



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

August 17, 2020

EXECUTIVE MEMORANDUM

MEMO NO. 20-07

TO: All Department Heads

SUBJECT: FB 2021-23 Program Review

The coronavirus (COVID-19) pandemic continues to impact Hawai'i and the world at unprecedented levels. While the health and welfare of Hawai'i's people are our priority, the impact of this public health crisis is painful on many levels. The widespread economic impact of COVID-19 on Hawai'i's families and businesses is evident in our historically high levels of unemployment and business closures.

The State's and the nation's recovery from economic shocks of lesser magnitude, such as September 11th or the Great Recession, took many years. This time, the complexities of dealing with a worldwide health crisis add additional layers of uncertainty that may increase the time needed for recovery.

As we anticipated, the Council on Revenues (COR) significantly changed its general fund revenue projections at its May 28, 2020 meeting by decreasing its FY 20 projection from 3.8% to -7.0% and FY 21 projection from 0% to -12.0%, increasing its FY 22 projection from 5.0% to 12.0%, and lowering its projections for FY 23 to FY 26 from 4.0% to 3.0%. The projected revenue decrease for FB 2019-21 is \$771 million in FY 20 and \$1.6 billion in FY 21, amounting to over \$2.3 billion for the biennium.

It is important to note that the COR's FY 21 projection assumed that the 14-day self-quarantine period imposed on transpacific passengers would be lifted by late July 2020 and substituted with other mechanisms to screen for disease. Given that these actions have been delayed, the COR could further lower its forecast for FY 21 and beyond at its September 9th meeting.

Preliminary general fund tax collections for FY 20 decreased by 6.2%, slightly less than the 7.0% projected by the COR, while FY 21 collections for July 2020 increased by 32.9% due to the change in the State income tax due date to July 20, 2020. Because of this, the significant decreases in general excise tax revenues of 22.9% and transient accommodations tax revenues of 90.5% may more accurately reflect current economic activity.

It appears possible that federal assistance may be made available to offset state revenue losses due to COVID-19, but we must wait for Congress to act. Until then, we do not know when federal funds might be available and how much will be available. We are concerned, however, that a one-time infusion of federal funds will not make up for what may be a dramatic reduction in general fund revenue over an extended period due to the worldwide economic fallout of the COVID-19 pandemic. The estimated magnitude of the State's revenue losses through FY 21 and the negative impact going forward require that permanent ongoing changes be made to State government.

The FB 2021-23 Program Review is part of a multi-step effort to reduce State expenditures. For FY 20, we implemented a hiring freeze and advised departments to make only high priority expenditures. We also instituted an additional 2% general fund restriction. It is expected that similar or more restrictive fiscal controls may need to be continued through FY 21, in addition to \$163.9 million in general fund reductions made to the FY 21 Supplemental Budget by the 2020 Legislature, depending upon the level of improvement of the COVID-19 situation in Hawai'i and the world, the availability of federal assistance, and the State's fiscal condition.

The program review will focus on departmental programs that are fully or partially funded by general funds. Other means of financing (MOF), such as special funds, will also be affected; thus, departments with programs wholly funded by non-general funds are encouraged to conduct their own modified reviews of such programs with the aim towards increasing program efficiency and effectiveness.

While some may consider this program review premature, it would be irresponsible to not take action to manage the State's fiscal resources now. If federal aid does not come to fruition or is insufficient to address all the State's potential budget deficits in the current fiscal biennium and beyond, we must be ready. It is our responsibility to ensure that the State can continue to provide vital public services.

The Objective

The objective of the FB 2021-23 Program Review is to identify significant reductions to general fund appropriations for FY 22 and FY 23 based on a systematic review of State programs and services. General fund support for programs will be dramatically reduced due to the economic fallout of the COVID-19 pandemic. Other MOF, such as special funds, will also be affected.

Standard across-the-board "horizontal" budget adjustments will hinder all department operations. Thus, State programs must be reprioritized and retooled in order to most effectively handle the projected decline in revenues. Therefore, the thrust of the FB 2021-23 Program Review is to have each department make honest and discerning assessments of its programs and services as compared to its primary mission (what it does and who it serves). The aim is to:

- Identify programs, functions, and/or activities for possible elimination that, although well-intentioned, are of marginal benefit, low performing, or of lesser priority.
- Identify cost saving opportunities in core and primary programs and services through tightening program eligibility, reducing program benefits, improving efficiency, or cost shifting.
- Identify programs within or between departments with complimentary goals and operations that could be combined to reduce operational redundancies and administrative costs.

The Process

To assist the State with ensuring both short- and long-term operational sustainability, all departments must complete a program review to identify their highest to lowest priority program functions and activities. The first step will be to establish a prioritized program inventory. Programs, identified at the program ID/organization code level, shall be classified as “high,” “mid,” or “low” and prioritized within each division and department. Current budget information (based on Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020, plus FY 21 Section 44 transfers) for each program is also required.

The program inventory will set the groundwork for a more rigorous program review and the systemic identification of possible reductions. Current reduction targets are set at 10%, 15%, and 20% of Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020, plus FY 21 Section 44 transfers, as adjusted for fixed costs and the application of a \$4 million exemption for all departments. The attached Exhibit PR provides the details of the reduction targets for your department.

One-time cost saving measures may be proposed but, ultimately, all departments must meet their reduction targets with permanent reductions. Departments should refer to the attached costing assumption guidelines to develop their reduction proposals. Under specified scenarios, the costing assumptions allow a reduced amount to be identified as savings for the first year of a reduction.

After the COR’s meeting on September 9, 2020, and if Congress takes action to provide federal support for states, these targets may be revisited. Current targets may be high as needed to facilitate decisions based on statewide priorities. Ultimately, decisions on the identified reductions will be incorporated into the FB 2021-23 Executive Budget Request.

We realize this review will be extremely difficult, but it must be done with State priorities in mind. The State must position itself to deal with a significant economic downturn that may impact the State for years.

We cannot afford to continue the status quo or cut resources from core programs, which may be left unable to properly function. Every program has merit and every program has its constituency, but the harsh reality is that the State cannot continue to provide services that it can no longer sustain. If significant reductions are necessary, downsizing all programs will not work.

Submittal Requirements

All submittals shall be emailed from your department's designated email account to the Department of Budget and Finance at DBF.DOCS@hawaii.gov by Friday, September 11, 2020, and shall include the following:

- Cover letter from department head.
- Form PI (FB 2021-23 Program Inventory), which provides a listing of all programs at the program ID/organization code level and their functions/activities and respective budgets.
- Form PRR (FB 2021-23 Program Review Reductions), which provides a summary listing of all proposed reductions. Provide a separate Form PRR for each level (i.e., 10%, 15%, and 20%) of reduction.
- Form PRA (FB 2021-23 Program Review Adjustment), which provides the details of each proposed reduction. Provide a separate form for each proposed reduction at each level of reduction.

This is a time like no other, and we must continue to work together during these challenging times. Your full cooperation and serious efforts are necessary and appreciated.

/s/

DAVID Y. IGE
Governor, State of Hawai'i

Attachments