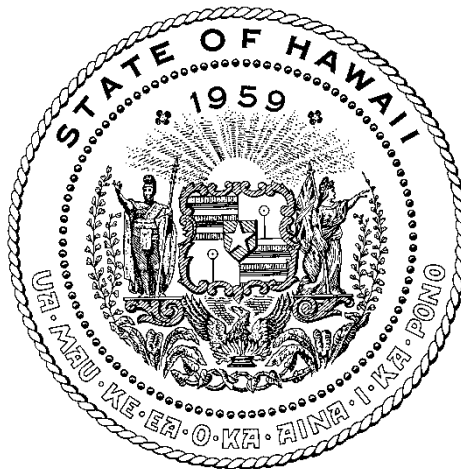


STATE OF HAWAII



EXECUTIVE SUPPLEMENTAL BUDGET  
(Budget Period 2021-2023)

**Submitted to the Thirty-first State Legislature  
December 20, 2021**

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 2022**

In compliance with Article VII, Section 9, of the Hawai'i State Constitution, I hereby submit to the State Legislature the Executive Supplemental Budget for Fiscal Biennium (FB) 2021-23 and the updated Program and Financial Plan for the Period 2021-27.

**OVERVIEW**

Our primary concern has been and will always be the health and welfare of Hawai'i's people. In this regard, we have made thoughtful choices that always prioritize the public good. Our collective efforts to make the quality of life better for our residents and future generations by making meaningful investments in our education and safety net systems, protecting the environment, improving our infrastructure, putting the State on solid financial footing, and making government more transparent and efficient are achieving results and are changing the trajectory of Hawai'i for the better.

The State budget is the single most important and comprehensive document developed each year that speaks to our priorities as a State. Our supplemental budget request continues to demonstrate our commitment to Hawai'i's residents and future generations through the thoughtful allocation of resources. While times have changed and current circumstances challenge us, our priority to do all we can to protect and improve the quality of life for Hawai'i's people has not.

The coronavirus (COVID-19) pandemic continues to have worldwide impact nearly two years since the United States' (U.S.) Secretary of Health and Human Services declared a public health emergency and I issued the first emergency proclamation to address COVID-19 in the State of Hawai'i. We have made significant progress and now have safe and effective vaccines, improved and expanded testing, and more treatments and therapeutics.

Hawai'i followed the science, data, and public health experts, and we made difficult, sometimes unpopular, decisions which kept Hawai'i's case counts the lowest in the nation.

Hawai'i's healthcare community stepped up to the plate and continues to do so today. They have gone above and beyond to ensure that the people of Hawai'i have access to health care when they most need it. They rapidly implemented the most effective treatments and therapeutics for those infected. As a result, Hawai'i has amongst the lowest rate of hospitalization in the nation.

Hawai'i's people are resilient. They made personal sacrifices to benefit the community. They adapted to the necessary safeguards, even when they were not easy. Our keiki attended school remotely, and students, their families, as well as our educators handled the impacts to the best of their abilities. Businesses, many of them hit hard, also responded to the pandemic with both ingenuity and aloha. Many found new methods to operate and did what they could to assist the community. Many others, unfortunately, had to shut down.

Last year, the State implemented a mandatory quarantine for incoming travelers to protect the health of our community. The number of travelers decreased abruptly, many residents were

temporarily laid off or lost their jobs, and we witnessed an unprecedented contraction of the State's economy. Some families had more than one person unemployed. Hawai'i's unemployment rate rose dramatically from 2.1% in March 2020, amongst the lowest in the nation, to 21.9% by the next month, the highest.

The Unemployment Insurance (UI) Trust Fund was quickly depleted, and the State borrowed money from the U.S. Treasury to pay unemployment claims. The UI Trust Fund is funded through the unemployment tax paid by employers, and repayment of the loan would put a considerable long-term burden on Hawai'i's businesses and their future viability.

Because they are part of the backbone of our community, helping businesses and employers is one of the State's highest priorities. Thus, the State used more than \$800 million to pay off the loan for the UI Trust Fund using federal Coronavirus Relief Funds from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Coronavirus State Fiscal Recovery Funds (CSFRF) from the American Rescue Plan (ARP) Act of 2021. Also, paying off the loan before the end of this calendar year benefits employers as it will prevent a reduction to the Federal Unemployment Tax Act tax credit.

By October 2020, we developed and implemented the State's Safe Travels program, which allows most air travelers to bypass the State's mandatory ten-day self-quarantine with a valid negative COVID-19 test result or by being fully vaccinated. This has helped revitalize our tourism industry as more than 9.3 million travelers have come to Hawai'i since then.

Pent up demand, reasonable airfares and low case levels in Hawai'i brought record numbers of domestic travelers. The resurgence of the visitor industry and the broader opening of businesses resulted in marked improvement to the State's economy, much more quickly than anticipated.

Hawai'i's unemployment rate has decreased significantly, with the preliminary unemployment rate going down to 6.3% in October 2021. Comparatively, the national preliminary unemployment rate of 4.6% for October 2021 decreased over 10% from 14.8% in April 2020.

As businesses and social venues continue to open up, we are faced with the challenge of ensuring the health and safety of our families and friends while supporting economic growth. We are keeping a watchful eye on the spread of the Omicron variant, which has already found its way to Hawai'i. As such, we request FY 23 contingency funding to maintain statewide COVID-19 preparedness for the Department of Defense (DOD). Additionally, substantial federal resources are available to the Department of Health for response efforts.

My Administration is steering our State through this health crisis by combining reasonable government protocols with calls for personal responsibility – and the people of Hawai'i have overwhelmingly supported this approach.

