 20 and FY 21, from BUF 761, Health Premium Payments – State; BUF 765, Health Premium Payments – DOE; and BUF 768, Health Premium Payments – UH, to new program ID BUF 762.

The Executive Budget for FB 2019-21 provides for the incremental continuation of improvements initiated by our Administration. Significant requests for priority areas include the following (requests are for general funds unless otherwise noted and, for most new positions, six-months funding):

### Education

#### *Public School System*

- The DOE has conducted a significant review of its existing resources and expenditures, and the requested realignment (trade-offs and transfers) reflects current needs.
- \$3,000,000 in FY 20 and FY 21 for the School Innovation Fund under the Weighted Student Formula, which supports goals and objectives of schools based on enrollment and weighting factors.

- \$1,500,000 in FY 20 and FY 21 to support the early college high school initiative to achieve the “55 by 25” goal.
- 166.00 permanent positions in FY 20 and FY 21 for Applied Behavior Analysis program to implement Act 107, SLH 2016, Relating to Education, and Act 205, SLH 2018, Relating to the Practice of Behavior Analysis, funded by internal savings.
- \$6,000,000 in FY 20 and FY 21 for school facility service, repair and maintenance contracts.
- \$5,000,000 in FY 20 and FY 21 for electricity cost adjustments.
- \$3,400,000 in FY 20 and FY 21 for workers’ compensation payments.
- 4.00 permanent positions and \$96,450 in FY 20 and 4.00 permanent positions and \$115,243 in FY 21 to expand and support the early learning program administered by the Executive Office on Early Learning and \$830,535 in FY 20 and 44.00 permanent positions and \$2,025,620 in FY 21 to support 22 additional pre-kindergarten classrooms.
- -\$10,000,000 in FY 20 and FY 21 in federal funds to reflect reduced funding reimbursements for the Impact Aid Program.

#### *Charter School System*

- \$4,034,331 in FY 20 and \$4,388,199 in FY 21 for the per pupil funding adjustment based on the DOE’s FB 2019-21 requested operating budget and projected enrollment.
- \$803,585 in FY 20 and \$1,634,815 in FY 21 for the newly authorized charter school DreamHouse.

- \$892,000 in FY 20 and FY 21 for teacher incentives, including Hard to Staff and National Board Certifications.

#### *Public Library System*

- \$1,500,000 in FY 20 and FY 21 for library books and materials.

#### *University System*

- \$19,000,000 in FY 20 and FY 21 to expand the Hawai’i Promise Program to all UH four-year institutions.
- \$700,000 in FY 20 and FY 21 to continue the Hawai’i Promise Program and transfer \$1,829,000 in FY 20 and FY 21 from the community colleges to UH Systemwide Support to support program expansion.
- \$2,198,360 in FY 20 and \$2,242,327 in FY 21 to increase the stipends for graduate assistants.

#### Homelessness and Housing

- \$1,097,707 for FY 20 and \$952,743 in FY 21 for State rent supplement to provide housing subsidies to keep families from becoming homeless.
- \$3,750,000 for FY 20 and FY 21 for the Housing First Program, which provides housing and supportive services to homeless who may have mental health or addiction issues.
- \$3,750,000 for FY 20 and FY 21 for the Rapid Re-housing Program to move capable families out of shelters.
- \$1,750,000 for FY 20 and FY 21 for the Department of Human Services’ (DHS) homeless outreach services.

- \$1,550,000 in FY 20 and FY 21 for homeless family assessment centers.
- \$570,000 in general funds and \$1,330,000 in federal funds in FY 20 and FY 21 for homeless shelter after-care services.
- \$5,000,000 for FY 20 and FY 21 for homeless property storage.
- \$258,180 in FY 20 and \$252,447 in FY 21 for 4.00 permanent deputy sheriff positions for security support in homeless operations.

#### Sustainable Hawai'i Initiative

- 4.00 permanent positions and \$103,908 in FY 20 and \$207,816 in FY 21 for the Hawai'i Interagency Biosecurity Plan 2017-2027.
- 2.00 temporary positions and revolving funds of \$733,008 in FY 20 and \$651,936 in FY 21 for the Agribusiness Development Corporation.
- \$50,000,000 in special funds in both FY 20 and FY 21 to establish the ceiling for the revolving line of credit sub-fund created within the Hawai'i Green Infrastructure Authority special fund in Act 121, SLH 2018.
- \$1,000,000 in both FY 20 and FY 21 for the Hawai'i Invasive Species Council.
- \$2,364,905 in special funds in both FY 20 and FY 21 for the Legacy Land Conservation Program.
- \$800,000 in both FY 20 and FY 21 for response activities related to wildland fires and Rapid 'Ōhi'a Death.

