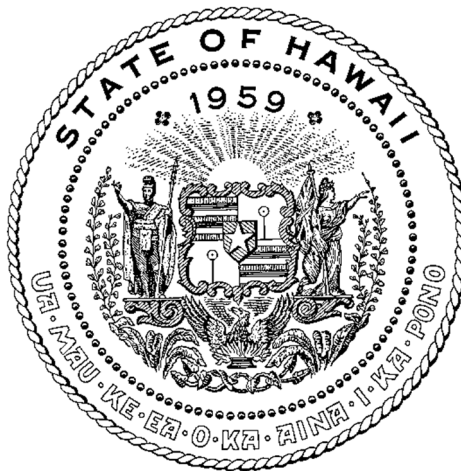


# STATE OF HAWAII



## **THE MULTI-YEAR PROGRAM and FINANCIAL PLAN and EXECUTIVE BUDGET For the Period 2021-2027 (Budget Period 2021-2023)**

Submitted to the Thirty-First State Legislature  
December 21, 2020

EXECUTIVE CHAMBERS  
State Capitol  
Honolulu, Hawai'i 96813

**GOVERNOR'S MESSAGE TO THE  
31<sup>ST</sup> STATE LEGISLATURE OF HAWAI'I  
MEETING IN THE REGULAR SESSION OF 2021**

In compliance with Article VII, Section 8, of the Hawai'i Constitution, I hereby submit to the State Legislature the Executive Budget for Fiscal Biennium (FB) 2021-23 and the Program and Financial Plan for the period 2021-27.

**OVERVIEW**

The novel coronavirus, which causes COVID-19, quickly became a pandemic that swept through and impacted countries around the globe. On January 31, 2020, the United States' Secretary of Health and Human Services declared a public health emergency for the United States.

On March 4, 2020, I issued an emergency proclamation to address COVID-19 in the State of Hawai'i and have issued 17 supplementary proclamations since then. On March 11, 2020, the World Health Organization designated the COVID-19 outbreak a pandemic of international concern, and on March 13, 2020, the President declared a national emergency in response to the COVID-19 pandemic.

As we approach the end of the calendar year, we are still learning about COVID-19. Even many who predicted an eventual pandemic did not foresee the magnitude of its significant socio-economic impact, which is still unfolding.

The health and welfare of Hawai'i's people have always been our primary concern. Difficult decisions have been made as a result. We must wear masks, wash our hands and practice social distancing. "Stay at home," "Safer at home," and

"Acting with care" orders and mandatory 14-day quarantines for travelers have helped to keep Hawai'i's case numbers low, for the most part, compared to our mainland counterparts. Nevertheless, we have also seen how the number of cases can increase quickly.

Mitigation measures have helped, but the pandemic has taken the lives of too many of our friends and loved ones, caused thousands to suffer from the disease, and taken a huge toll on our health care system and our healthcare heroes who keep us safe.

Within our communities, measures to mitigate the spread of COVID-19 have dramatically impacted Hawai'i's families and businesses. These disruptions to our daily lives take their toll on each of us, especially our keiki and kūpuna. Adapting to these new parameters is not easy but safeguards are necessary.

This pandemic has not only impacted our mental and physical health but our livelihoods, as well. The State's preliminary unemployment rate rose sharply from 2.4% – one of the best in the nation – in March 2020 to 23.8% in April 2020. As businesses have reopened on a measured basis, the unemployment rate has decreased to 14.3% in October 2020.

With so many unemployed, the State's Unemployment Insurance (UI) Trust Fund was quickly depleted, and the State had to obtain a \$1.0 billion loan for calendar year 2020 from the federal government to pay UI claims, for which the State will pay the interest. Future loans may also be necessary.

This unprecedented contraction of Hawai'i's economy is especially difficult following years of growth, due in large part to the record expansion of the tourism industry, a major economic driver. The public's general hesitation towards air travel due to COVID-19 and restrictions implemented to control the spread of the disease caused an abrupt reduction in the number of travelers to Hawai'i. Year-to-date through October 2020, total visitor arrivals have decreased by 73.4%.

Back in March, we were hopeful that the pandemic would be contained in a few months and we would be able to open the State to tourism by July. However, due in part to surges in COVID-19 cases, the launch of the Safe Travels pre-travel testing program, which allows travelers to bypass the mandatory 14-day quarantine with negative COVID-19 test results, was delayed until mid-October for transpacific travelers. In early November, we welcomed back the first international flight from Japan.

Recent increases in the number of COVID-19 cases in other states and areas of the world will undoubtedly slow the recovery of the tourism sector. It may be years before tourism returns to pre-pandemic levels. Those in the tourism industry, as well as other related industries such as restaurants and entertainment, are suffering severely.

As expected, the State's general fund tax collections have taken a substantial blow. The growth of preliminary general fund tax collections for FY 20 decreased from 7.5% in February 2020, before COVID-19 restrictions were imposed, to -6.3% by the end of the fiscal year. This drastic drop in revenues, though not quite the 7.0% reduction projected by the Council on Revenues (COR), will negatively impact the State's fiscal situation for years to come.

As changes in revenue growth over a fiscal year have often proven to be unpredictable, we are closely monitoring general fund tax revenues in relation to the COR's FY 21 general fund

tax revenue growth projection of -11%. General fund tax collections for FY 21 increased by 32.9% in July 2020 due to the deferral of the income tax filing deadline to July 20, 2020.

Collections have declined by 7.8% in November 2020, but we are hopeful that income tax collections and a possible tourism rebound as vaccinations become more widespread later in the fiscal year will keep revenue collections on track.

In April 2020, the State received \$862.8 million in federal funds pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act to assist with COVID-19-related costs. As the City and County of Honolulu received a separate award, subawards were provided to the counties of Kaua'i, Hawai'i and Maui. The balance of the funds has been awarded to various State agencies for such costs as personal protective equipment, testing, contact tracing and economic support, such as housing assistance.

