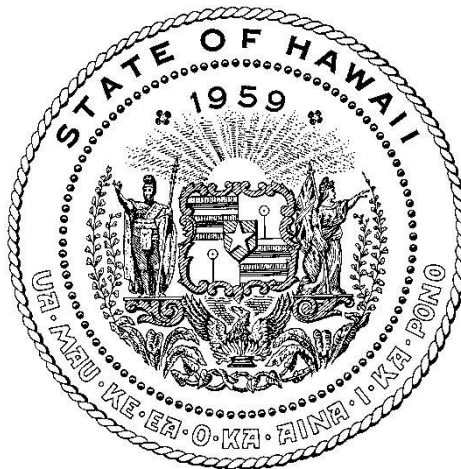


STATE OF HAWAII



EXECUTIVE SUPPLEMENTAL BUDGET (Budget Period 2019-2021)

Submitted to the Thirtieth State Legislature
December 16, 2019

EXECUTIVE CHAMBERS
State Capitol
Honolulu, Hawai'i 96813

**GOVERNOR'S MESSAGE TO THE 30TH STATE
LEGISLATURE OF HAWAII MEETING IN THE REGULAR
SESSION OF 2020**

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

OVERVIEW

Our Administration has been unwavering in our quest to improve the lives of Hawai'i's people, from keiki to kūpuna. Since our first day in office in 2014, our actions have been guided by seven core values that are based on collaboration and integrity.

- *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.

These values are the backbone of our Administration. Treating people with the respect they deserve is more important now than ever. We realize that our actions – or inactions – can affect generations to come.

Our Administration has made great strides in implementing policies and programs that, when taken together and carried out over many years, will establish the Hawaiian Islands as a place that future generations choose to call home. This budget proposes additional funds for a number of these programs.

Hawai'i's future belongs to our keiki. Unquestionably, providing a quality, future-focused education system to ensure that our children have the skills to succeed remains one of our highest priorities.

Research shows that early childhood education is critical for brain development. The Executive Office of Early Learning (EOEL), working in conjunction with the Department of Education (DOE), will expand the Public Prekindergarten Program by opening 10 new classrooms for the 2020-21

school year. This will bring the total to 36 classrooms statewide with further expansion planned for the upcoming biennium.

Pursuant to the 2015 enactment of the federal “Every Student Succeeds Act” (ESSA), which returned the authority over education from the federal government to the local level, the Governor’s ESSA Team collaborated with more than 3,000 parents, teachers and community members from around the State to prepare “Hawai’i’s Blueprint for Public Education.” Working with the DOE, this blueprint can help us maximize opportunities and possibilities to transform education in Hawai’i and make our public school system the best in the nation.

Additional funding is still needed at the classroom level, where it can make the most impact. We will request funding to support DOE’s initiative to pay shortage differentials for special education and Hawaiian language immersion teachers and teachers in hard to fill districts so we can attract and retain qualified teachers where they are needed most. We will also continue to invest in our public-school facilities to provide better learning environments.

Our families must also be prepared for the changing job market, which, according to a national study, will favor those with post-secondary degrees, estimated to be needed for 70 percent of jobs by 2020. Increasing access to post-secondary education will support the growth of a qualified workforce and will help local families qualify for higher paying jobs.

We are continuing to work with DOE and the University of Hawai’i (UH) towards fulfilling our goal of increasing the number of adults with 2- or 4-year college degrees to 55 percent by 2025. Since 2014, the number of adults with college degrees has steadily increased from 45.5 percent to 48.3 percent in 2018.

The Early College program, which allows high school students to earn college credits, has expanded from the initial 12 public high schools to 38 public high schools and charter schools in 2018. Early College program participants who earn at least 6 college credits are more likely to enroll and succeed in college compared to their non-participating counterparts.

Hawai’i Promise, the UH’s “last dollar” scholarship program helps to fill in the gap for qualifying families to allow students with financial need to attend community colleges at no cost. We will propose to expand this program to 4-year colleges to provide greater opportunities for those in need.

Many families need assistance at one time or another to help them get ahead or simply get back on track. The State’s Housing First approach has helped to reduce the number of homeless for the third year in a row, according to the 2019 statewide point in time survey.

The lack of affordable housing contributes to the homeless situation. We have stepped up our efforts to provide affordable units to rent or buy as there remains significant unmet need.

By working with key stakeholders – the counties, developers and housing advocates – we are increasing housing production and reducing barriers to development. We will meet our goal of 10,000 new units by the end of 2020. Since 2015, 8,700 new units have been constructed and there are 3,200 more in production, including private development and market units.

We have seen definite progress in providing affordable units for all demographics. For example, Kulana Hale, which is the result of a public-private partnership, will help working families and seniors. We continue to explore innovative ways to leverage State resources to develop more affordable housing and support the necessary infrastructure development.

Hawai'i's natural resources are unique and vital. They play an essential part in our culture and way of life. As stewards of these islands, we recognize that we must do our part to maintain these resources for future generations.