- \$4,098,228 in FY 20 and \$5,423,334 in FY 21 in special funds (trade-off and transfer requests) to increase the Department of Transportation's (DOT) energy savings performance contracts, statewide.

#### Economy

- \$1,000,000 in both FY 20 and FY 21 for the Hawai'i Small Business Innovation Research Program, Phase II and Phase III.
- \$500,000 in both FY 20 and FY 21 for Manufacturing Assistance Program grants.
- \$750,000 in both FY 20 and FY 21 for the Excelerator Program.

#### Effective, Efficient, and Open Government

- \$1,038,240 in FY 20 and \$1,263,902 in FY 21 to provide for Cybersecurity Capability Enhancements for Enterprise Technology Services.
- 3.00 temporary positions and \$9,956,000 in trust funds in FY 20 and \$367,167 in trust funds in FY 21 for the Hawai'i Employer-Union Health Benefits Trust Fund to implement and maintain a new benefits administration system.
- \$2,824,388 in other funds in FY 20 and \$1,153,800 in other funds in FY 21 to facilitate migration of the Employees' Retirement System's pension and accounting systems to the cloud.
- \$2,500,000 in FY 20 and \$500,000 in FY 21 in special funds to replace the Hawai'i Insurance Database System.
- \$500,000 in FY 20 and \$2,060,000 in FY 21 in special funds to replace the Public Utilities Commission's Document Management System.

- 21.00 permanent and 2.00 temporary positions and \$1,894,140 in both FY 20 and FY 21 to convert 21.00 permanent and 2.00 temporary positions and \$2,068,976 in revolving funds in both FY 20 and FY 21 for the Hawai'i Community Development Authority from revolving to general funds.
- \$5,491,700 in FY 20 and \$4,220,900 in FY 21 for the maintenance and operating costs of the DHS' Enterprise System, known as Kauhale On-Line Eligibility Assistance (KOLEA), which supports the eligibility determination process for the medical assistance programs.
- \$722,957 in general funds and \$641,112 in federal funds in FY 20 and \$2,584,483 in general funds and \$2,291,900 in federal funds in FY 21 for the Benefits, Employment and Support Services Division's cost allocation for DHS' Enterprise Platform and its Benefits Eligibility System.
- \$2,000,000 in federal funds in FY 20 and \$1,000,000 in federal funds in FY 21 for modifications to the Hawai'i Automated Network Assistance case management system.
- \$2,565,469 in FY 20 and \$1,772,998 in FY 21 to continue the Disability Compensation Division's modernization project and \$225,000 in FY 20 and FY 21 for the project's independent verification and validation.
- -84.00 permanent positions and -\$4,698,390 in federal funds in both FY 20 and FY 21 for Unemployment Insurance (UI) to delete vacant, unfunded positions and to reflect anticipated reduction in federal awards and \$4,000,000 in FY 21 to temporarily cover anticipated federal fund UI payroll and operating cost shortfalls due to the low unemployment rate and decreased federal awards.
- \$2,000,000 in both FY 20 and FY 21 to transition the processing of UI benefits from the current State mainframe computer system to an external cloud system.

- \$3,640,000 in FY 20 and \$4,800,000 in FY 21 for professional services for the TSM project.
- \$10,703,600 in FY 20 and \$875,000 in FY 21 in special funds for the new Highway's Financial Management System.

#### Health

- 12.00 permanent positions and \$289,014 in FY 20 and 139.00 permanent positions and \$9,195,886 in FY 21 for the new Hawai'i State Hospital forensic facility.
- \$7,702,000 in FY 20 and \$5,814,000 in FY 21 to increase the State match for Medicaid 1915(c) Individuals with Intellectual and Development Disabilities Home and Community Based Services Waiver.
- 5.00 permanent positions and \$2,374,847 in FY 20 and FY 21 to replace federal funds from the Family Planning Program - Title X (-5.00 permanent positions, -1.00 temporary position and -\$2,252,414 in federal funds).
- 14.00 permanent positions and \$869,444 in special funds in FY 20 and 14.00 permanent positions and \$1,588,349 in special funds to maintain food establishment inspection frequency and food safety public health education messaging campaign.
- 12.00 positions (1.00 permanent position and 11.00 temporary positions) and \$1,616,850 in special funds to be transferred to HTH 595, Health Resources Administration program, from the HTH 100, Communicable Disease and Public Health Nursing program, and HTH 720, Office of Health Care Assurance, pursuant to Act 159, SLH 2018, Relating to Medical Cannabis.
- \$14,500,000 in both FY 20 and FY 21 for operational costs for the Hawai'i Health Systems Corporation - Regions.