It currently appears that additional federal assistance may be made available to support the education and health costs, but action by Congress continues to be delayed. Potentially, these federal funds could be used to support costs for the Department of Education (DOE), University of Hawai'i (UH), Department of Health (DOH) and the Hawai'i Health Systems Corporation (HHSC). At this point, however, we cannot afford to wait for Congress. Should Congress make these funds available, we will work with the Legislature to make the appropriate adjustments to the budget.

Regardless, we cannot expect that these federal funds will be the panacea for our fiscal issues. If we continue the current rate of State spending, the projected shortfalls are overwhelming, and it is our responsibility to take action to ensure the State's fiscal stability. The longer we wait to act, the larger these shortfalls become, and the more drastic corrective actions will need to be.

The Administration has already implemented measures to decrease general fund expenditures, including restrictions and a hiring freeze on non-critical general-funded positions in FY 21. We have suspended the prefunding of other post-employment benefits (OPEB) pursuant to Act 268, SLH 2013, for FY 21 through my emergency powers.

The general fund carryover balance from FY 20 has helped to support FY 21 operating costs. The State ended FY 20 with a general fund balance of approximately \$1 billion. However, this extraordinarily large balance is due to the 2020 Legislature authorizing \$303 million in general fund to general obligation (G.O.) bond swaps and special fund transfers and a \$345 million transfer from the Emergency and Budget Reserve Fund (EBRF) to the general fund, increasing the FY 20 general fund balance by \$648 million.

All departments were asked to review their planned expenditures and find innovative ways to deliver essential services and trim costs. We expect these restrictive fiscal controls will need to continue through the remainder of the fiscal year. These measures are in addition to the sizeable reductions made to FY 21 general fund appropriations by the 2020 Legislature.

Given the magnitude and consequences of these actions, we took out a \$750 million working capital loan to provide short-term liquidity through the end of FY 21 to give the Administration and the Legislature time to consider the best options to balance the budget going forward. The loan will be paid back over five fiscal years, FY 22 through FY 26.

Due to the unprecedented revenue gap that must be addressed, a wide range of cost-saving and revenue enhancement measures were considered. After much consideration, we believe that a multi-pronged approach is necessary to address the estimated annual general fund revenue shortfall of \$1.4 billion.

Savings due to revised projections for fixed costs and the continuation of the suspension of OPEB payments for four more years will help to alleviate some of the shortfall. Program review reductions and furloughs are also integral parts of the Administration's plan to reduce the balance of the projected shortfall, but revenue enhancements are also needed to fill in the gap. All of the proposed actions are necessary to balance the State's general fund financial plan for FB 2021-23 and through the four-year statutory planning period (FY 24 through FY 27).

Due to the extent of the State's estimated revenue losses through FY 21 and the forthcoming fiscal years, permanent ongoing changes must be made to State government. These changes will understandably be difficult.

Regrettably, we are unable to shield our employees and priority programs from these reductions. We understand that furloughs will unfortunately cause hardships for many and, while difficult, they will allow us to avoid layoffs of roughly 4,000 people.

Throughout our administration, we have nourished and protected education, our highest priority. It was extremely difficult for us to consider reductions that would impact students and teachers.

However, in these very difficult times, we were forced to look at education and other priority programs due to the significant portion of the State budget that they receive. We would be unable to leave these programs untouched without decimating the rest of State government. The State provides critical services, many of which are needed now more than ever.

### ***The FB 2021-23 Program Review***

As a prerequisite to the development of the FB 2021-23 Executive Budget, the Administration conducted an extensive FB 2021-23 Program Review. The objective of this review

was to identify significant reductions to general fund appropriations for FY 22 and FY 23 based on a systematic review of State programs and services due to the reduced level of general fund support that would be available due to the economic fallout of the COVID-19 pandemic.

Thus, the program review focused on programs that were fully or partially funded by general funds. Programs wholly funded by other means of financing (MOF), such as special funds, were encouraged to conduct their own modified reviews with the goal of increasing program efficiency and effectiveness.

The intent was 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) by identifying:

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

The first step was to establish a prioritized program inventory to set the groundwork for a more rigorous program review and the systemic identification of possible reductions. To ensure both short- and long-term operational sustainability, departments identified their highest to lowest priority program functions and activities. Then, departments proposed reductions to meet reduction targets of 10%, 15%, and 20% of Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9,

SLH 2020 (to be referred to as “Act 5, SLH 2019, as amended”), plus FY 21 Section 44 transfers, as adjusted for fixed costs and the application of a \$4 million exemption for all departments.

The reduction proposals were reviewed based on statewide priorities, and the decisions regarding the identified reductions have been incorporated into the FB 2021-23 Executive Budget Request. We realize reductions of this magnitude are extremely difficult, as all programs have value, but we must position the State to deal with the ongoing, significant economic downturn that will impact the State for many years.

### ***Budget and Fiscal Considerations***

We have always taken our responsibility to ensure the State’s fiscal stability seriously. Our administration has generally approached the budget in a cautious manner, often because unpredictable general fund revenue growth did not reflect the State’s economic situation.

In developing each Executive Biennium or Supplemental Budget, the Administration takes a hard look at the State’s fiscal situation and potential fiscal challenges to ensure that the State’s fiscal health is maintained through the upcoming biennium and beyond. Doing this during a pandemic, however, poses significant challenges due to the added levels of uncertainty.

While no one can predict how long this worldwide health crisis will last, we are hopeful that continuing our mitigation measures and the availability of vaccines will help us recover from this pandemic. As such, the Administration will be requesting, through specific legislation, emergency appropriations for FY 21 (beginning January 1, 2021) and appropriations for FY 22 for the substantial funding requirements to support COVID-19 mitigation efforts, including, but not limited to, the Safe Travels program, hospital surge staffing, and vaccination implementation.

Aside from vaccination costs, many of these costs are currently supported by CARES Act funds. Thus, the State has been insulated from these costs. However, the CARES Act funds must be expended by December 30, 2020, so any subsequent COVID-19-related costs must be paid by the State.

The COVID-19 mitigation costs that the State must now cover are currently estimated to be \$205 million and \$182 million, which will be requested as FY 21 emergency appropriations and FY 22 appropriations, respectively, but are subject to change as more information becomes available. We will work closely with the Legislature to ensure that sufficient resources are appropriated for these mitigation efforts.