The Aloha+ Challenge established ambitious sustainability goals 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 have approached these goals head on, working with our partners and the community to fulfill these significant commitments. We must lead the way to make life in Hawai'i sustainable for all of Hawai'i's people.

Hawai'i's agricultural industry is looking toward developing plantation lands for diversified agriculture, combining traditional farming with new technology for higher yields, and considering what can be grown for local consumption. The Department of Agriculture's Market Analysis and News Branch is being revitalized to support local food self-sufficiency and doubling local food production by providing statistical data which will help Hawai'i's primary agricultural producers make decisions on what and how much to grow.

We are moving forward with the development of Royal Kunia Agricultural Park to support the agricultural industry's expansion into diversified agriculture. This project will provide 24 farm lots on some of the State's best agricultural land and farmers will be able to use affordable on-site infrastructure. As plans for this project have already been completed, we will request funding for infrastructure construction.

Programs like Aina Pono in our public schools, which includes the Farm to School initiative, and the new Farm to State initiative, give local farmers a means to provide healthy options to our communities. We all benefit from a strong agricultural industry, which also makes significant contributions to the State's economy.

The Hawai'i Interagency Biosecurity Plan, a 10-year vision to better protect Hawai'i from the impacts of invasive species, identifies strategic improvements needed across multiple State agencies and partnerships by 2027. To date, we are well ahead of schedule. As of July 2019, 55 percent of the actions in the plan had been initiated or completed. This is helping to protect Hawai'i's environment from invasive species such as the Little Red Fire Ant and the Coconut Rhinoceros Beetle.

In 2011, only 10 percent of watershed forests were protected, a level that had taken 40 years to achieve. With the Legislature's support, recent CIP funding has provided the match for over \$17 million in non-State funds, primarily federal funds, since our Administration took office. Now, 17 percent of priority forests are protected and over \$12.5 million has been appropriated for FB 2019-21 for this purpose.

The goal of Hawaii's marine 30x30 initiative, intended to help meet the goal of effectively managing 30 percent of nearshore ocean waters by 2030, is to have a healthy nearshore ecosystem with abundant resources, which allow the people of Hawai'i to enjoy their coastal waters, support local livelihoods, and feed their families. Over the past two years, the Division of Aquatic Resources (DAR) has collaborated with science and cultural experts to develop guidelines to inform the marine 30x30 process.

Currently, 6 percent of our nearshore waters are encompassed within designated marine management areas (MMAs). DAR is working to develop management plans for

existing and future MMAs and will officially launch “Holomua: Pathway to 30x30” in early 2020. This program will engage communities and stakeholders to determine marine management best practices for each location.

Working with our private sector partners and the community, we continue to make progress towards our renewable energy goal. With a flurry of solar photovoltaic projects in the pipeline, Hawai'i is on track to meet the interim 2020 target for the share of electricity sales from renewable sources. We also expect to meet our 2020 target for reducing energy usage.

Visitors are drawn to the natural beauty of our islands. The visitor industry is still expanding but its growth has been tempered after years of record increases. Nevertheless, tourism will always make significant contributions to Hawai'i's economy.

Technology has removed the physical barriers of being located in the middle of the Pacific and building an innovation economy can help us develop high quality, high wage jobs to broaden our economic base. Nurturing innovators and entrepreneurs by providing grants or a co-working facility such as the new Entrepreneurs Sandbox in Kakaako will provide fresh ideas and help to get new businesses off the ground. Diversifying our economy will benefit our children and families by providing more jobs and opportunities.

When we look at sustainability, we must also look at sustainable growth, including the infrastructure that forms the foundation for it. Our Administration has already made significant progress on long-stalled projects such as airports and harbors improvements to improve our quality of life and accommodate more business. Our Highways Division has made emergency repairs in response to natural disasters and completed a number of projects to ease traffic congestion.

We have already completed the tax system and payroll modernization projects to increase government efficiency and responsiveness. The next significant step will be to begin the planning process for a new State Finance System, part of the Hawai'i Modernization Initiative. This statewide conversion effort will provide greater efficiency and will accelerate the adoption of less paper-dependent ways of doing business throughout and with State government, as well as improve reporting functions.

Our Administration remains committed to being fiscally responsible. We will continue to look for thoughtful and innovative ways to improve our operations and services to the public while making the best use of our resources. We have approached the Executive Supplemental Budget, which is aligned with our Administration's strategic priorities, in that manner.

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, the military and the visitor industry 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

In developing the Executive Supplemental Budget, we considered the State's fiscal health and the potential impact of all proposed budget requests. To the extent possible, we must be aware of potential stressors to the State's economy which could impact the State's revenues and fiscal well-being.

Since the beginning of our Administration, it has been our goal to improve the State's fiscal stability. The State's fiscal health has fluctuated significantly over the past several years and general fund tax revenue growth has not always been reflective of economic activity.

We have always approached the budget conservatively and our consistency has resulted in improvement of the State's fiscal position since we took office. We have built up our Emergency and Budget Reserve Fund to \$378.2 million to prepare for future economic downturns.