- \$1,000,000 in both FY 20 and FY 21 for operational costs for the Kahuku Medical Center.
- \$20,488,000 in FY 20 and \$17,267,000 in FY 21 for Maui Health System subsidy.

### Public Safety

- \$2,500,000 in FY 20 and FY 21 for special event security activities.
- \$4,500,000 in FY 20 and FY 21 for the Major Disaster Fund to increase the fund from \$500,000 to \$5,000,000.
- 30.50 positions (8.50 permanent positions and 22.00 temporary positions) and \$2,003,603 to convert MOF from federal funds (-7.50 permanent positions, -11.00 temporary positions and -\$2,022,049) and other federal funds (-1.00 permanent position, -11.00 temporary positions, and -\$903,930) in FY 20 and FY 21 for Hawai'i Emergency Management Agency's (HIEMA) staffing positions.
- 12.00 temporary positions and \$620,664 in FY 20 and FY 21 for HIEMA to assist with reimbursements from the Federal Emergency Management Agency related to the April 2018 Severe Storms and May 2018 Kilauea East Rift Zone disasters.
- \$1,546,456 in both FY 20 and FY 21 for increased county contract costs for lifeguard services.

### Transportation

- \$363,944,000 in special funds in FY 20 and \$377,575,000 in special funds in FY 21 to authorize expenditures from the Mass Transit Special Fund established by Act 1, Special SLH 2017.

- \$120,390,581 in FY 20 and \$147,633,291 in FY 21 in special funds for debt service costs for airport revenue bonds.
- \$40,786,147 in FY 20 and \$40,789,551 in FY 21 in special funds for debt service costs for the Airports Division's Customer Facility Charge revenue bonds.
- 21.00 permanent positions (15.00 Deputy Sheriff, 6.00 Clerk Dispatcher) and \$1,086,455 in interdepartmental transfers in FY 20 and \$1,926,339 in interdepartmental transfers in FY 21 for the Department of Public Safety (PSD) (funded by DOT) and 45.00 permanent positions and \$1,516,695 in special funds in FY 20 and 53.00 permanent positions (8.00 additional positions) and \$3,425,756 in special funds in FY 21 for DOT to support the Daniel K. Inouye International Airport's new Mauka Concourse facility.
- \$30,000,000 in special funds in FY 20 and FY 21 for airport special maintenance projects.
- 136.00 permanent positions, 1.00 temporary position and \$83,727,282 in FY 20 and \$83,760,766 in FY 21 in special funds to be transferred from the various Harbor District program IDs into one program ID, TRN 301, entitled "Hawai'i Harbors System."
- \$20,000,000 in FY 20 and FY 21 in special funds for harbor special maintenance projects.
- \$44,000,000 in FY 20 and \$58,000,000 in FY 21 in special funds for highway special maintenance projects.

## **The Capital Improvements Program Budget**

For the capital improvements program (CIP) budget, a total of \$2.021 billion in FY 20 and \$1.483 billion in FY 21 has been recommended. Of these amounts, the requests for G.O. bonds total \$978.2 million and \$731.5 million, respectively.

The Executive Budget for FB 2019-21 CIP requests reflect our Administration's core values. A significant amount of the requested G.O. bond funds are for projects to address health and safety, capacity, equity and program support issues at our public schools. We have also requested funding to convert 22 classrooms statewide to pre-kindergarten classrooms.

There are many UH system projects that will provide needed improvements for health and safety and program needs. Other requests support our Administration's priorities of providing affordable housing and our Sustainable Hawai'i Initiative. To continue our efforts to relocate the O'ahu Community Correctional Center, funds have been requested to pursue alternative financing for the project.

We are requesting \$125 million for a State match to a \$345 million federal appropriation for a flood mitigation project along the Ala Wai Canal. We are in negotiations with the City and County of Honolulu and the US Army Corps of Engineers regarding project implementation.

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. It makes good financial sense to address these priority needs while our bond rating is at its highest, which will help reduce debt service costs.