In addition, we will be submitting several other emergency appropriation bills for FY 21 which total over \$82.5 million. These appropriations are necessary to provide critical support for the respective programs for the remainder of FY 21, in many cases to offset the indirect impact of COVID-19. Such requests include, but are not limited to, \$20 million for the DOE's food service program; \$5.4 million for the General Assistance program under the Department of Human Services (DHS); and \$1.5 million for the Stadium Authority.

For many programs, federal funding has become uncertain or nonexistent and this trend will likely continue. In the past, the State often supported the costs of federal programs which had been deemed critical when federal funding was reduced or discontinued.

The State is currently not in the position to assume such costs, and departments must work with their federal counterparts to ensure that budgeted federal funds are available. Of additional concern is the constant instability in Congress, which could result in the federal budget or a continuing resolution not being passed in a timely manner, effectively shutting down the federal government.

We are continuing to work to align resources to address our most critical issues. As such, the Executive Budget proposes limited general fund appropriations for FB 2021-23 beyond those for fixed costs.

Due to the anticipated general fund revenue shortfall, significant reductions have also been proposed based on the FB 2021-23 Program Review. Requests for non-general funds have been included based on priority and sustainability.

We must be fiscally prudent and responsible with our expenditures to ensure the State's fiscal stability through FB 2021-23 and beyond. We must control our expenditures to prepare, to the extent possible, for uncertain revenue collections.

### ***Constitutional and Statutory Requirements***

The FB 2021-23 Executive Biennium Budget includes the operating and capital improvement program (CIP) requirements of the Executive Branch as required by the State Constitution. 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 37-69, HRS, requires that “[t]he governor prepare a [S]tate six-year program and financial plan encompassing all state programs, . . .” The program and financial plan shall contain financial summaries displaying the State's financial condition including “[t]he changes proposed to the existing tax and nontax rates, sources or structure, and the estimated increases or reductions in

revenues, the estimated cumulative increases or reductions, and the estimated fund balance or deficit in each of the next six fiscal years as a result of such proposed changes. Proposals for changes in the existing tax and nontax rates, sources or structure shall be made in every case where the proposed, total state expenditures exceed the total resources anticipated from existing tax and nontax sources at existing rates.”

- 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.

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, 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 Section 44 transfers”). These transfers were also intended to provide centralized funding for operations, which would improve fiscal control and reduce workload.

These transfers have been included in the operating budget ceilings of the respective departments. The Governor’s approval and list of bills with budget impact is available here:

<https://budget.hawaii.gov/wp-content/uploads/2020/10/FM-20-15-Attachment-8.pdf>. Please note that this list includes bills that were repealed by the 2020 Legislature; thus, no appropriations were available from those bills for transfer in FY 21.

### **Budget Transparency**

To increase budget transparency, departments were instructed to review their FY 21 operating budget details for items that did not align with anticipated expenditures and could be addressed immediately. Each department’s review was to include, but would not be limited to, the following, as applicable:

- Negative adjustments;
- Underfunded, unfunded or unbudgeted positions; and
- Specific budget line items which do not align with anticipated expenditures.

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 was highly recommended that all departments review their unbudgeted positions. All unbudgeted positions that are critical and on-going were to be identified and incorporated into the budget. 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.

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

As such, the FY 2021-23 Executive Budget includes the following:

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 have been 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.

## **THE ECONOMY**

The pandemic, COVID-19, has caused a worldwide health crisis and an economic crisis. It has severely impacted the nation's economy, causing the sharpest drop on record to the U.S. economy.

Following shutdowns across the nation, many states were on the path to recovery. Recent increases in COVID-19 cases, however, have put a damper on economic growth as many states have returned to various stages of shutdown.

As COVID-19 cases began to increase in Hawai'i, mitigation measures to stop community spread brought our economy to a near standstill. The State's unemployment rate, which hit a record high of 23.8% in April 2020, gradually decreased to 14.3% in October 2020. Initial unemployment claims have reached unprecedented levels, with over 424,000 claims filed this calendar year through December 5, 2020, compared to less than 59,000 for the same period last year.

Following the initial downturn, the State's economy was improving as more businesses reopened at the end of the second quarter, but surges in COVID-19 cases interrupted the State's recovery. One of the State's major economic drivers, the tourism industry, is struggling to stay afloat, as the number of travelers to Hawai'i remains low.

Surges in COVID-19 cases on the mainland and in other countries threaten to slow recovery of the tourism industry. At this point, this contraction may provide an opportunity to evaluate the State's tourism carrying capacity.

Businesses have had to be innovative, offering alternative ways for their customers to interact during a pandemic, such as online sales and contactless pickup options. However, this may be a make-or-break season for retailers that rely heavily on Christmas sales.

The major indicators of Hawai'i's construction industry for the first two and three quarters were mixed. Construction jobs increased by 1.2%, or 433 jobs, for the first three quarters while the contracting tax base decreased slightly by 1.4% during the first half of 2020.

During the first nine months of 2020, the total value of private building authorizations decreased by 2.0%, while State CIP expenditures decreased by 8.7%. This was offset by a 386.3% increase in government contracts awarded compared



to the same period last year. The stability of the construction industry has supported Hawai'i's economy during this slowdown.

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.

We cannot predict when things will happen, but we can do our best to be prepared. Thus, we will continue to work together with the Legislature to further protect the health of Hawai'i's people, support the State's economic recovery and improve the State's fiscal position.

## **REVENUE PROJECTIONS**

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 its FY 27 projection of 3.0%. All of these changes result in annual revenue losses of over \$1.4 billion per year compared to the COR's March 2020 projections.

Preliminary actual general fund tax revenue growth for FY 21 increased in July 2020, and August 2020 collections increased by 32.9% and 5.6%, respectively, due to the deferral of the income tax filing deadline to July 20, 2020. Since then, general fund revenues have gone down by 2.7% in September 2020, 8.0% in October 2020, and 7.8% in November 2020 when compared to the same periods in FY 20. Current economic activity may be better reflected by the 24% decrease in general excise tax revenues and the 92% drop in transient accommodations tax revenues in November 2020.