We have made significant progress in strengthening our reserves and addressing our unfunded liabilities with the support of the Legislature. As a result of our strong budget and fiscal policies and actions taken by the Legislature, the State's credit ratings for general obligation (G.O.) bonds have improved to the highest AA rating from all three rating agencies. These are collectively the highest G.O. bond ratings ever achieved by the State.

Higher credit ratings mean lower interest rates. Thus, the State has been able to issue G.O. bonds with lower debt service payments, freeing up funds which can be used for other critical needs such as education, housing, homelessness and sustainability.

General fund tax revenue collections for the current fiscal year have been strong and growth rates have been consistently positive. The cumulative November 2019 general fund tax

revenue growth rate is 5.9 percent, down from 13.7 percent in July 2019, but it is premature to predict a trend in revenues for the remainder of the fiscal year.

The State's fiscal situation appears optimistic in view of general fund revenue growth thus far and the carryover general fund balance of \$752.1 million from FY 19. However, as we have seen in the past several years, changes in revenue growth can be unpredictable over a 12-month period.

While we remain concerned that the State's expenditures are projected to exceed revenues for the next few years until FY 23, the State has significant funding commitments to fulfill for collective bargaining increases and the State's unfunded pension and other post-employment benefits (OPEB) liabilities. We must ensure that adequate resources are available to meet these substantial demands.

Over the past few years, the State has gradually assumed more costs for federal programs for which federal grant funds were insufficient. We expect this trend to continue; thus, the State must be prepared to fund federal programs for services which the State deems critical. 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.

There are many pressing and competing demands for State resources. Education, housing, and health and social services will always be amongst our highest priorities but we also need to support other programs that assist our communities and enhance our quality of life.

We have proposed limited general fund appropriations in the Executive Supplemental Budget and will continue to work to align our current resources to solve our most critical problems and better serve the people of Hawai'i.

Budget Transparency

To increase budget transparency, departments were instructed to review their FB 2019-21 operating budget details for items which did not align with anticipated expenditures and could be addressed immediately. 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 42 of Act 5, SLH 2019, 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.

Constitutional and Statutory Requirements

In preparing the Executive Supplemental Budget, the Executive Branch is bound by constitutional and statutory requirements, which include, but are not limited to, the following:

- Article VII, Section 9, of the State Constitution provides that “. . . in each regular session in an even-numbered year, at such time as may be provided by law, the governor may submit to the legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill, and bills to amend any appropriations for capital expenditures of the current fiscal biennium”
- Section 37-72, Supplemental Budget, HRS, states that the Governor may submit to the Legislature a supplemental budget to amend any appropriation for the current fiscal biennium. The supplemental budget shall reflect the changes being proposed in the State’s program and financial plan and shall be submitted, as applicable, in the manner provided in Section 37-71, The Budget, HRS.
- Section 37-71(b)(4), HRS, prescribes that the information provided in the budget be formatted such that “[p]rogram costs shall include all costs, including research and development, operating and capital, regardless of the means of financing”
- Section 37-71(c)(3), HRS, requires a summary listing of all capital improvement projects by program, at the lowest level of the program structure, which shows for each project, by investment cost elements, the amount of new appropriations and authorizations proposed. Under Section 37-62, Definitions, HRS, “cost elements” means the major subdivisions of a cost category. The category “capital investment” includes plan, land acquisition, design, construction, and equipment and furnishing.

Thus, we have prepared a comprehensive Executive Supplemental Budget that includes all program costs. All FY 20 and FY 21 operating appropriations and position ceilings from various departmental budget bills have been transferred to Act 5, SLH 2019, the General Appropriations Act, as approved by the Governor on June 19, 2019, pursuant to Section 44 of Act 5, SLH 2019 (to be referred to as “Act 5, SLH 2019, including transfers”). These transfers were necessary to provide centralized funding for operations, which would improve fiscal control and reduce workload. Further, multiple budget acts could not be accommodated by the State’s budget systems and put a strain on our accounting resources.

These transfers were included in each department’s operating budget ceilings, as applicable. Lists of these transfers, by department, may be found under Finance Memorandum No. 19-11, FY 21 Supplemental Budget Policies and Guidelines (FB 2019-21): <https://budget.hawaii.gov/statewide-policies/financememorandums/fm-2019/>

To meet the requirements of Section 37-71, HRS, we have also consolidated the operating and capital improvement program (CIP) budgets in the Executive Supplemental Budget. All new CIP requests have been included along with the CIP appropriations from Act 40, SLH 2019. Further, all CIP requests, including those for projects from Act 40, SLH 2019, designate funding by cost elements (i.e., plans, land acquisition, design, construction, and equipment).

THE ECONOMY

Hawai’i’s economy is expected to show positive growth through 2019 and 2020. The conditions of the U.S. economy and key international economies, especially Japan, significantly impact Hawai’i’s economy. The State’s economic expansion is reliant upon the continued growth of the tourism and construction industries, which are major components in the State’s economy.

The tourism industry, having experienced years of record growth, is still expanding, albeit at a slower pace. Based on preliminary data year-to-date through October 2019, visitor spending increased marginally by 0.2 percent compared to last year, while visitor arrivals increased by 5.5 percent and visitor days increased by 2.9 percent.

