EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

July 30, 2021

EXECUTIVE MEMORANDUM — MEMO NO. 21-04

TO: All Department Heads

SUBJECT: FY 22 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 22. These policies will apply to all appropriations from the following:

- Act 88, SLH 2021, for operating and 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 21 (retroactively) or FY 22 by the 2021 Legislature or other legislative sessions.

After a year and a half, the coronavirus (COVID-19) pandemic continues to have worldwide impact. Although the availability of vaccines has helped to reduce the spread of the virus, there remains an ongoing struggle to control the public health impact due to the resurgence of COVID-19, in part due to the quick spread of the delta variant.

While we are all anxious to get back to “normal,” we must continue to move forward with caution. Managing a pandemic in the face of restarting our economy brings unprecedented levels of uncertainty as we weigh the health risks against the welfare of Hawaiʻi’s people.

As air travel and businesses have opened up, Hawaiʻi’s preliminary unemployment rate has decreased significantly from a high of 21.9% in April 2020 to 7.7% in June 2021. Through Hawaiʻi’s Safe Travels program, visitors have come back to the islands more quickly than anticipated. The State has had nearly two million visitors through the first five months of 2021.

Compared to the record number of visitor arrivals for the same period in 2019, however, arrivals are nearly 54% less. Similarly, visitor spending through May 2021 was down about 53% compared to year-to-date arrivals for May 2019. Even so, the increasing number of visitors has helped the State's general fund tax revenue collections to recover more quickly than previously anticipated.

In March 2021, the federal American Rescue Plan Act (ARPA) of 2021 was enacted. The ARPA established the $219.8 billion Coronavirus State Fiscal Recovery Fund (CSFRF) of which the State of Hawai‘i has received $1.6 billion. Act 88, SLH 2021, appropriated $1.3 billion of the CSFRF moneys under means of financing (MOF) V ("American Rescue Plan Funds"). The ARPA provides four allowable uses of CSFRF moneys, which must be spent by December 31, 2024:

- To respond to the COVID-19 public health emergency or its negative economic impacts.
- To respond to workers performing essential work during the COVID-19 public health emergency.
- To provide government services to the extent of the reduction in revenue of such state due to the COVID-19 public health emergency.
- To make necessary investments in water, sewer, or broadband infrastructure.

While the ARPA also imposes specific restrictions on the use of CSFRF moneys, it also provides targeted funding for numerous other areas, including education, COVID-19 direct impact, and mental health. For education, the ARPA appropriated $122.8 billion for the third round of the Elementary and Secondary School Emergency Relief Fund (ARP ESSER), of which $412.3 million has been allocated to Hawai‘i's Department of Education (DOE), and $39.6 billion for the Higher Education Emergency Relief Fund (HEERF III), of which the University of Hawai‘i (UH) is estimated to receive $40.4 million for student aid and $97.2 million for institutional support. The maintenance of effort (MOE) requirement to receive the ARP ESSER allocation requires the state to maintain support for elementary and secondary education and for higher education in FY 22 and FY 23 at least at proportional levels of state support for education relative to the state's overall spending, averaged over FY 17, FY 18 and FY 19.

The ARPA also established the $10 billion Capital Projects Fund (CPF) to provide funding to carry out critical capital projects directly enabling work, education, and health monitoring, including remote options, in response to the COVID-19 public health emergency. Act 88, SLH 2021, appropriated $110.1 million of the CPF moneys under MOF V.

The ARPA appropriations made in Act 88, SLH 2021, however, were made before federal guidance regarding the use of the funds was available. Thus, departments must comply with Executive Memorandum No. 21-03, *Management of Appropriated and Non-Appropriated Coronavirus State Fiscal Recovery Funds*, dated June 4, 2021, which provides the framework for expenditure of these funds.