## **THE EXECUTIVE BUDGET REQUEST FOR FB 2021-23**

### **The Operating Budget**

The development of the Executive Budget for FB 2021-23 began with an operating base budget amount for each department, equivalent to its FY 21 appropriations, minus non-recurring costs and plus collective bargaining (except for federal and other federal funds) and other adjustments, as applicable. These base budget amounts were adjusted by requests that included:

- Trade-offs and transfers and conversion of unbudgeted positions to align the budget with current operational requirements;
- Select fixed costs and entitlements;
- Federal funds based on anticipated grant awards;
- Health and safety or immediate requirements of court orders or federal mandates; and

- Other special, revolving, and trust fund requests that were sustainable, reasonable and necessary for program implementation.

For FB 2021-23, the budget includes \$15.416 billion in FY 22 and \$15.521 billion in FY 23 from all MOF for operating costs. This represents net decreases of \$280.2 million (1.8%) and \$175.6 million (1.1%), respectively, below the current level appropriated for FY 21 in Act 5, SLH 2019, as amended, including Section 44 transfers. Of these amounts, the request for general funds is \$7.686 billion in FY 22 and \$7.798 billion in FY 23, resulting in decreases of \$361.9 million (4.5%) and \$249.6 million (3.1%), respectively.

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

Major general fund adjustments for fixed costs and entitlements include:

- Increases debt service payments by \$172,171,836 in FY 22 and \$226,412,904 in FY 23 for DOE, UH and other State CIP projects.
- Decreases health premium payments by \$322,254,936 in FY 22 and \$281,057,936 in FY 23 for DOE, UH and other State programs, primarily due to the suspension of OPEB prefunding.
- Decreases retirement benefits payments by \$9,076,579 in FY 22 and FY 23 for DOE, UH and other State programs.
- Increases Medicaid health care payments by \$34,685,255 in general funds and \$216,337,913 in federal funds in FY 22 and by \$54,964,524 in general funds and \$148,460,463 in federal funds in FY 23.

The Executive Budget for FB 2021-23 includes the following significant requests by program area (requests are for general funds unless otherwise noted):

#### Economic Development

- Converts positions in the Plant Pest and Disease Control Program from general to special funds by reducing 15.00 permanent positions and \$745,556 in general funds in both FY 22 and FY 23; and adding 15.00 permanent positions and \$1,215,558 in special funds for the Pest Inspection, Quarantine and Eradication Special Fund (PIQESF) in both FY 22 and FY 23.
- Trades off \$1,215,558 in special funds for both FY 22 and FY 23 from other current expenses to personal services for the PIQESF to offset the conversion of general-funded positions.
- Adds \$800,000 in general funds in FY 22 to allow the expenditure of settlement funds received in FY 21 to establish a pesticide disposal program.
- Reduces \$1,050,000 in both FY 22 and FY 23 for the Business Development and Support Division of the Department of Business, Economic Development and Tourism.
- Reduces \$550,000 in both FY 22 and FY 23 to abolish the Pacific International Space Center for Exploration Systems program.
- Reduces \$733,531 in general funds and 2.00 full-time equivalent (FTE) permanent and 8.00 FTE temporary positions in both FY 22 and FY 23 and increases \$1,107,632 in special funds and 2.00 FTE permanent and 8.00 FTE temporary positions to convert positions from general to special funds for the Hawai'i State Energy Office.

- Increases \$800,000 in revolving funds in both FY 22 and FY 23 to convert 4.00 FTE unfunded permanent positions from general funds to revolving funds for the Hawai'i Community Development Authority.

### Employment

- Adds \$431,937 in FY 22 and FY 23 to cover ongoing maintenance costs of the completed Disability Compensation Division's information technology modernization project.
- Reduces \$2,603,486 in general funds, 7.00 FTE permanent and 4.00 FTE temporary positions in FY 22 and FY 23; and 2.00 FTE temporary federally funded positions in FY 22 and FY 23 for various programs in the Department of Labor and Industrial Relations.
- Adds \$16,950,645 in FY 22 and \$19,377,143 in FY 23 for interest payments for the UI loan under the Department of Budget and Finance (B&F).

### Transportation

- Adds \$15,000,000 in special funds in FY 22 and FY 23 for the Airports Division's (AIR) special maintenance projects.
- Adds \$13,611,408 in special funds in FY 22 and FY 23 for AIR for routine maintenance at Daniel K. Inouye International Airport.
- Adds \$4,634,400 in special funds in FY 22 and FY 23 for AIR for anticipated increases for statewide security services.
- Consolidates 136.00 permanent positions, 1.00 temporary position and \$100,271,196 in FY 22 and FY 23 for the Harbors Division from the various district program IDs into one program entitled "Hawaii Harbors System."

- Trade-off/transfer of 1.00 permanent position and \$22,331,887 (\$22,215,777 in special funds and \$116,110 in federal funds) in FY 22 and \$22,153,838 (\$22,037,728 in special funds and \$116,110 in federal funds) in FY 23 for the Highways Division (HWY) for energy savings contract maintenance, lease payments, special maintenance, and various requests.
- Adds \$5,712,084 in FY 22 and \$13,974,703 in FY 23 for HWY for special maintenance projects.

### Environmental Protection

- Adds \$5,100,000 in special funds in both FY 22 and FY 23 for the Legacy Land Conservation Program.
- Adds 12.00 permanent positions and \$1,165,691 in special funds in both FY 22 and FY 23 as part of a trade-off for unfunded positions at the Division of Conservation and Resources Enforcement.
- Reduces \$5,414,615 in both FY 22 and FY 23 for the Division of Forestry and Wildlife.

### Health

- Adds \$4,305,833 in both FY 22 and FY 23 for full year salaries for the new positions to support the new Hawai'i State Hospital (HSH) forensic building.
- Adds \$2,655,133 in both FY 22 and FY 23 for additional operating funds for the new HSH forensic building.
- Adds \$50,000,000 in revolving funds in both FY 22 and FY 23 to increase the appropriation ceiling of the Clean Water State Revolving Fund to expand capacity to provide loans for water pollution control infrastructure.

