



EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

August 2, 2019

EXECUTIVE MEMORANDUM

MEMO NO. 19-02

TO: All Department Heads

SUBJECT: FY 20 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 20. These policies will apply to all appropriations from the following:

- Act 5, SLH 2019, including appropriation and position ceiling transfers from other departmental budget acts that were approved by the Governor pursuant to Section 44 of Act 5, SLH 2019, on June 19, 2019 (to be referred to as "Act 5, SLH 2019, including transfers"), for operating.
- Act 40, SLH 2019, for capital improvement program projects.
- Act 39, SLH 2019, for Chapter 42F, HRS, grants.
- Other specific appropriations authorized for expenditure in FY 20 by the 2019 Legislature or other legislative sessions.

At its May 23, 2019 meeting, the Council on Revenues (COR) raised its FY 19 general fund tax revenue growth rate forecast from 3.0% to 4.7% and maintained its FY 20 projection of 4.0% as well as the out-year projections of 4.0% for FY 21 to FY 25. The COR's decision was impacted by the marked increase in tax collections in April 2019, which resulted in a cumulative growth of 5.7% in general fund tax collections for the first ten months of FY 19, a significant increase when compared to the 2.1% cumulative growth in general fund tax collections through February 2019.

General fund tax growth was positive throughout FY 19 though low growth rates during the first and third quarters of the fiscal year were a cause for concern. Preliminary general fund tax collections for FY 19 are in line with the COR's revised projection, coming in 5.1% higher year-to-date compared to FY 18.

Hawai'i's economic expansion is expected to continue throughout 2019 and 2020. However, the State's tourism industry, a major economic driver that has exhibited robust growth for many years, has slowed. Following record years of visitor spending and arrivals, visitor expenditures for the first five months of 2019 were lower than levels in 2018 despite increased visitor arrivals and days spent in the islands.

Hawai'i's preliminary seasonally adjusted unemployment rate has gradually increased from a historical low of 2.0% in May 2018 to 2.8% in May 2019. Still, Hawai'i's unemployment rate remains relatively low, and our tight labor market, along with continued strains on our infrastructure, may limit future growth. Stricter enforcement of vacation rentals could also have a substantial impact on the tourism industry.

The health of the U.S. and other international economies, such as Japan, significantly impacts Hawai'i's economy. While economic growth is expected for the U.S. and Japan, Japan's growth could be nearly flat. Uncertainty has also increased due to ongoing trade wars and rising tensions in the Middle East. These factors have heightened concerns about the possible end of the State's current expansionary cycle.

We must continue to be mindful of our expenditures. Despite the projected increase in revenues, general fund expenditures are expected to outpace revenues until FY 21. It is our responsibility to be prepared for substantial and sometimes unforeseen demands on the State's resources.

The State remains committed to funding its significant unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund (EUTF). Future reductions in federal funding for critical programs may also require additional State funds. We know change can come quickly, so we must remain prudent with our expenditures to prepare for times when revenues are more uncertain.

Thus, we will continue the Administration's conservative approach to the budget, which includes imposing a 5% restriction and continuing the 5% contingency restriction on general-funded discretionary appropriations less a \$4.0 million discretionary adjustment, as applicable. The restrictions will not apply to Chapter 42F general-funded grants appropriated in Act 39, SLH 2019.

The 5% contingency restriction is intended as a contingency reserve for FY 20 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 restrictions will apply to general-funded appropriations from Act 5, SLH 2019, including transfers, as well as specific appropriations but will not apply to Chapter 42F grants. All other budget policies for FY 20 will generally remain the same though technical changes will be necessary to accommodate the numerous budget acts.

To facilitate the efficiency of State operations, these policies continue to delegate many responsibilities to the departmental level. I trust that the flexibility and authority provided to execute these budget controls will be used with care and caution. Appropriate and thoughtful management of the State's finances will allow us to meet current and future demands.

In addition, we must continue to look for ways to enhance State operations while making effective use of our existing resources. We are committed to improving government transparency and accountability along with our delivery of services. We can strengthen the foundation of our State government by working together towards this common goal.

Exhibit 1 contains your department's FY 20 allocation of operating program appropriations and permanent and temporary position ceilings from Act 5, SLH 2019, including transfers, which includes a 5% restriction and a 5% contingency restriction on your department's discretionary general fund appropriations less a \$4.0 million discretionary standard deduction, as applicable.

Included and excluded (if applicable) collective bargaining (CB) allocations for Bargaining Units (BU) 1, 5, 10, and 11 for applicable negotiated agreements are also included, as applicable. CB amounts for BUs 2, 3, 4, 6, 7, 8, 9, 13, 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 20 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
Governor, State of Hawai'i

Exhibit 1
Governor's Approval and List of Bills with Budget Impact
Attachment A
Attachment B