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OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

October 2, 2020

FINANCE MEMORANDUM

MEMO NO. 20-15

TO: All Department Heads

FROM: Craig K. Hirai /s/
Director of Finance

SUBJECT: Fiscal Biennium 2021-23 Executive Budget Request and the Program
and Financial Plan for the Period 2021-27

The following policies and guidelines shall be used in preparing the Executive Budget Request for FB 2021-23 and the Program and Financial Plan for the period 2021-27.

General Background

Early this year, the coronavirus (COVID-19) pandemic began impacting Hawai'i and the world. While we all continue to struggle with its substantial public health impact, we must also deal with the ripple effect that this pandemic has had on many sectors of the economy.

The restrictions imposed to control the spread of COVID-19 brought the tourism industry to a standstill. Related businesses, such as restaurants and recreation, were inevitably hit hard, as well. The decade-long expansion of the tourism industry, which contributed significantly to the growth of Hawai'i's economy, has made the sudden drop in visitor arrivals more difficult to deal with.

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 12.5% in August 2020. While an improvement, that translates to about 80,000 of Hawai'i's workforce being unemployed.

It took many years for Hawai'i and the nation to recover from past economic shocks such as September 11th and the Great Recession. Hawai'i's recovery weighs heavily on the success of mitigating this public health crisis both locally and globally; however, recovering from a pandemic which has impacted economies across the globe adds an additional level of uncertainty.

The revenue shortfalls projected for the current biennium and upcoming fiscal years require that we take immediate action to minimize potential budget shortfalls. Thus, we have begun a multi-step effort to significantly reduce State expenditures, continuing the restrictive fiscal controls that began in FY 20 in FY 21.

We have also initiated the FB 2021-23 Program Review, which is intended to identify significant reductions to general fund appropriations for FY 22 and FY 23 based on a systematic review of State programs and services. We recognize that every program has its place and that prioritizing them will be a hugely difficult task, but we are facing unprecedented projected budget shortfalls which make continuing the status quo impossible.

We have been entrusted with the management of State funds and we must be fiscally responsible. Unfortunately, in times of economic contraction, that often means that reductions must be made. Ultimately, the Administration's decisions on the FB 2021-23 Program Review proposals will be incorporated into the FB 2021-23 Executive Biennium Budget.

While we remain committed to providing critical State services, we must do so as efficiently as possible. We must look at alternative ways to provide those services within reduced budgets. At the same time, we must also be realistic in our expectations and must recognize the tipping points at which programs become ineffective. As such, our programs and expenditures must be prioritized at the State level to allow the State, as a whole, to best function in the upcoming years.

The State's Fiscal Condition

Inevitably, general fund tax collections have plummeted. 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. Although better than the Council on Revenues' (COR) projection of -7.0%, this extraordinary reduction in revenues will have a long-term impact.

Due to the delay of the State income tax filing deadline to July 20, 2020, however, general fund tax collections for FY 21 have increased thus far. Preliminary general fund tax collections for July 2020 and August 2020 increased by 32.9% and 5.6%, respectively. Thus, the 25.1% decrease in general excise tax revenues and the 92% drop in transient accommodations tax revenues may better represent Hawaii's current economic activity.

At its May 28, 2020 meeting, the COR decreased its general fund revenue projections from 3.8% to -7.0% for FY 20 and from 0% to -12.0% for FY 21, due to the expected impact of COVID-19 on the economy. Those decreases resulted in a projected revenue decrease of over \$2.3 billion for the biennium. For the remaining fiscal years, the COR projected 12.0% for FY 22 and 3.0% for FY 23 to FY 26.

Because 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, we anticipated that the COR would change its projections at its September 9, 2020 meeting. While the COR did change its FY 21 projection to reflect decreased revenues due to the delay in opening the State to tourism to later this calendar year, it was offset by the income tax revenue increase due to the delay in the filing deadline to July 20, 2020, resulting in a positive 1.0% change from -12.0% to -11.0%.

In addition, 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 a 3.0% growth projection for FY 27.

It is still possible that federal assistance may be provided to offset state revenue losses due to COVID-19. However, 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.

Regardless, we remain concerned 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. Further, if federal aid does not come to fruition, we must be ready. It is our responsibility to ensure that the State has the resources to continue to provide vital public services.

Budget Approach

The Administration has generally approached the budget in a cautious manner and now, more than ever, we must be especially careful. Given the substantial general fund revenue decreases that are currently anticipated, we will be unable to consider general fund increases for the FB 2021-23 Executive Budget. Very limited exceptions will be allowed for fixed costs and critical needs that must be addressed immediately, such as those related to COVID-19.

The impact of the pandemic is also being felt by special (i.e., special, trust and revolving) funded and federally funded programs. Special fund programs must closely monitor their revenues and federal fund programs must closely monitor their grant programs and awards and make necessary adjustments to their expenditures.