- Adds \$6,000,000 in FY 23 to increase the State match for the Medicaid 1915(c) Waiver for Individuals with Intellectual and Developmental Disabilities to accommodate new enrollments and increasing provider rates.
- Reduces 6.00 FTE permanent positions, \$475,769 in general funds, and \$114,000 in special funds in both FY 22 and FY 23 for the elimination of the State Health Planning and Development Agency and adds 3.00 FTE permanent positions, \$237,264 in general funds, and \$114,000 in special funds in both FY 22 and FY 23 to General Administration to continue the Certificate of Need program.
- Adds \$35,906,000 in both FY 22 and FY 23 for operational costs for HHSC – Regions.

#### Social Services

- Adds \$7,000,000 in revolving funds in both FY 22 and FY 23 for Native American Housing Assistance and Self Determination Act of 1996 loans administered by the Department of Hawaiian Home Lands (DHHL) to beneficiaries.
- Increases the Spouse and Child Abuse Special Fund ceiling by \$5,000,000 in special funds in FY 22 and FY 23 for Child Protective Services to fund operations and services necessary to comply with the Family First Prevention Services Act.
- Increases General Assistance payments by \$5,400,000 in FY 22 and FY 23 to meet projected enrollment increases.
- Increases State Rent Supplement Program funding by \$500,000 in FY 22 for Rental Assistance Services.
- Reduces 78.00 permanent positions (49.92 general-funded and 28.08 federal-funded), 4.00 temporary positions

(0.40 general-funded and 3.60 federal-funded), \$16,932,562 in general funds, and \$4,320,609 in federal funds in various programs in FY 22 and FY 23 for DHS.

#### Formal Education

##### *Public School System*

- Reduces 62.50 permanent positions, 8.00 temporary positions and \$165,578,927 in both FY 22 and FY 23 for various DOE programs.
- Adds 2.00 permanent positions and \$249,239 in both FY 22 and FY 23 to support the early learning classrooms that are administered by the Executive Office on Early Learning.
- Adds 6.00 permanent positions and \$2,901,925 in both FY 22 and FY 23 to support the Public Charter School Early Education and Preschool program.
- Reduces \$14,417,334 in both FY 22 and FY 23 for Charter Schools to equalize the per pupil funding based on the DOE's proposed FB 2021-23 operating budget and projected enrollment.

##### *Public Library System*

- Reduces \$870,000 in both FY 22 and FY 23 for student helpers at various libraries.
- Reduces \$709,000 in both FY 22 and FY 23 for library books and materials.

##### *University System*

- Reduces \$35,600,000 in FY 22 and FY 23 for UH Mānoa.

- Reduces \$23,000,000 in FY 22 and FY 23 for UH Community Colleges.
- Reduces \$8,478,080 in FY 22 and FY 23 for UH Systemwide Support.
- Reduces \$5,700,000 in FY 22 and FY 23 for UH Hilo.

#### *Youth Challenge Academy*

- Reduces 41.75 temporary positions (10.25 in general funds and 31.50 in other federal funds) and \$2,974,665 (\$612,797 in general funds and \$2,361,868 in other federal funds) in both FY 22 and FY 23 for the Hawai'i Youth Challenge Academy - Hilo program.

#### Culture and Recreation

- Adds \$2,587,200 in FY 22 for operating costs for the Aloha Stadium to cover the shortfall in revenues due to the adverse economic impact of the pandemic.
- Adds \$300,000 in FY 22 for annual structural assessment of Aloha Stadium.
- Adds \$2,906,688 in FY 22 and \$2,000,000 in FY 23 in special funds to support State Parks operations.

#### Public Safety

- Adds \$1,000,000 in both FY 22 and FY 23 for airport thermal device maintenance.
- Adds 2.50 permanent positions and \$399,996 in both FY 22 and FY 23 to provide full State funding for certain leadership positions under the Hawai'i Emergency Management Agency.

- Adds \$12,127,438 in both FY 22 and FY 23 to replace reduced payroll funding of 237.50 positions from various programs for the Department of Public Safety (PSD).
- Adds \$676,222 in FY 22 for a cash infusion for the payroll and operating expenditures of the Crime Victim Compensation Commission.
- Reduces non-critical operating expenditures of \$2,817,299 from various programs in both FY 22 and FY 23 to replace the reduced funding of 61.00 permanent positions for PSD.
- Reduces 18.00 permanent Adult Corrections Officer positions and \$1,485,629 in both FY 22 and FY 23 for the additional housing of Ho'okipa Makai Cottage under the Women's Community Correctional Center.

#### Individual Rights

- Adds special funds of \$3,500,000 in FY 22 and \$500,000 in FY 23 for a new business registration transactions and documents system for the Department of Commerce and Consumer Affairs.

#### Government-Wide Support

- Reduces 60.50 FTE permanent and 5.39 FTE temporary positions which were unfunded in various Department of Accounting and General Services' (DAGS) programs.
- Reduces a total of \$11,584,545 and \$11,701,713 in FY 22 and FY 23, respectively, and 90.50 FTE permanent and 11.00 FTE temporary positions in both fiscal years. Includes the conversion of general-funded positions and funds for DAGS – Public Works (87.00 FTE permanent and 1.00 FTE temporary positions and \$5,962,321) and the Office of Enterprise Technology Services (10.00 FTE temporary positions and \$955,512) to G.O. bond-funded positions in the CIP budget.

- Reduces \$1,000,000 in FY 22 and FY 23 for the Department of the Attorney General’s litigation fund.
- Reduces 11.00 permanent general-funded positions, 3.00 temporary trust-funded positions, and \$6,270,940 in general funds in various programs in FY 22 and FY 23 for B&F.
- Reduces 14.00 unfunded permanent positions in FY 22 and FY 23 for the Work Force Attraction, Selection, Classification, and Effectiveness Program.
- Converts positions from general to special funds by reducing 5.00 permanent positions, 8.00 temporary positions and \$1,320,730 in both FY 22 and FY 23; and adds 5.00 permanent positions, 8.00 temporary positions and \$1,994,305 in special funds from the Tax Administration Special Fund in both FY 22 and FY 23.
- Adds \$3,033,382 in both FY 22 and FY 23 for maintenance and support for the Tax Modernization System.
- Reduces 60.00 permanent positions, 104.00 temporary positions and \$2,150,850 in FY 22 and 60.00 permanent positions, 104.00 temporary positions and \$2,347,536 in FY 23 in various Department of Taxation programs.

