E X E C U T I V E   C H A M B E R S

H O N O L U L U

DAVID Y. IGE
GOVERNOR

September 14, 2020

<u>EXECUTIVE MEMORANDUM</u> MEMO NO. 20-08

TO: All Department Heads

SUBJECT: FY 21 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 21. These policies will apply to all appropriations from the following:

- Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020; and including appropriation and position ceiling transfers from other departmental budget acts as approved by the Governor pursuant to Section 44 of Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020, on June 19, 2019 (to be referred to as “Act 5, SLH 2019, as amended, including transfers”), for operating.

- Act 40, SLH 2019, as amended by Act 6, SLH 2020, and Act 9, SLH 2020 (to be referred to as “Act 40, SLH 2019, as amended”); and Act 9, SLH 2020, for capital improvement program (CIP) projects.

- Act 39, SLH 2019, for Chapter 42F, HRS, for CIP grants (FY 20 appropriations).

- Other specific appropriations authorized for expenditure in FY 20 (retroactively) or FY 21 by the 2020 Legislature or other legislative sessions.

The coronavirus (COVID-19) pandemic continues to impact Hawaiʻi and the world. While the world struggles to deal with its public health impact, our economies are being dealt a harsh blow. The unprecedented contraction of Hawaiʻi's economy is especially difficult following many years of economic expansion due, in large part, to the robust growth of the tourism industry, a major economic driver.

The restrictions implemented to control the spread of COVID-19 caused an abrupt reduction in the number of travelers coming to Hawaiʻi, resulting in severe declines throughout the tourism sector. We realize that measures implemented to control the spread of COVID-19 unfortunately impact Hawai‘i’s families and businesses significantly, and we continue to work to find the balance necessary to safely open Hawai‘i’s economy.

Hawai‘i’s historically low rates of unemployment have climbed to unprecedented levels. In March 2020, Hawai‘i’s preliminary seasonally adjusted unemployment rate was 2.4% but, as a result of COVID-19, this very low rate increased to 23.8% in April 2020, decreasing to 13.1% in July 2020. Understandably, these are difficult times for all.

The State’s general fund tax collections have suffered. In FY 20, preliminary general fund tax collections decreased from 7.5% in February 2020, pre-COVID-19 restrictions, to -6.3% by the end of the fiscal year. While slightly better than -7.0%, as projected by the Council on Revenues (COR), this dramatic swing in revenues will have an ongoing impact.

General fund tax collections for FY 21 have increased thus far, however, due to the delay of the State income tax filing deadline to July 20, 2020. Preliminary July 2020 and August 2020 collections increased by 32.9% and 5.6%, respectively. As such, current economic activity may be better reflected by the 25.1% decrease in general excise tax revenues and the 92% drop in transient accommodations tax revenues.

Due to the economic impact of COVID-19, the COR decreased its general fund revenue projections at its May 28, 2020 meeting from 3.8% to -7.0% for FY 20 and from 0% to -12.0% for FY 21, resulting in a projected revenue decrease of over $2.3 billion for the biennium. The COR’s FY 21 projection, however, 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. For the remaining fiscal years, the COR projected 12.0% for FY 22 and 3.0% for FY 23 to FY 26.

At its September 9, 2020 meeting, the COR changed its FY 21 projection from -12.0% to -11.0%, which reflects revenue loss due to a delay in opening the State to tourism to later this calendar year that would be offset by the income tax revenue increase due to the delay in the filing deadline to July 20, 2020. The COR reduced its projection for FY 22 from 12.0% to 8.5%, and increased its FY 23 projection from 3.0% to 6.0% and FY 24 projection from 3.0% to 4.0%. Projections for FY 25 and FY 26 were kept at 3.0%, while the COR also added their FY 27 projection of 3.0%.

It remains a possibility that federal assistance may be made available to offset state revenue losses due to COVID-19, but action by Congress continues to be delayed and now appears to be dependent on the outcome of the upcoming Presidential and U.S. Senate elections. We are concerned, however, that a one-time infusion of federal funds will not fully mitigate the magnitude of the State’s revenue losses in FY 21 and beyond. Thus, we have begun the FB 2021-23 Program Review which is part of a multi-step effort to reduce State expenditures.

In the meantime, the Administration must take immediate action to minimize potential budget shortfalls. As such, we will continue to implement restrictive fiscal controls through FY 21.

All departments should review their planned expenditures and find innovative ways to deliver essential services and trim costs. Departments should make only critical, high priority expenditures considering the potential long-term impact of this public health crisis, with the following guidance:

- Cancel or defer contracts and other expenditures of lower priority.

- No new programs should be contemplated because they may not be sustainable in the future. This does not apply to programs directly addressing the COVID-19 situation that are funded by coronavirus (COVID-19) federal funds.

- Purchases of vehicles are strongly discouraged.

- Purchases of new equipment, software, and computers are strongly discouraged unless necessary to address COVID-19 related work-from-home situations.

- Travel shall be limited to essential purposes where teleconferences are not practical.

Implementation of the FY 21 budget will require that everyone, on every level, be aware of their expenditures. The 2020 Legislature reduced the FY 21 budget by $163.9 million in general funds but, additionally, we must impose a 5% restriction and a 5% contingency restriction on discretionary general-funded programs.

The 5% contingency restriction is intended as a contingency reserve for FY 21 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 discretionary general-funded appropriations from Act 5, SLH 2019, as amended, including transfers, as well as specific appropriations.

In addition, due to the ongoing uncertainty regarding general fund revenues, only 1st and 2nd quarter general fund allocations will be provided. We will also continue the general freeze on position vacancies to control labor costs.

Special-funded programs must closely monitor their revenues and make appropriate adjustments to their expenditures. The general fund will not be able to support special fund shortages and, as such, all special-funded programs must implement actions necessary to ensure that they remain self-supporting.

All other budget policies for FY 21 will generally remain the same as those from FY 20. To facilitate the efficiency of State operations, these policies continue to delegate many responsibilities to the departmental level. The flexibility and authority provided to execute these budget controls must be used with the utmost care and caution. Careful management of the State's finances during these uncertain times is expected and necessary.

These fiscal controls will be reviewed if there is improvement in the COVID-19 situation in Hawai‘i and the world, the availability of federal assistance, and the State's fiscal condition. Hawai‘i's recovery from this economic downturn weighs heavily on the success of mitigating this public health crisis both locally and globally. The complexities of improving the State's economy during a pandemic, where actions may impact public health, are extraordinary. While we are hopeful that we will be able to more broadly open up the State's economy in the near future, we will always have the health and welfare of Hawai‘i's people at heart. The significant impact of this pandemic, however, will change the State's economic landscape and, while we must be ready to move forward in a new normal, building a better tomorrow will take time.

Now, more than ever, we must make the most effective use of our resources. We remain committed to maintaining government transparency and accountability along with our delivery of critical services. We can strengthen the foundation of our State government by working together towards this common goal.

Exhibit 1 contains your department's current FY 21 allocation of operating program appropriations and permanent and temporary position ceilings from Act 5, SLH 2019, as amended, including transfers, as follows:

- General funds: 1st and 2nd quarter allocations (50%) of non-discretionary appropriations plus $4,000,000 of discretionary appropriations plus 90% of the balance of discretionary appropriations (adjusted by a 5% restriction and a 5% contingency restriction).

- Non-general funds: Full-year allocation (100%) of appropriations.

- No collective bargaining allocations are provided at this time.

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 21 budget execution to provide for prudent and efficient implementation of legislative intent.

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

/s/

DAVID Y. IGE
Governor, State of Hawai‘i

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