We will allow special-funded programs to submit budget requests to support critical program requirements, provided that the requests are sustainable. Federally funded programs may submit ceiling requests for anticipated grant awards; however, requests requiring matching general funds must be funded by trade-offs.

Due to the uncertainty of discretionary federal grant programs, departments are discouraged from using discretionary awards to fund positions. Again, these requests must be self-supporting as the general fund will not be able to support funding shortfalls.

We are responsible to ensure that there are adequate resources to meet the substantial demands on the State's resources now and in the future. There will be ongoing costs related to COVID-19 to ensure the health and safety of our residents and visitors, as well as the continuity of State operations. Collective bargaining (CB) allocations for all bargaining units for FB 2019-21 are being made, and these costs will carry forward to FB 2021-23. These factors reinforce the continual need to be prudent and responsible with our expenditures to ensure the State's fiscal stability.

Constitutional and Statutory Requirements

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

- Article VII, Section 8, of the State Constitution provides that “[w]ithin such time prior to the opening of each regular session in an odd-numbered year as may be provided by law, the governor shall submit to the legislature a budget in a form provided by law setting forth a complete plan of proposed expenditures of the executive branch. . .”
- 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, in order to prepare a comprehensive Executive Biennium Budget, which includes all program costs, FY 21 operating appropriations and position ceilings from various departmental budget bills were transferred to Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020 (to be referred to “Act 5, SLH 2019, as amended”), as approved by the Governor on June 19, 2019, pursuant to Section 44 of Act 5, SLH 2019, as amended (to be referred to as “Act 5, SLH 2019, as amended, including transfers”). These transfers were also intended 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 have been included in the operating budget ceilings of the respective departments. For reference, the Governor's approval and list of bills with budget impact is attached (Note: This list includes bills that were repealed by the 2020 Legislature). In addition, a summary spreadsheet that provides a breakdown by program ID and organization code; cost element; and means of financing (MOF) of the Section 44 transfers has been provided for affected departments only.

To meet the requirements of Section 37-71, HRS, we must also consolidate the operating and capital improvement program (CIP) budgets in the Biennium Budget . All operating and CIP budget requests will be included in a single budget bill for FB 2021-23. All CIP requests shall designate funding by cost element (i.e., plans, land acquisition, design, construction, and equipment) pursuant to Section 37-71, HRS.

Budget Transparency

Departments should review their FY 21 operating budget details for items that do not align with anticipated expenditures and can be addressed immediately. Each department's review should include, but should not be limited to, the following, as applicable:

- Negative adjustments
- Underfunded, unfunded, or unbudgeted positions
- Specific budget line items that do not align with anticipated expenditures

Be aware that Section 37-74(f), HRS, and Section 42 of Act 5, SLH 2019, as amended, prohibit funds from being 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. "Position ceiling" is defined as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program.

Consequently, it is highly recommended that all departments review their unbudgeted positions. All unbudgeted positions that are critical and on-going must be identified and incorporated into the budget. Additional funding will not be provided for these positions because they are currently funded within existing budgets; as such, only requests for "conversion of unbudgeted positions," which are cost neutral but may increase temporary or permanent position counts, may be submitted.

Departments should also review positions that were not funded in Act 5, SLH 2019, as amended. General funded programs with unfunded positions deemed critical for department operations are advised to submit trade-off and transfer requests to fund such positions.

Departments should submit the following for changes necessary to align their budgets in FB 2021-23, as applicable:

1. "Conversion of unbudgeted positions" requests to authorize unbudgeted positions through trade-off and transfer of funding and position counts (if necessary, permanent or temporary position counts may be requested).

2. Trade-off and transfer adjustment requests necessary to fully fund underfunded or unfunded positions, if the positions are deemed critical.
3. Trade-off and transfer adjustment requests necessary to correct negative amounts or realign the budget to expenditures.
4. Base adjustment requests to delete underfunded or unfunded positions.

Section 37-68.5, HRS, also requires that permanent and temporary position ceilings for each program be provided in the budget documents. As such, departments must provide permanent and temporary position counts in their BJ Summary tables for the FB 2021-23 Executive Budget.

Federal Fund Budgeting

Federal funds will continue to be an important part of the State's budget.

Departments that have received COVID-19 awards or may receive additional COVID-19 funds under pending federal legislation should remain cautious on how funds are spent and should strictly follow federal guidelines on allowable uses of funds. Once federal COVID-19 funds have been spent, State resources will not be available to replace federal aid.

To date, the amount of state-administered COVID-19 awards the State of Hawai'i has received is over \$3.84 billion. These awards consist of unemployment benefits, enhanced Supplemental Nutrition Assistance Program benefits, and over 65 individual federal awards. For more information, please go to: <http://federalawards.hawaii.gov/featured/managing-coronavirus-federal-aid/>.