Visitors from the U.S. West and East and Japan have contributed significantly to industry growth. Over 8.6 million visitors arrived in the islands through October 2019, of which the greater part arrived by air from the U.S. West.

Average length of stay, per person per day spending and per person per trip spending decreased by 2.4, 2.6 and 5.0 percent, respectively, year-to-date through October 2019. Tighter enforcement of vacation rentals by the City and County of Honolulu may also further restrict growth, but the impact is uncertain.

In the third quarter of 2019, economic indicators for the construction industry were mixed with government contracts awarded decreasing by 58 percent, while construction jobs increased by 3.0 percent. Though the number of planned building permits has decreased this year, new and pending projects are expected to sustain the construction industry.

Hawai'i's seasonally adjusted unemployment rate has remained relatively stable this year through October 2019. The unemployment rate rose from 2.7 percent in the beginning of 2019 to 2.8 percent, then dropped back to 2.7 percent, where it has remained since August.

Although Hawai'i's unemployment rate has gradually increased from the record low of 2.2 percent at the end of 2017, it remains relatively low and amongst the lowest in the nation. While our tight labor market, along with continued strains on our infrastructure, may limit future growth, it is

encouraging that the national unemployment rate of 3.6 percent for October 2019 is the second lowest rate of the decade, given the impact of the U.S. economy on Hawai'i.

We remain optimistic about Hawai'i's economy but there are many potential challenges. We must put the State in the best position to deal with challenges that come our way and will continue to work to with the Legislature to improve the State's economic growth and fiscal condition.

REVENUE PROJECTIONS

At its August 29, 2019 meeting, the Council on Revenues (COR) raised its FY 20 general fund tax revenue growth rate forecast from 4.0 percent to 4.1 percent. For the forthcoming years, the COR decreased the projected growth rates for FY 21 and FY 22 from 4.0 percent to 3.0 percent and maintained its 4.0 percent growth forecast for FY 23 through FY 25. The COR also added 4.0 percent growth for FY 26 to its forecast.

The COR recognized the underlying strength of the current economy, citing more construction down the pike and stronger visitor statistics for July, but raised concerns regarding the end of Hawai'i's expansionary cycle. The COR's decision was also impacted by the uncertainty caused by tighter enforcement of vacation rentals by the City and County of Honolulu and ongoing trade and currency wars.

For the first five months of FY 20, preliminary general fund tax revenue growth for FY 20 is 5.9 percent compared to the same period last fiscal year. Growth levels have flattened as the fiscal year has progressed; however, changes in revenue growth can be unpredictable over a 12-month period.

THE FY 21 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.

The Executive Supplemental Budget includes:

1. Operating requests for FY 20 and FY 21 that propose changes and adjustments to Act 5, SLH 2019, including transfers, which authorized funding for the two-year fiscal period that began on July 1, 2019 and ends on June 30, 2021.
2. CIP requests for FY 21 that propose changes and adjustments to Act 40, SLH 2019, which will be incorporated into the Executive Supplemental Budget.

	<u>FY 20</u> <u>Appropriations</u> (\$million)	<u>FY 20</u> <u>Adjustments</u> (\$million)	<u>FY 20</u> <u>Requests</u> (\$million)
Operating Budget			
All Means of Financing (MOF)	15,632.1	62.5	15,694.6
General Funds	8,024.0	62.5	8,086.5
Capital Improvements			
All MOF	2,330.8	0.0	2,330.8
G.O. Bond Funds	1,018.8	0.0	1,018.8
G.O. Reimbursable Bond Funds	4.0	.....	4.0
	<u>FY 21</u> <u>Appropriations</u> (\$million)	<u>FY 21</u> <u>Adjustments</u> (\$million)	<u>FY 21</u> <u>Requests</u> (\$million)
Operating Budget			
All MOF	15,768.2	429.0	16,197.2
General Funds	8,190.9	214.1	8,405.0
Capital Improvements			
All MOF	1,156.3	1,468.0	2,624.3
G.O. Bond Funds	439.3	533.2	972.5

The Operating Budget

The Executive Supplemental Budget includes amendments for FY 20 and FY 21 that total \$62.5 million and \$429.0 million, respectively, from all MOF for operating costs. This represents increases of 0.4 percent and 2.7 percent over FY 20 and FY 21 appropriations, respectively, in the FB 2019-21 Executive Budget (Act 5, SLH 2019, including transfers).

Additional information on funding distribution by MOF and department may be found in the sections that follow. Funding requested for various departments for public safety operational requirements is subject to change.