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

The FB 2019-21 CIP requests support the following priority areas (G.O. bond funds unless otherwise noted; totals may differ due to rounding):

### Education

#### *Public School System*

- \$79,310,000 in FY 20 and \$112,520,000 for FY 21 for lump sum - repair and maintenance, statewide.
- \$25,000,000 in FY 20 and FY 21 for lump sum - capacity, statewide.
- \$38,500,000 in FY 20 and FY 21 for lump sum - compliance, statewide.
- \$10,880,000 in FY 20 and \$10,000,000 in FY 21 for lump sum - health and safety, statewide.
- \$18,500,000 and \$74,000,000 in federal funds in FY 20 for Mokapu Elementary School, O'ahu.
- \$35,000,000 in FY 20 and FY 21 for lump sum for DOE project completion, statewide.
- \$14,300,000 in FY 20 and FY 21 for renovations for pre-kindergarten classrooms, statewide.

#### *Public Library System*

- \$7,000,000 in FY 20 and \$5,000,000 in FY 21 for health and safety improvements at public libraries, statewide.
- \$3,000,000 in FY 20 and FY 21 for Hawai'i State Library, O'ahu.

### *University System*

- \$56,500,000 in FY 20 and \$71,500,000 in FY 21 for UH System, renew, improve and modernize, statewide.
- \$43,500,000 in FY 20 for Honolulu Community College, science building, O'ahu.
- \$41,000,000 in FY 20 for UH Mānoa, Sinclair Library renovation, O'ahu.
- \$55,000,000 in FY 21 for UH Mānoa, Snyder Hall replacement, O'ahu.
- \$14,500,000 in FY 21 for Community Colleges, capital renewal and deferred maintenance, statewide.
- \$5,000,000 in FY 20 and \$8,000,000 in FY 21 for UH Hilo, renew, improve and modernize, Hawai'i.

### Housing

- \$50,000,000 in FY 20 and \$25,000,000 in FY 21 for a Dwelling Unit Revolving Fund cash infusion, statewide.
- \$100,000,000 in both FY 20 and FY 21 for a cash infusion for the Rental Housing Revolving Fund, statewide.
- \$35,000,000 in FY 20 and \$35,000,000 in FY 21 for public housing development, improvements, and renovations, statewide.

### Sustainable Hawai'i Initiative

- \$1,700,000 in FY 20 and \$900,000 in FY 21 for Kahuku Agricultural Park improvements, O'ahu.
- \$2,500,000 in FY 20 for Waimanalo Irrigation System improvements, O'ahu.

- \$9,300,000 in FY 21 for Moloka'i Irrigation System improvements, Moloka'i.
- \$1,300,000 in FY 21 for Waimea Irrigation System improvements, Hawai'i.
- \$7,500,000 in FY 20 and \$5,000,000 in FY 21 for a cash infusion to the Agricultural Loan Revolving Fund.
- \$3,300,000 in FY 20 and \$1,850,000 in FY 21 for miscellaneous health, safety, code and other requirements at Department of Agriculture facilities, statewide.
- \$5,583,000 in FY 20 and \$4,992,000 in FY 21 for watershed protection and initiatives, statewide.
- \$2,750,000 (\$2,250,000 in G.O. bond funds and \$500,000 in federal funds) in FY 20 and \$3,200,000 (\$2,700,000 in G.O. bond funds and \$500,000 in federal funds) in FY 21 for improvements at Malaekahana and Sand Island State Recreation Areas, O'ahu.
- \$4,200,000 in both FY 20 and FY 21 for rockfall, flood, tree, and other hazard mitigation projects, statewide.
- \$10,350,000 (\$1,850,000 in G.O. bond funds; \$1,500,000 in special funds; \$3,000,000 in private contributions; \$4,000,000 in trust funds) in FY 21 for Waikīkī Beach master plan improvements, O'ahu.
- \$125,000,000 in FY 20 for Ala Wai Canal flood risk management, O'ahu.

### Native Hawaiians

- \$20,000,000 in both FY 20 and FY 21 for lot development projects, statewide.

- \$5,000,000 in both FY 20 and FY 21 for repairs and maintenance to infrastructure within Department of Hawaiian Home Lands subdivisions, statewide.

### Economy

- \$20,000,000 in FY 20 and \$10,000,000 in FY 21 to address health and safety at Aloha Stadium, O'ahu.
- \$10,000,000 in FY 20 for the Hawai'i broadband initiative, statewide.
- \$2,500,000 in FY 20 for the Kalaeloa Improvement District, O'ahu.
- \$3,500,000 in FY 20 for the Kaka'ako Improvement District, O'ahu.
- \$5,000,000 in FY 20 for a cash infusion for the Hawai'i Strategic Development Corporation Revolving Fund for the Venture Capital Investment Program, statewide.