Beyond federal assistance for COVID-19, states will again face uncertain federal funding levels as the Continuing Resolution (CR) and spending caps will limit federal aid to states:

- The U.S. House of Representatives passed H.R. 8337, a CR to keep the federal government operating through December 11, 2020. The CR is a bipartisan agreement based on negotiations with the U.S. Senate and the Administration.
- The Bipartisan Budget Act of 2019 increased the spending caps for federal fiscal year (FFY) 20 and FFY 21. In FFY 21, both non-defense and defense spending caps will increase less than 1.0%.

Therefore, for planning purposes, departments must differentiate COVID-19 federal aid from non-COVID-19. For non-COVID-19 federal aid, no increases should be assumed unless an increase can be substantiated by reference to the Federal Fund Information for States (FFIS) or other credible sources. For COVID-19 federal aid, projections of additional aid must align with information provided by the FFIS or other credible sources.

Since FY 14, the State has been budgeting and expending federal awards by budgeting each anticipated grant award and expending each grant award on a one-to-one (grant award to appropriation symbol) basis. This process is intended to increase transparency and improve the State's ability to meet federal reporting requirements.

The FFIS list of major, recurring federal awards should be used to determine which federal awards should be appropriated in FB 2021-23 as MOF "N" (federal funds). All other federal awards anticipated to be received in FY 22 or FY 23 should be appropriated as MOF "P" (other federal funds).

Each operating federal grant award anticipated to be received will be assigned a unique appropriation symbol and an extended lapse date (operating federal funds lapse after three fiscal years instead of one fiscal year) to accommodate the difference between the State and the federal fiscal years and performance periods, which extend beyond one year. Also, federal fund CIP appropriations that have been deemed necessary to qualify for federal-aid financing and reimbursement will lapse five fiscal years after the fiscal biennium to encourage the timely implementation of federally funded projects and expenditure of federal grant awards.

For planning purposes, it should not be assumed that State funding will automatically replace federal funding in situations where federal funding is disrupted or discontinued, nor should it be assumed that State funding will be increased to qualify for increases in available federal matching funds. Future reductions to federal grant awards and other federal funding agreements are highly possible and departments should be working with their federal contacts to closely monitor the status of the appropriate federal programs.

All agencies receiving federal funds for operational purposes shall review such operations for possible changes to anticipated federal grants or other federal funding agreements. The use of discretionary federal funds for positions is discouraged and should be minimized.

Departments should submit requests to adjust former fiscal year federal fund ceilings to more accurately reflect anticipated federal award amounts or to correct the MOF, if necessary, for FB 2021-23. The attached listing of "Major, Recurring Federal Awards for FB 2021-23" shall be used to determine the appropriate MOF for all federal awards anticipated to be received and appropriated in FY 22 and FY 23 (Note: The list is based on the federal FY 20 budget).

All departments should use the Federal Award Management System electronic workflow, which is part of Datamart, to update their **Form FF** (*Federal Awards for FB 2021-23*), which should include all anticipated grants to be received in FY 22 and FY 23 and shall be used to determine MOF "N" and MOF "P" ceiling adjustments. The appropriate budget request **Form A** (*Operating Budget Adjustment Request*) should be submitted to reflect all adjustments; all requests should also be included on **Form B** (*Department Summary of Operating Budget Adjustment Requests*).

This department's Office of Federal Awards Management will send out further information on the online electronic workflow process which should be used to complete your department's Form FF for the FB 2021-23 budget process.

A. General Policies

The general policies for the development of the FB 2021-23 Executive Biennium Budget are as follows:

1. For operations, the Executive Budget will be based on FY 21 appropriations from Act 5, SLH 2019, as amended, including transfers, minus non-recurring costs and plus CB (except for federal and other federal funds) and other adjustments as applicable. Individual departmental budget ceilings are established for all departments by the Department of Budget and Finance (B&F).
2. Program goals and objectives are generally expected to be accomplished within reduced funding levels, as applicable.
3. Under their respective budget ceilings, departments should propose trade-offs and transfers within and among their programs to address departmental needs, bring about greater efficiency, or reflect the department's current priorities and changing conditions.
4. Departments should continue their efforts to consider the use of special funds, as appropriate, to support their programs. Changes in MOF may be proposed as appropriate. It should not, however, be assumed that State funds will be available to support program costs if special funds are no longer available.
5. Except as otherwise provided by law, special or other funds authorized to receive general revenue receipts or general fund appropriations should consider the feasibility of discontinuing such general fund support as funds of this type should generally be self-sustaining. As necessary, draft legislative proposals should be prepared to discontinue such general fund support.
6. Non-general fund programs should plan for a fringe benefit assessment rate of 51% for FY 22 through FY 25 and 60% for FY 26 and FY 27.
7. Given the uncertain nature of future federal funding levels and the State's current fiscal situation, programs should not assume that State funds will be available to support program costs if federal funds are reduced or no longer available or that State funding will be increased to qualify for increases in federal matching funds. All agencies receiving federal funds for operational purposes shall review such operations for possible changes to anticipated federal grants or other federal funding agreements. At this time, the use of discretionary federal funds for positions is discouraged and should be minimized.