Significant requests for priority areas include (FY 21 general funds unless otherwise noted; most positions funded for six-months):

Education

Public School System

- Adds \$14,498,250 in FY 20 and \$26,769,500 in FY 21 for extra compensation for classroom teacher shortage differentials.
- Adds \$13,215,000 for DOE's Weighted Student Formula, which supports goals and objectives of schools based on enrollment and weighting factors.
- Adds \$5,000,000 for electricity costs.
- Adds \$2,935,000 for licensing costs for the Financial Management System replacement.
- Adds \$2,000,000 for equipment for newly constructed school buildings and classrooms.
- Adds 1.00 permanent position and \$70,000 to support the Pre-K program administered by the Executive Office on Early Learning (EOEL).
- Adds \$300,000 for continuation of EOEL's Family Child Interaction Learning program.
- Adds \$2,337,303 for Charter Schools to equalize the per pupil funding based on the DOE's FY 21 operating budget and projected enrollment.
- Adds \$1,448,250 in FY 20 and \$1,933,500 in FY 21 for Charter Schools for extra compensation for classroom teacher shortage differentials.

University System

- Adds \$19,000,000 for expansion of the Hawai'i Promise Scholarship Program to include all UH campuses.
- Adds 32.00 permanent positions and \$1,223,040 for 24/7 security coverage at UH Community Colleges.
- Adds 8.00 permanent positions and \$1,400,000 for a medical education and residency support program on Maui.

Public Library System

- Adds \$1,000,000 for security services at the Hawai'i State public libraries.

Effective, Efficient, and Open Government

- Decreases debt service payments by \$12,326,593.
- Decreases health premium payments by \$13,153,066.
- Increases retirement system pension payments by \$5,943,787 in general funds in FY 20; and increases retirement system pension payments by \$5,905,668 in general funds and decreases it by \$6,865,887 in interdepartmental transfer funds in FY 21.
- Adds \$1,628,547 in various MOF to provide funding for minimum wage increases.
- Adds \$7,764,000 for lump sum health and safety repairs for the Aloha Stadium.
- Adds 9.50 permanent positions and 1.00 temporary position and \$543,894; reduces 9.25 permanent positions and 1.00 temporary position and \$853,685 in special funds; and reduces 0.25 permanent position and \$10,341

in federal funds, to convert and align positions in the State Foundation on Culture and the Arts program with the appropriate MOF.

- Adds 10.00 permanent positions and \$510,000 to establish a Complex Litigation, Fraud and Compliance Unit.
- Adds \$1,000,000 for Deputy Attorney General salary increases.
- Adds \$3,500,000 in special funds to replace the outdated Business Registration Information Management System and Registration Documents Processing Management System.
- Adds \$2,000,000 in special funds for King Kalakaua Building maintenance and emergency preparedness grant matching.
- Adds \$4,000,000 to temporarily cover anticipated federal fund Unemployment Insurance (UI) payroll and operating cost shortfalls due to the low unemployment rate and decreased federal awards.
- Adds \$1,000,000 to transition the processing of UI benefits from the current State mainframe computer system to an external cloud system.

Homelessness

- Adds \$5,000,000 for Homeless Services for stored property and debris removal services on State land.

Health

- Adds \$15,776,780 for collective bargaining requirements and recurring personnel costs for emergency medical services.

- Adds \$3,997,494 for recurring current expenses for emergency medical services.
- Adds 3.00 permanent positions and \$1,621,081 for Title X Family Planning Program. Decreases 3.00 permanent positions and \$2,222,418 in federal funds to reflect change in MOF.
- Adds \$1,500,000 for the Kūpuna Caregivers Program.
- Adds \$21,600,000 for operational costs for the Hawai'i Health Systems Corporation – Regions.
- Adds \$17,267,000 for an operational subsidy for Maui Health System, a Kaiser Foundation Hospitals LLC.

Economy

- Adds \$1,000,000 for the Hawai'i Small Business Innovation Research Program Phase II and Phase III grants.
- Adds \$500,000 for Manufacturing Assistance Program grants.
- Adds \$300,000 for Excelerator program grants.

Agriculture

- Adds 5.00 permanent positions and \$375,804 for the Industrial Hemp Program.

Environment

- Adds \$700,000 for response activities related to Rapid Ohia Death.

- Adds \$6,900,000 in special funds for Land Division projects, conservation and natural resource programs, and forest carbon sequestration activities.
- Adds \$5,100,000 in special funds for the Legacy Land Conservation Program.
- Adds \$2,000,000 in special funds for State Parks operations and maintenance.

Transportation

- Adds \$24,196,642 in special funds for anticipated increases for electricity at Daniel K. Inouye International Airport.
- Adds \$14,876,887 in special funds for anticipated increases for security services at airports, Statewide.
- Adds \$13,611,408 in special funds for routine maintenance at Daniel K. Inouye International Airport.
- Adds 9.00 permanent positions and \$296,486 for staffing at various programs at Honolulu Harbor, Hilo Harbor, and Kahului Harbor.
- Adds \$15,207,100 in special funds for highways special maintenance projects.
- Adds \$2,000,000 in special funds for additional consulting services for compliance with Municipal Separate Storm Sewer System (MS4) requirements for Maui Highways.

Public Safety

- Adds \$5,720,435 in FY 20 for disaster relief relating to the Kilauea eruption.