**The Capital Improvements Program Budget**

For the CIP budget, a total of \$1.236 billion in FY 22 and \$1.116 billion in FY 23 has been recommended. Of these amounts, the requests for G.O. bond funds total \$679.4 million and \$512.1 million, respectively.

The State’s fiscal prudence and financial strength in the past has allowed the State to maintain its credit quality during the pandemic. Going forward, it is critical that we prioritize essential CIP projects given the uncertain revenue situation

and evaluate which projects that could be deferred until revenues rebound and the full budgetary impact of pension and OPEB costs are absorbed.

This is necessary to limit debt service costs to preserve the State’s financial flexibility through the planning period and position the State to handle future economic shocks. As such, the Administration has made a conscientious effort to reduce the FB 2021-23 CIP budget request compared to the previous biennium. As such, we have requested a total of less than \$1.2 billion in G.O. bond funds for FY 22 and FY 23.

The requested projects are necessary to maintain and improve our State facilities and resources to allow our programs to better serve Hawai’i’s people. It makes good financial sense to invest now – while interest rates are low – to meet these priority needs. This will help reduce debt service costs while creating jobs and sustaining our construction industry.

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

The FB 2021-23 CIP requests support the following program areas (G.O. bond funds unless otherwise noted):

Economic Development

- Adds \$3,000,000 in FY 22 for the Agribusiness Development Corporation to implement agricultural infrastructure on O’ahu.
- Adds \$3,250,000 in FY 22 for the Lower Hamakua Ditch Watershed Project, Hawai’i.
- Adds \$3,000,000 in FY 22 for Miscellaneous Health, Safety, Code and Other Requirements, Statewide.
- Adds \$5,700,000 in FY 22 for Halawa Animal Industry Facility Improvements, O’ahu.

- Adds \$2,000,000 in both FY 22 and FY 23 for Planning for Transit-Oriented Development, Statewide.
- Adds \$20,000,000 in FY 23 for a Cash Infusion for the Dwelling Unit Revolving Fund, Statewide.
- Adds \$25,000,000 in FY 23 for a Cash Infusion for the Rental Housing Revolving Fund (RHRF), Statewide.
- Adds \$38,000,000 in both FY 22 and FY 23 for a Cash Infusion to Replace the Conveyance Tax Distribution to the RHRF due to the COVID-19 Emergency Proclamation, Statewide.
- Adds \$40,000,000 in FY 22 for a Cash Infusion for the RHRF for the Hawai'i Public Housing Authority School Street Senior Affordable Housing Project, O'ahu.

#### Transportation

- Adds \$15,000,000 in FY 22 and \$100,000,000 in FY 23 for Lihue Airport, Terminal Improvements, Kaua'i.
- Adds \$98,441,000 (\$98,440,000 in revenue bond funds and \$1,000 in federal funds) in FY 22 and \$21,208,000 (\$16,207,000 in revenue bond funds, \$1,000 in federal funds, and \$5,000,000 in private contributions) in FY 23 for Airfield Improvements, Statewide.
- Adds \$58,420,000 in other funds (passenger facility charges) in FY 22 and FY 23 for Airport Improvements, Statewide.
- Adds \$10,000,000 (\$9,988,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 22 and \$63,000,000 (\$62,988,000 in revenue bond funds, \$4,000 in special

funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 23 for Kahului Harbor Improvements, Maui.

- Adds \$10,000,000 (\$9,988,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 22 and \$30,000,000 (\$29,988,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 23 for Honolulu Harbor Improvements, O'ahu.
- Adds \$10,000,000 (\$9,988,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 22 and \$30,000,000 (\$29,988,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 23 for Kawaihae Harbor Improvements, Hawai'i.
- Adds \$41,500,000 (\$8,300,000 in revenue bond funds and \$33,200,000 in federal funds) in FY 22 and \$103,500,000 (\$20,700,000 in revenue bond funds and \$82,800,000 in federal funds) in FY 23 for Various Bridges, Statewide.
- Adds \$63,700,000 (\$14,800,000 in revenue bond funds and \$48,900,000 in federal funds) in FY 22 and \$14,800,000 (\$3,000,000 in revenue bond funds and \$11,800,000 in federal funds) in FY 23 for Highway Planning, Statewide.
- Adds \$20,500,000 (\$4,100,000 in revenue bond funds and \$16,400,000 in federal funds) in FY 22 for Vehicle to Everything Technology, Statewide.
- Adds \$15,000,000 (\$3,000,000 in revenue bond funds and \$12,000,000 in federal funds) in FY 22 for Rail Line Highway Improvements, O'ahu.

### Environmental Protection

- Adds \$4,000,000 in both FY 22 and FY 23 for Watershed Protection and Initiatives, Statewide.

### Health

- Adds \$2,462,000 and \$12,308,000 in federal funds in FY 22 and FY 23 for the Wastewater Treatment Revolving Fund for Pollution Control, Statewide.
- Adds \$2,202,000 and \$11,011,000 in federal funds in FY 22 and FY 23 for the Safe Drinking Water Revolving Fund, Statewide.
- Adds \$3,500,000 in FY 22 for HSH, Building Q, Replace Chillers and Related Improvements, O'ahu.
- Adds \$7,090,000 in FY 22 for Kalaupapa Settlement, Close Landfills, Moloka'i.
- Adds \$4,000,000 in FY 22 for DOH, Health and Safety, Statewide.
- Adds \$2,500,000 in FY 22 and \$3,000,000 in FY 23 for lump sum facility improvements and renovations to HHSC – Regions, O'ahu.
- Adds \$3,000,000 in FY 22 and \$5,000,000 in FY 23 for lump sum facility improvements and renovations to HHSC – Regions, Kaua'i.
- Adds \$8,000,000 in FY 22 and \$8,000,000 in FY 23 for lump sum facility improvements and renovations to HHSC – Regions, Hawai'i.
- Adds \$6,000,000 in FY 22 and \$6,000,000 in FY 23 for lump sum facility improvements and renovations to Maui Health System, Maui and Lāna'i.