8. Pursuant to Section 37-68(1), HRS, any proposal for new programs, regardless of funding sources, must demonstrate that such programs are appropriate functions of State government and can be implemented by government as cost-effectively as by the private sector.
9. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable. Legislative proposals shall be coordinated with the Office of the Governor. Additionally, the B&F analyst assigned to your department should be informed of the applicable proposals as part of the budget review (**Form A**, *Request for Operating Budget Adjustment*, should be used to provide the necessary information to justify the related request and indicate the required legislation).

In addition, departments should also be prepared with enabling legislation or rule changes to effectuate decisions made regarding the FB 2021-23 Program Review.

B. Submission Requirements and Formats

1. Biennium Budget requests shall be submitted according to the requirements and formats as specified in the attachments.
2. All budget submissions will be subject to review and evaluation by B&F and the Governor. Worksheets and other supporting details may be requested and should be made available upon request.

C. Due Dates/Other Requirements

1. By Friday, October 16, 2020, your department's budget submission shall be submitted, as follows:
 - a. The following must be submitted via email in PDF format from your department's designated email account to B&F at DBF.DOCS@hawaii.gov:
 - i. Transmittal memo from department head.
 - ii. Operating Forms A, A-Attachment, B, C, and FF.
 - iii. CIP Tables P, Q, and R, and Forms CIP Details, CIPOp, CIPOpB, PAB and S.
 - b. The following must be submitted via email in Excel format to your B&F analyst. These files should match the PDF files being submitted.
 - i. Operating Forms A, A-Attachment, B, and C.
 - ii. CIP Forms CIP Details, CIPOp, CIPOpB, PAB and S.

2. By Friday, December 4, 2020: The following must be submitted, reflecting the Governor's final budget decision. Please notify your B&F analyst when online updates have been completed.
 - a. For all departments except the Department of Education (DOE), the University of Hawai'i (UH), and the Department of Transportation (DOT): Updated BJ Summary Tables in eBUDDI. Totals (by cost element and MOF) must match the grand totals on the Form B for the Governor's decision.
 - b. For DOE, UH, and DOT: Excel or other electronic files of the updated BJ Summary Tables must be submitted via email to your B&F analyst. Totals (by cost element and MOF) must match the grand totals on the Form B for the Governor's decision. Updated Narratives in eBUDDI.
 - c. All departments: Updated Tables P, Q, and R in eCIP and Tables A, B and C (Performance Measures) in eANALYTICAL. Total (by cost element and MOF) for all Table Ps must match the grand total on the Form S for the Governor's decision.
 - d. All departments: All Excel files which reflect the Governor's final budget decisions of Forms A and A-Attachment (relating to the operating budget); and Forms CIP Details, CIPOp, and CIPOpB, and PDF files of Form PAB (relating to CIP budget) should be emailed to your B&F analyst.
3. By Friday, December 4, 2020: Form DMC (additional requirement for deferred maintenance costs) with a cover letter from your department head submitted via email in PDF format from your department's designated email account to B&F at DBF.DOCS@hawaii.gov. The Excel file of Form DMC must be transmitted to your B&F analyst.
4. By Monday, December 28, 2020: The BJ details updated in eBUDDI reflecting the Governor's final budget decisions for all departments, except DOE, UH, and DOT for which Excel or other electronic files are required.

Attachments

Attachment 1: FB 2021-23 Operating Budget Ceilings

Attachment 2: Guidelines for the Operating and Capital Improvement Program Budgets for FB 2021-23 and the Planning Period

Attachment 3: Additional Operating Budget Detail Guidelines FB 2021-23 and the Planning Period

Attachment 4: Operating Budget Submission Forms (Forms A, A-Attachment, B, C, FF)

Attachment 5: CIP Submission Tables and Forms (Tables P, Q, R; Forms CIP Details, CIPOp, CIPOpB, PAB, S) and Additional Requirement Form (Form DMC)

Attachment 6: General Budget Information and Instructions for Completing Program Budget Request Forms (October 2020)

Attachment 7: Major, Recurring Federal Funds for State FB 2021-23

Attachment 8: Governor's Approval and List of Bills with Budget Impact

Attachment 9: Summary of FY 21 Appropriations Less Section 44 Transfers (EDN, HMS, HRD, HTH, UOH)