- Adds \$2,308,138 (\$1,016,661 in general funds and \$1,291,477 in other federal funds) to convert the pay schedule of 97.00 Department of Defense positions from the State pay rate to the State military rate.
- Adds \$1,900,000 to replace the system-wide disaster warning satellite modems used in the activation and control of disaster sirens.
- Adds \$2,100,000 for increased county contract costs for lifeguard services at State beaches.
- Adds 10.50 permanent Registered Nurse III positions and \$1,638,558 (\$684,147 for payroll and operating costs for the new positions, and \$954,411 for payroll shortage of physicians, psychiatrists and psychologists) assigned to the Suicide Prevention Program under the Health Care Division.
- Adds 15.00 permanent Adult Correction Officer (ACO) positions and \$559,997 for Maui Community Correctional Center to implement a pilot program of increasing the shift relief factor for ACO essential positions critical to safety, health and security in the facilities.

The Capital Improvements Program Budget

The Executive Supplemental Budget includes amendments for FY 21 that total \$1.468 billion from all MOF for CIP costs. This represents an increase of 127 percent over FY 21 appropriations from Act 40, SLH 2019 (which is proposed to be incorporated into the FB 2019-21 Executive Budget, Act 5, SLH 2019). There were no changes to FY 20 funding amounts compared to Act 40, SLH 2019.

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

Significant requests for priority areas include (FY 21 G.O. bond funds unless otherwise noted):

Education

Public School System

- Adds \$67,550,000 for Lump Sum CIP – Instructional, Statewide.
- Adds \$52,000,000 for Lump Sum CIP – Capacity, Statewide.
- Adds \$45,950,000 for Lump Sum CIP – Compliance, Statewide.
- Adds \$29,000,000 for Lump Sum CIP – Support, Statewide.
- Adds \$4,300,000 and \$17,200,000 in other federal funds for Mokapu Elementary School, Oahu.

University System

- Adds \$61,000,000 for UH System, Renew, Improve, and Modernize, Statewide.
- Adds \$15,000,000 for Community Colleges Minor CIP, Statewide.
- Adds \$10,500,000 for Community Colleges Capital Renewal and Deferred Maintenance, Statewide.

Public Library System

- Adds \$5,000,000 for Health and Safety CIP, Statewide.

Effective, Efficient, and Open Government

- Adds \$17,000,000 for State Finance System (Hawai'i Modernization Initiative), Statewide.
- Adds \$6,900,000 for Washington Place, Health and Safety and Queen's Gallery Renovation, O'ahu.
- Adds \$6,000,000 for Lump Sum Health and Safety, Information and Communication Services Division, Statewide.
- Adds \$2,800,000 for Lump Sum State Office Building Remodeling, Statewide.
- Adds \$10,000,000 for the Hawai'i Broadband Initiative, Statewide.

Housing

- Adds \$20,000,000 for public housing development, improvements, and renovations, Statewide.
- Adds \$2,500,000 for Hawai'i Public Housing Authority School Street predevelopment, O'ahu.

Health

- Adds \$30,100,000 (\$26,275,000 in G.O. bond funds and \$3,825,000 in other federal funds) for the Veteran's Administration Long-Term Care Facility Project, O'ahu.
- Adds \$7,090,000 for Kalaupapa Settlement, Close Landfills, Moloka'i.
- Adds \$1,930,000 for Department of Health Improvements, Statewide.

- Adds \$1,300,000 for a new computerized tomography (CT) scanner for Samuel Mahelona Memorial Hospital, Kaua'i.
- Adds \$1,300,000 for a new CT scanner for Kaua'i Veterans Memorial Hospital, Kaua'i.
- Adds \$1,000,000 for a new CT scanner for Kahuku Medical Center, O'ahu.
- Adds \$1,000,000 for emergency room renovations for Kona Community Hospital, Hawai'i.

Agriculture

- Adds \$20,000,000 for Royal Kunia Agricultural Park, O'ahu.
- Adds \$2,500,000 for Miscellaneous Health, Safety, Code, and Other Requirements, Statewide.
- Adds \$1,000,000 for Kahuku Agricultural Park Miscellaneous Improvements, O'ahu.
- Adds \$1,300,000 for Waimea Irrigation System Improvements, Hawai'i.

Environment

- Adds \$6,000,000 for State Park Improvements, Statewide.
- Adds \$11,000,000 (\$5,200,000 in G.O. bond funds; \$4,650,000 in private contributions; \$1,150,000 in trust funds) for Kaanapali Beach Restoration and Berm Enhancement, Maui.
- Adds \$5,000,000 for repairs, maintenance, and improvements for the Division of Forestry and Wildlife.

- Adds \$4,000,000 for Ala Wai Canal Wall Improvements, O'ahu.
- Adds \$6,000,000 in special funds for land acquisition at Na Wai Eha on Maui, and Kealakekua Piko on Hawai'i.

Native Hawaiians

- Adds \$20,000,000 for Department of Hawaiian Home Lands (DHHL) lot development projects, Statewide.
- Adds \$5,000,000 for repairs and maintenance to infrastructure within DHHL subdivisions, Statewide.