### Social Services

- Adds \$1,700,000 (\$500,000 in G.O. bonds and \$1,200,000 in other federal funds) in FY 22 and \$3,210,000 in other federal funds in FY 23 for West Hawai'i Veterans Cemetery Expansion and Improvements, Hawai'i.
- Adds \$20,000,000 in both FY 22 and FY 23 for DHHL lot development projects, Statewide.
- Adds \$5,000,000 in both FY 22 and FY 23 for repairs and maintenance to infrastructure within DHHL subdivisions, Statewide.
- Adds \$10,000,000 in FY 22 and FY 23 for public housing development, improvements, and renovations, Statewide.

### Formal Education

#### *Public School System*

- Adds \$81,500,000 in FY 22 and \$103,150,000 for FY 23 for Lump Sum – Deferred Maintenance Projects, Statewide.
- Adds \$25,000,000 in FY 22 and FY 23 for Lump Sum – Project Completion, Statewide.
- Adds \$13,500,000 in FY 22 for Lump Sum – Support, Statewide.
- Adds \$10,000,000 in FY 22 and FY 23 for Lump Sum – Health and Safety, Statewide.
- Adds \$8,200,000 in FY 22 for Lump Sum – Compliance, Statewide.
- Adds \$6,800,000 in FY 22 and \$2,850,000 for FY 23 for Lump Sum – Instructional, Statewide.



- Adds \$5,000,000 in FY 22 and FY 23 for Lump Sum – Office of Information Technology Services, Statewide.
- Adds \$4,000,000 in FY 23 for Lump Sum – Capacity, Statewide.

#### *Public Library System*

- Adds \$5,000,000 in FY 22 and FY 23 for Health and Safety, Statewide.

#### *University System*

- Adds \$48,500,000 in FY 22 and \$80,000,000 in FY 23 for System, Renew, Improve and Modernize, Statewide.
- Adds \$60,000,000 in FY 22 for Mānoa Mini Master Plan Phase 2, O’ahu.
- Adds \$15,000,000 in FY 22 and \$25,000,000 in FY 23 for Community Colleges, Capital Renewal and Deferred Maintenance, Statewide.
- Adds \$10,000,000 in FY 22 and \$15,000,000 in FY 23 for UH Hilo, Renew, Improve and Modernize, Hawai’i
- Adds \$15,000,000 in FY 22 for Community Colleges, Honolulu Technology Renovations, O’ahu.

#### Culture and Recreation

- Adds \$6,000,000 (\$5,500,000 in G.O. bonds and \$500,000 in federal funds) in both FY 22 and FY 23 for State Parks Infrastructure and Park Improvements, Lump Sum, Statewide.

#### Public Safety

- Adds \$3,000,000 in FY 22 and FY 23 to Retrofit Public Buildings with Hurricane Protective Measures, Statewide.
- Adds \$2,500,000 in FY 22 and FY 23 for Disaster Warning and Communications Devices, Statewide.
- Adds \$35,000,000 in FY 22 for Halawa Correctional Facility, Consolidated Health Care Unit, O’ahu.
- Adds \$30,000,000 in FY 22 and \$10,000,000 in FY 23 for various lump sum CIP projects to provide major repairs, upgrades, improvements to comply with Americans with Disabilities Act standards, and deferred maintenance to PSD facilities, Statewide.
- Adds \$6,000,000 in FY 22 for PSD Sheriffs Relocation – Keawe Station to Kalanimoku Building, O’ahu.
- Adds \$5,000,000 in FY 22 for O’ahu Community Correctional Center – Laumaka Work Furlough Center Infrastructure Repairs, Renovation and Improvements, O’ahu.
- Re-appropriates lapsed funds of \$12,968,000 in FY 22 to provide additional funding for PSD Medium Security Housing at Hawai’i Community Correctional Center and Maui Community Correctional Center, and Other Housing Improvements, Statewide.

#### Government-Wide Support

- Adds \$10,141,000 in FY 22 and FY 23 for CIP Staff Costs, Statewide. Project covers staff costs for 87.00 FTE permanent and 1.00 FTE temporary positions in the Public Works program, which were formerly funded by general funds in the operating budget.

- Adds \$20,000,000 in FY 22 for Lump Sum Maintenance of Existing Facilities, Public Works Division, Statewide.
- Adds \$4,700,000 in FY 22 and \$2,000,000 in FY 23 for Lump Sum Health and Safety, Information and Communication Services Division, Statewide.
- Adds \$17,500,000 in FY 22 and \$12,500,000 in FY 23 for State Capitol Building, Rehabilitation of Chambers/Parking Level Waterproofing System, O‘ahu.
- Adds \$3,150,000 in FY 22 for Waikīkī Master Plan Improvements, O‘ahu.
- Adds \$3,000,000 in special funds in FY 22 for Hawai‘i District Land Office Renovation, Hawai‘i.
- Adds \$3,400,000 in special funds in FY 22 for acquisitions of Haloa Aina and Hoomau Forest conservation easements and Hawai‘i Koa Forest, Hawai‘i.

### **STRENGTH THROUGH ADVERSITY**

It took many years for the State and the nation to recover from economic shocks of lesser magnitude, such as September 11<sup>th</sup> and the Great Recession. This worldwide health crisis adds levels of complexity that increase the uncertainty and, perhaps, the time needed for recovery.

This pandemic has caused us to take a step back to refocus and recognize what is truly important to us. We must be personally responsible because our lives – and those of our family and friends – depend on it. We must care for our kūpuna and the most vulnerable.

We are making progress towards managing the pandemic in the islands. We are at the point where we can begin taking greater steps towards reviving our economy and strengthening

our communities. The availability of vaccines to prevent COVID-19 and promising new treatment options bring hope that we will recover from this pandemic.