### Effective, Efficient, and Open Government

- \$30,000,000 in FY 20 for maintenance of existing public facilities managed by the Department of Accounting and General Services, statewide.
- \$4,650,000 in FY 20 and \$6,000,000 in FY 21 for health and safety improvements for the Information and Communications Services Division facilities, statewide.
- \$3,000,000 in FY 20 and \$218,000 in FY 21 for equipment for cybersecurity capability enhancements, O'ahu.

### Health

- \$2,487,000 in G.O. bond funds and \$12,431,000 in federal funds in FY 20 and FY 21 for Wastewater Treatment Revolving Fund for pollution control, statewide.
- \$2,221,000 in G.O. bond funds and \$11,107,000 in federal funds in FY 20 and FY 21 for Safe Drinking Water Revolving Fund, statewide.
- \$1,945,000 in FY 20 and \$14,414,000 in FY 21 for Department of Health, health and safety, statewide.
- \$8,445,000 in FY 20 and \$8,997,000 in FY 21 for Hawai'i State Hospital, health and safety, O'ahu.
- \$4,683,000 in FY 20 and \$8,172,000 in FY 21 for Hawai'i State laboratories improvements, statewide.
- \$20,000,000 in FY 20 and \$21,500,000 in FY 21 for facility improvements and renovations to Hawai'i Health Systems Corporation - Regions, statewide.
- \$6,000,000 in both FY 20 and FY 21 for facility improvements and renovations to Maui Health System, Maui and Lana'i.

### Public Safety

- \$9,552,000 (\$2,096,000 in G.O. bond funds and \$7,456,000 in other federal funds) in FY 21 for upgrades and improvements to National Guard readiness centers and facilities, statewide.
- \$3,000,000 in FY 21 for the Department of Defense to retrofit buildings with hurricane protective measures, statewide.



- \$2,500,000 in FY 20 for disaster warning and communications devices, statewide.
- \$1,793,000 in FY 20 and \$15,000,000 in FY 21 for the PSD lump sum CIP, statewide.
- \$15,000,000 in FY 20 for Halawa Correctional Facility, consolidated health care unit, O'ahu.
- \$5,000,000 in FY 20 to study alternative financing options for a new facility, O'ahu.

#### Veterans

- \$35,500,000 (\$31,783,000 in G.O. bond funds and \$3,717,000 in other federal funds) in FY 20 for the Veteran's Administration long-term care facility, O'ahu.
- \$5,546,000 (\$1,000,000 in G.O. bonds and \$4,546,000 in other federal funds) in FY 20 for the upgrades and improvements at the Hawai'i State Veterans Cemetery, O'ahu.

#### Transportation

- \$172,002,000 (\$164,000,000 in revenue bond funds, \$2,000 in federal funds and \$8,000,000 in other funds (passenger facility charges)) in FY 20 and \$275,002,000 (\$275,000,000 in revenue bond funds and \$2,000 in federal funds) in FY 21 for airfield improvements, statewide.
- \$170,000,000 (\$100,000,000 in revenue bond funds and \$70,000,000 in other funds (passenger facility charges)) in FY 20 for Daniel K. Inouye International Airport, new mauka concourse improvements, O'ahu.

- \$46,900,000 in FY 20 and \$58,900,000 in FY 21 in revenue bond funds for Daniel K. Inouye International Airport, terminal modifications, O'ahu.
- \$27,500,000 in FY 20 and \$12,000,000 in FY 21 in revenue bond funds for Daniel K. Inouye International Airport, system improvements, O'ahu.
- \$25,001,000 (\$25,000,000 in revenue bond funds and \$1,000 in federal funds) in FY 20 and \$3,000,000 in FY 21 for runway safety area improvements, statewide.
- \$15,721,000 in FY 20 in revenue bond funds for Ellison Onizuka Kona International Airport at Keahole, terminal improvements, Hawai'i.
- \$800,000 in FY 20 and \$23,000,000 in FY 21 in revenue bond funds for Hilo International Airport, terminal improvements, Hawai'i.
- \$121,050,000 (\$121,038,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 20 and \$90,500,000 (\$90,488,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 21 for O'ahu District, commercial harbor improvements, O'ahu.
- \$46,500,000 (\$9,300,000 in revenue bond funds and \$37,200,000 in federal funds) in FY 20 and \$13,750,000 (\$2,750,000 in revenue bond funds and \$11,000,000 in federal funds) in FY 21 for various bridges, statewide.
- \$39,250,000 (\$7,850,000 in revenue bond funds and \$31,400,000 in federal funds) in FY 20 and \$25,500,000 (\$5,100,000 in revenue bond funds and \$20,400,000 in federal funds) in FY 21 for highway planning, statewide.