Transportation

- Adds \$47,000,000 for Runway Safety Area Improvements, Statewide.
- Adds \$44,000,000 in other funds (customer facility charge) for Rental Car Facility Improvements, Statewide.
- Adds \$30,000,000 for Airfield Improvements, Statewide.
- Adds \$30,000,000 for Daniel K. Inouye International Airport, Diamond Head Concourse Extension, O'ahu.
- Adds \$200,500,000 (\$500,000 in special funds and \$200,000,000 in revenue bonds) for Interstate Route H-1 Widening, Eastbound, Vicinity of Waikele to Vicinity of Halawa, O'ahu.
- Adds \$92,001,000 (\$22,000,000 in special funds, \$70,000,000 in revenue bonds and \$1,000 in federal funds) for Kuhio Highway Improvements, Hanamaulu to Kapaa, Kaua'i.

- Adds \$113,300,000 (\$13,300,000 in special funds and \$100,000,000 in revenue bonds) for Interstate Route H-1 Improvements, Vicinity of Ola Lane to Vicinity of Vineyard Boulevard, O'ahu.
- Adds \$90,000,000 (\$5,000,000 in special funds and \$85,000,000 in revenue bonds) for Daniel K. Inouye Highway Extension, Mamalahoa Highway to Queen Ka'ahumanu Highway, Hawai'i.

Public Safety

- Adds \$2,500,000 for Disaster Warning and Communications Devices, Statewide.
- Adds \$1,080,000 for Canoe House renovations at the Hawai'i Youth Correctional Facility on O'ahu.
- Adds \$30,000,000 for Halawa Correctional Facility, Consolidated Health Care Unit, O'ahu.
- Adds \$20,000,000 for O'ahu Community Correctional Center, Professional Services to Acquire or to Construct Replacement Facility, O'ahu.
- Adds \$5,000,000 for planning for Maui Regional Public Safety Complex, Maui.

OUR SUSTAINABLE FUTURE

Living in an island state brings its own unique set of challenges. We relish the beauty of our islands but recognize that we have a level of vulnerability.

Working together with the Legislature, our partners and communities, we can prepare for a sustainable and resilient future. There is no obstacle we cannot overcome when we work together. Together, our potential is unlimited.

Our parents and grandparents made great sacrifices to give us the lives we have today. Following their example, we can gather that strength to improve the lives of Hawai'i's people and make life here sustainable, now and in the future.

Our core values – doing the right thing, the right way, for the right reasons – will guide us. We hope you will join us on this journey.

Sincerely,



DAVID Y. IGE
Governor of Hawai'i

APPENDIX TO THE GOVERNOR'S MESSAGE

A. THE FY 21 EXECUTIVE SUPPLEMENTAL BUDGET RECOMMENDATIONS

THE OPERATING BUDGET

General Funds

For **FY 20**, total proposed general fund adjustments to the operating budget amount to a net increase of \$62.5 million, or 0.8 percent more than the current appropriation level of \$8.024 billion. The recommended general fund amount for FY 20 is \$8.087 billion.

For **FY 21**, total proposed general fund adjustments to the operating budget amount to a net increase of \$214.1 million, or 2.6 percent more than the current appropriation level of \$8.191 billion. The recommended general fund amount for FY 21 is \$8.405 billion.

All Means of Financing

For **FY 20**, total proposed adjustments to the operating budget for all MOF amount to a net increase of \$62.5 million, or 0.4 percent more than the current appropriation level of \$15.632 billion for all MOF. The recommended amount for all MOF for FY 20 is \$15.695 billion.

For **FY 21**, total proposed adjustments to the operating budget for all MOF amount to a net increase of \$429.0 million, or 2.7 percent more than the current appropriation level of \$15.768 billion for all MOF. The recommended amount for all MOF for FY 21 is \$16.197 billion.

Breakdowns by MOF are as follows:

Means of Financing	FY 20 Act 5/2019* Appropriation (\$)	FY 20 Proposed Adjustment (\$)	FY 20 Recommended Appropriation (\$)
General Funds	8,024,011,930	62,493,960	8,086,505,890
Special Funds	3,514,487,671	48,636	3,514,536,307
Federal Funds	2,871,511,330	.....	2,871,511,330
Other Federal Funds	222,055,107	.....	222,055,107
Private Contributions	904,067	.....	904,067
County Funds	2,209,721	.....	2,209,721
Trust Funds	443,157,181	.....	443,157,181
Interdept. Transfers	82,644,828	.....	82,644,828
Revolving Funds	450,659,284	.....	450,659,284
Other Funds	<u>20,427,078</u>	<u>.....</u>	<u>20,427,078</u>
Total	15,632,068,197	62,542,596	15,694,610,793
Means of Financing	FY 21 Act 5/2019* Appropriation (\$)	FY 21 Proposed Adjustment (\$)	FY 21 Recommended Appropriation (\$)
General Funds	8,190,877,301	214,142,902	8,405,020,203
Special Funds	3,565,932,191	126,931,518	3,692,863,709
Federal Funds	2,824,958,456	42,343,939	2,867,302,395
Other Federal Funds	198,285,780	(5,334,247)	192,951,533
Private Contributions	904,067	.....	904,067
County Funds	2,209,721	(500,000)	1,709,721
Trust Funds	433,449,348	5,890,288	439,339,636
Interdept. Transfers	82,291,371	(6,284,271)	76,007,100
Revolving Funds	450,621,890	51,119,717	501,741,607
Other Funds	<u>18,679,890</u>	<u>688,160</u>	<u>19,368,050</u>
Total	15,768,210,015	428,998,006	16,197,208,021

* / Act 5, SLH 2019, including transfers.