Together, we can get through this. We must draw on the resiliency and foresight of our ancestors and work to rebuild the lives of Hawai‘i’s people and strive to make them better than before. Adversity often brings out the best in us, the strength and ingenuity that we did not know we had.

We have a unique opportunity to reshape Hawai‘i for the future and make it stronger and more resilient. Like our parents and grandparents, we want the best for our families. There is no limit to what we can accomplish when we work towards a common goal.

It may not be easy, but we are committed. Now more than ever, we must do the right thing, the right way, for the right reasons.

Sincerely,

/s/

DAVID Y. IGE  
Governor of Hawai‘i

APPENDIX TO THE GOVERNOR'S MESSAGE

**A. THE EXECUTIVE BUDGET RECOMMENDATIONS**

The Operating Budget

*All Means of Financing*

For FB 2021-23, total operating budget requests from all sources of funding amount to \$15.417 billion in FY 22 and \$15.521 billion in FY 23, resulting in decreases of 1.8% and 1.1%, respectively.

<u>Means of Financing</u>	<u>FY 21*</u> <u>Appropriation</u> (\$million)	<u>FY 22</u> <u>Request</u> (\$million)	<u>FY 23</u> <u>Request</u> (\$million)
General Funds	8,047.9	7,686.0	7,798.3
Special Funds	3,639.2	3,370.1	3,453.3
Federal Funds	2,825.0	3,091.6	3,021.5
Other Federal Funds	198.3	220.3	199.3
Private Contributions	0.9	0.9	0.9
County Funds	2.2	2.2	2.2
Trust Funds	433.8	433.8	433.8
Interdept. Transfers	76.5	79.1	79.1
Revolving Funds	450.6	514.0	514.0
Other Funds	18.7	18.8	18.9
	15,693.2	15,416.7**	15,521.3
Decrease under FY 21		-276.4	-171.8
Percentage decrease		-1.8%	-1.1%

\* - Includes FY 21 appropriations from Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020, including transfers pursuant to Section 44 of Act 5, as amended by Act 7, SLH 2020, and Act 9, SLH 2020.

\*\* - Total differs due to rounding.

The decreases are primarily due to suspension of prefunding for OPEB, program review reductions for general-funded programs, and reduced retirement benefit payments, which are offset by escalating other non-discretionary costs (general funds for debt service; health premium payments; and federal and general funds for Medicaid). Also contributing are adjustments made for transportation.

*General Fund*

Total requests for general funds amount to \$7.686 billion in FY 22 and \$7.798 billion in FY 23, which represents a decrease of \$361.9 million (4.5%) in the first year and \$249.6 million (3.1%) in the second year over the FY 21 appropriation level (includes FY 21 appropriations from Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020, including transfers pursuant to Section 44 of Act 5, as amended by Act 7, SLH 2020, and Act 9, SLH 2020).

Increased non-discretionary requests (debt service, health premium payments, and Medicaid) are offset by decreases due to suspension of prefunding for OPEB, program review reductions, and reduced retirement benefit payments.

Net new general fund requests by budget request category include (does not include general fund ceiling):

FY 22

	FY 22 <u>Perm Positions</u> (FTE)	FY 22 <u>Temp Positions</u> (FTE)	FY 22 <u>Request</u> (\$million)
Category			
Trade-Off/Transfer	-11.00	-	-
Non-Discretionary	-	-	-124.5
Other Requests	-364.78	-172.66	91.5
Program Review	<u>-431.57</u>	<u>-62.15</u>	<u>-347.8</u>
Total	-807.35	-234.81	-380.8

FY 23

	FY 23 <u>Perm Positions</u> (FTE)	FY 23 <u>Temp Positions</u> (FTE)	FY 23 <u>Request</u> (\$million)
Category			
Trade-Off/Transfer	-11.00	-	-
Non-Discretionary	-	-	-8.8
Other Requests	-364.78	-176.66	94.5
Program Review	<u>-431.57</u>	<u>-62.15</u>	<u>-350.3</u>
Total	-807.35	-238.81	-264.5*

\* - Total differs due to rounding.

The Capital Improvement Program Budget

For FB 2021-23, total requests for capital improvements amount to \$1.236 billion in FY 22 and \$1.116 billion in FY 23, to be funded from the following sources:

Means of <u>Financing</u>	FY 22 <u>Request</u> (\$million)	FY 23 <u>Request</u> (\$million)
General Funds	-	-
Special Funds	25.4	7.0
G.O. Bonds	679.4	512.1
G.O. Reimbursable	-	-
Revenue Bonds	312.5	428.1
Federal Funds	159.3	160.7
Other Federal Funds	1.2	3.2
Private Contributions	-	5.0
County Funds	-	-
Trust Funds	-	-
Interdept. Transfers	-	-
Revolving Funds	-	-
Other Funds	<u>-58.6</u>	<u>0.2</u>
Total	1,236.3*	1,116.3

\* - Total differs due to rounding.

**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 FY 21 through FY 23.

For the Executive Branch, the total proposed appropriations from the general fund (which include emergency appropriations for FY 21, the Executive Biennium Budget for FB 2021-23 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by \$79.3 million (or 0.9%) in FY 21 but are within the expenditure ceilings for FY 22 and FY 23. In FY 21, the excess is due to the costs of COVID-19-related expenses, differentials for classroom teachers, support of education, public safety operational requirements, 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 exceed 5% 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 exceed revenues for each of the preceding fiscal years by 5%, 5% of the general fund balance shall be deposited into the EBRF.

For FYs 19 and 20, the general fund balances were greater than 5% of general fund revenues. It is noted that the FY 20 general fund balance was adjusted to include certain transactions that were authorized for FY 20 but processed in FY 21. Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain items were processed in FY 21 but for the purposes of the general fund financial plan have been reflected as authorized in FY 20.

Although the general fund balance exceeded 5% of general fund revenues for FYs 19 and 20, FYs 19 and 20 general fund revenues did not exceed the respective previous years' (FYs 18 and 19) general fund revenues by more than 5%.

Accordingly, the 2021 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 OPEB 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.