- \$38,500,000 (\$7,700,000 in revenue bond funds and \$30,800,000 in federal funds) in FY 20 for highway lighting replacement at various locations, O'ahu.

### **CONTINUING TO WORK TOGETHER**

Like our parents before us, we want the best for our children and for our families. Our parents and grandparents had a strong work ethic and the foresight to help create the Hawai'i we know today. Now, we must build upon that foundation and create the Hawai'i for our future generations.

We are grateful for the opportunity to continue our efforts. We remain firmly committed to our core values – doing the right thing, the right way, for the right reasons – and they guide us in all of our actions.

We have learned that many of us share the same core values, and, when we work together, there is no limit to what we can accomplish. Sharing ideas and working towards a common goal will help us find solutions that work.

It may not always be easy, but together, we are up for the challenge. We look forward to working with all of you.

Sincerely,

A handwritten signature in black ink, reading "David Y. Ige". The signature is written in a cursive, flowing style.

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 FY 2019-21, total operating budget requests from all sources of funding amount to \$15,474.6 billion in FY 20 and \$15,698.9 billion in FY 21, resulting in increases of 7.2 percent and 8.7 percent, respectively.

<u>Means of Financing</u>	<u>FY 19 Appropriation</u> (\$million)	<u>FY 20 Request</u> (\$million)	<u>FY 21 Request</u> (\$million)
General Funds	7,512.3	8,046.4	8,295.2
Special Funds	2,928.2	3,356.9	3,412.1
Federal Funds	2,807.4	2,850.3	2,804.2
Other Federal Funds	201.7	223.5	199.7
Private Contributions	2.4	0.9	0.9
County Funds	2.2	2.2	2.2
Trust Funds	440.3	438.8	429.3
Interdept. Transfers	79.6	81.7	82.6
Revolving Funds	446.0	453.8	453.8
Other Funds	<u>18.0</u>	<u>20.1</u>	<u>18.7</u>
<b>Total</b>	<b>14,438.1</b>	<b>15,474.6</b>	<b>15,698.9*</b>
Increase over FY 19		1,036.6*	1,260.8*
Percentage increase		7.2%	8.7%

\* - 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 \$8.046 billion in FY 20 and \$8.295 billion in FY 21, which represents an increase of \$534.1 million (7.1 percent) in the first year and \$783.0 million (10.4 percent) in the second year over the FY 19 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 2019-21, total requests for capital improvements amount to \$2.021 billion in FY 20 and \$1.483 billion in FY 21, to be funded from the following sources:

<u>Means of Financing</u>	<u>FY 20 Request (\$million)</u>	<u>FY 21 Request (\$million)</u>
General Funds	-	-
Special Funds	21.4	23.0
G.O. Bonds	978.2	731.5
G.O. Reimbursable	-	-
Revenue Bonds	692.6	616.4
Federal Funds	164.3	97.3
Other Federal Funds	82.3	7.5
Private Contributions	1.4	3.4
County Funds	-	-
Trust Funds	-	4.0
Interdept. Transfers	-	-
Revolving Funds	-	-
Other Funds	<u>80.8</u>	<u>0.2</u>
<b>Total</b>	<b>2,020.8*</b>	<b>1,483.2*</b>

\* - 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 of Article VII of the State Constitution and Section 37-92 of the Hawai'i Revised Statutes (HRS).

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 19, FY 20 and FY 21.

For the Executive Branch, total appropriations from the general fund (which include the Executive Budget for FB 2019-21 and other specific appropriation measures to be submitted) are also within the Executive Branch's appropriation ceiling for FY 19, FY 20 and FY 21.

**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 17 and 18, general fund balances were greater than 5% of general fund revenues. FY 17 general fund revenues did not exceed the previous year's revenues by 5% or more and FY 18 general fund revenues exceeded the previous year's revenues by 5%. Accordingly, the 2019 Legislature must provide for a tax refund or tax credit or appropriate general funds for the prepayment of either or both of 1) debt service or 2) pension or other post-employment benefit liabilities 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 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 Supplemental Budget (including State guaranties) will not cause the debt limit to be exceeded at the time of each bond issuance.