Recognizing the rapid recovery of visitor arrivals, healthy FY 21 year-to-date tax collections, renewed consumer spending, the economic impact of the ARPA, and the reduction in public health risks related to COVID-19, the Council on Revenues (COR) increased its general fund tax revenue forecast from -2.5% to 5.0% for FY 21 at its May 25, 2021 meeting. The COR also lowered its forecast for FY 22 from 4.0% to 3.0% and forecasted a general fund tax revenue growth rate of 4.0% for FYs 23-27, maintaining its forecast for FYs 23 and 24 but increasing its forecast from 3.5% for the remaining fiscal years. Preliminary general fund tax collections increased from -6.3% at the end of FY 20 to 8.1% to close out FY 21, higher than the COR's FY 21 projection of 5.0% and a dramatic increase over FY 20.

The COR acknowledged that there are still significant risks that could inhibit the State's economic recovery including new variants, slow vaccination efforts in foreign visitor markets, and supply constraints in tourism and other industry sectors. As we have learned, things can change rapidly when dealing with a pandemic, and continued economic improvement hinges on our ability to manage the virus and vaccinations here, while we trust that other states and countries will do their due diligence to manage COVID-19 to minimize its ongoing impact. Faced with these ongoing uncertainties, we must continue to monitor general fund tax revenue growth as the fiscal year progresses.

In this light, this memorandum provides full-year allocations for FY 22 for general-funded programs, which include a 5% restriction and 2% contingency restriction on adjusted discretionary general fund appropriations from Act 88, SLH 2021, for all departments except DOE and UH, which have been imposed a 2% contingency restriction. The contingency restriction is intended as a contingency reserve for FY 22 and may be adjusted during the second half of the fiscal year based on ARP ESSER MOE requirements, actual tax collection trends, and the COR's updated forecasts later in the fiscal year.

The 5% restriction and 2% contingency restriction will also apply to general-funded specific appropriations. Non-general funded programs have been allocated their full FY 22 appropriation amounts. Each department's Exhibit 1 includes its full-year allocation for FY 22.

We recognize that given the recent reductions to program budgets, departments need flexibility with their limited funding. In view of the improvement to the State's fiscal condition, we have lifted the hiring freeze and, to facilitate the efficiency of State operations, these policies continue to delegate many responsibilities to the departmental level and return the authority to fill budgeted and funded civil service positions to department heads. For the most part, these budget execution policies are otherwise much like those from FY 21; however, departments should be aware that there have been changes made due to adjustments to legislative requirements.

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. All departments must continue to be prudent with their spending, regardless of MOF, to ensure that the State is in the best position to quickly deal with direct program impacts and changes to Hawai‘i’s and the nation’s economy. It is critical that program expenditures do not exceed the current allocations.

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.

We are already seeing how this pandemic has changed the way we work and has impacted the State’s economic landscape. As we move towards what might be our new normal, we remain committed to maintaining government transparency and accountability. Building a better tomorrow will take time, but we can strengthen the foundation of our State government by working together towards this common goal.

Exhibit 1 contains your department’s current FY 22 allocation of operating program appropriations and permanent and temporary position ceilings from Act 88, SLH 2021, with applicable adjustments, as follows:

- General funds

  All departments excluding DOE and UH – 100% of non-discretionary appropriation; $4,000,000 of discretionary appropriation plus 93% of balance of discretionary appropriation (adjusted by a 5% hard restriction and a 2% contingency restriction).

  DOE and UH – 100% of non-discretionary appropriation; $4,000,000 of discretionary appropriation plus 98% of balance of discretionary appropriation (adjusted by a 2% contingency restriction).

  General-funded specific appropriations shall be subject to a 7% restriction (5% hard restriction and 2% contingency restriction).

- Other than general funds

  All departments – 100% of appropriation.

- Collective bargaining allocations for Hawai‘i Employer-Union Health Benefits Trust Fund appropriations will be provided to the Department of Budget and Finance (B&F).

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 22 budget execution to provide for prudent and efficient implementation of legislative intent.

Questions on the specific policies and instructions should be directed to B&F 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 Hawaiʻi

Exhibit 1
Attachment A
Attachment B