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 Obligation Bond Funds

For **FY 20**, there are no proposed capital improvements program (CIP) adjustments for general obligation (G.O.) bond funds. The current G.O. bond fund and G.O. reimbursable bond fund appropriation levels are \$1.019 billion and \$4.0 million, respectively.

For **FY 21**, total proposed CIP adjustments for G.O. bond funds amount to a net increase of \$533.2 million, or 121 percent more than the current G.O. bond fund appropriation level of \$439.3 million. The recommended G.O. bond amount for FY 21 is \$972.5 million.

All Means of Financing

For **FY 20**, there are no proposed CIP adjustments for all MOF. The current appropriation level for all MOF is \$2.331 billion.

For **FY 21**, total proposed CIP adjustments amount to a net increase of \$1.468 billion, or 127 percent of the current level for all MOF of \$1.156 billion. The recommended amount for all MOF for FY 21 is \$2.624 billion.

Breakdowns by MOF are as follows:

<u>Means of Financing</u>	<u>FY 20 Act 40/2019* Appropriation (\$)</u>	<u>FY 20 Proposed Adjustment (\$)</u>	<u>FY 20 Recommended Appropriation (\$)</u>
General Funds	.....	.....	.....
Special Funds	7,678,000	.....	7,678,000
G.O. Bonds	1,018,811,000	.....	1,018,811,000
G.O. Reimbursable	4,000,000	.....	4,000,000
Revenue Bonds	1,001,841,000	.....	1,001,841,000
Federal Funds	125,867,000	.....	125,867,000
Other Federal Funds	78,846,000	.....	78,846,000
Private Contributions	4,278,000	.....	4,278,000
County Funds	3,710,000	.....	3,710,000
Trust Funds	.....	.....	.....
Interdept. Transfers	.....	.....	.....
Revolving Funds	5,000,000	.....	5,000,000
Other Funds	<u>80,750,000</u>	<u>.....</u>	<u>80,750,000</u>
Total	2,330,781,000	.....	2,330,781,000

<u>Means of Financing</u>	<u>FY 21 Act 40/2019* Appropriation (\$)</u>	<u>FY 21 Proposed Adjustment (\$)</u>	<u>FY 21 Recommended Appropriation (\$)</u>
General Funds	.....	.....	.....
Special Funds	10,082,000	59,300,000	69,382,000
G.O. Bonds	439,275,000	533,175,000	972,450,000
G.O. Reimbursable	.....	.....	.....
Revenue Bonds	610,158,000	741,255,000	1,351,413,000
Federal Funds	78,670,000	58,646,000	137,316,000
Other Federal Funds	8,731,000	25,825,000	34,556,000
Private Contributions	3,032,000	4,650,000	7,682,000
County Funds	2,160,000	.....	2,160,000
Trust Funds	4,000,000	1,150,000.	5,150,000
Interdept. Transfers	.....	.....	.....
Revolving Funds	.....	.....	.....
Other Funds	<u>150,000</u>	<u>44,000,000</u>	<u>44,150,000</u>
Total	1,156,258,000	1,468,001,000	2,624,259,000

*/ Act 40, SLH 2019, to be incorporated into the Exec. Supplemental Budget.

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 (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 20 and FY 21.

For the Executive Branch, the total proposed appropriations from the general fund (which include the Executive Supplemental Budget for FB 2019-21 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by \$27.7 million (or 0.3 percent) in FY 20 and \$39.7 million (or 0.5 percent) in FY 21. In FY 20, the excess is due to the costs of collective bargaining, differentials for classroom teachers and public safety operational requirements. In FY 21, the excess is due to the costs of collective bargaining, support of education, debt service and critical operational needs.

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 percent of general fund revenues for each of the two fiscal years, the Legislature must provide for a tax refund or tax credit to the taxpayers of the State or make a deposit into one or more emergency funds, as provided by law.

Section 328L-3, 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 percent, 5 percent of the general fund balance shall be deposited into the Emergency and Budget Reserve Fund.

For FY 18 and FY 19, general fund balances were greater than 5 percent of general fund revenues. For FY 18 and FY 19, total (tax and non-tax) general fund revenues did not exceed the respective previous year's revenues by 5 percent or more. Accordingly, the 2020 Legislature must provide for a tax refund or tax credit or make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of emergency, economic downturn, or unforeseen reduction in revenues, or appropriate general funds for the prepayment of either or both of 1) debt service or 2) pension or other post-employment benefit liabilities.

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.