Our budget proposals for the next year transition Hawai'i's health system and economy from focusing on pandemic response to embracing a new normal that carefully reopens our islands for business and social interaction.

### ***Balancing the Budget Through the Pandemic***

At the start of the pandemic and through most of calendar year 2020, we expected to experience sizable general fund revenue shortfalls for several fiscal years. Thus, it was necessary to impose restrictive fiscal controls on general fund expenditures in FY 20 and FY 21.

The 2020 Legislature authorized general fund to general obligation (G.O.) bond swaps, special fund transfers, a \$345 million transfer from the Emergency and Budget Reserve Fund (EBRF) which increased the FY 20 balance of the

general fund by \$648 million. As a result of this and spending restrictions, the FY 20 general fund balance ballooned to \$1 billion.

The \$1 billion in carryover funds was necessary to support operations at the beginning of FY 21, as tax revenue collections had decreased dramatically. With huge budget deficits looming, we imposed restrictions on top of the sizeable reductions to FY 21 general fund appropriations made by the Legislature.

Given that further reductions to the State's budget would necessitate significant layoffs or furloughs, 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.

As we approached the FB 2021-23 Executive Budget, we were looking at estimated annual general fund revenue shortfalls of \$1.4 billion. We were dealing with the initial public health and fiscal impact of COVID-19 and had not yet received the federal ARP Act funds, which have helped to improve the State's fiscal stability.

Based on a structured program review, we prioritized and identified recurring budget reductions, which would offset a portion of the projected budget deficit, along with other cost saving measures. Our proposed budget reflected the sudden reductions to revenues due to the pandemic's impact on the State's economy and the tax revenue that funds our services and programs. While we were hopeful that federal funds would be made available to states shortly thereafter, it was still uncertain.

While there have been many budgetary reductions and impacts, our efforts worked toward preserving the State's most important and critical functions, including those that pertain to education and Hawai'i's safety net. Additionally, and importantly, we balanced the budget without implementing any significant tax increases on our residents or businesses. This was due in no small part to our efforts to strengthen our State finances which helped enable us to weather the worst of the general fund revenue projections without resorting to less desirable measures.

As FY 21 progressed and the economy improved, general fund tax revenue collections increased. After much negotiation, Congress finally passed the ARP Act, which provided a very substantial infusion of funding that we have used for the repayment of the UI loan and will be used for other eligible State costs.

Ultimately, FY 21 showed positive general fund tax revenue growth and ended with a general fund balance of approximately \$1.25 billion. Current general fund tax revenue growth through the first five months of FY 22 has been an astounding 27.3%.

Given the improvement to the State's fiscal position, we must replenish resources for programs providing critical State services that were decimated by budget reductions. Essential positions and funding must be restored, in addition to providing sufficient funding for increases in essential operating costs, such as utilities and insurance.

### ***Federal Funds***

Extraordinary amounts of federal funds have been provided to states to assist with costs associated with their pandemic response and to support economic recovery. In addition to grants awarded to specific programs, the State of Hawai'i received \$862.8 million through the CARES Act, which

included subawards for the counties of Kaua'i, Hawai'i and Maui, in April 2020. In addition, in March 2021, the ARP Act appropriated:

- \$219.8 billion for the CSFRF of which the State of Hawai'i has received \$1.6 billion.
- \$122.8 billion for the third round of the Elementary and Secondary School Emergency Relief Fund (ARP ESSER) which will provide \$412.3 million 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) has been awarded \$40.7 million for student aid and \$76.7 million for institutional support.
- \$10 billion for the Coronavirus Capital Projects Fund, of which Hawai'i's allocation is \$115,475,318, to provide funding to carry out critical capital projects directly enabling work, education, and health monitoring in response to the COVID-19 public health emergency.

The ARP ESSER imposes a maintenance of effort (MOE) requirement that requires the state to maintain proportional levels of state support for education relative to the state's overall spending over a specified period. Supplemental budget general fund increases for departments other than DOE and UH will trigger budget adjustments of over 40% for DOE and UH combined.

The Infrastructure Investment and Jobs Act (IIJA) was also enacted on November 14, 2021 and is intended to make a significant investment in the nation's infrastructure to support cybersecurity, transportation, clean water, and drinking water. More specifics on the authorized use of the IIJA funds will be available after federal guidance has been received.

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

In developing the Executive Supplemental Budget, we considered the State's current and anticipated fiscal health and the potential impact of all proposed budget requests. To the extent possible, we considered potential stressors to the State's economy which could impact the State's revenues and fiscal well-being.

Our Administration has continuously strived to improve the State's fiscal stability. Since taking office in December 2014, our conservative and consistent approach to the budget enabled us to improve and maintain the State's fiscal position every year until the start of the pandemic.

We had built up the balance of the EBRF to \$378.2 million in FY 20. The FY 20 balance was increased due to transfers authorized by the Legislature and other revenue, allowing \$648 million to be transferred to the general fund and leaving a balance of \$58.9 million at the end of FY 20. To replenish the fund, \$250 million was deposited in FY 21.

As we have seen in the recent past, however, these are turbulent times, and we must be prepared to weather the worst on our own because the federal government may not be able to assist as generously in the future. Thus, we will be proposing, through separate legislation, to deposit \$1 billion into the EBRF in FY 22. This deposit will bring the EBRF balance to approximately 14.7% of prior year general fund revenues which will provide a strong reserve in the future.

With the support of the Legislature, we have made substantial progress addressing our unfunded liabilities. Even in FY 21, we were able to honor our commitment by paying \$826.7 million towards our other post-employment benefits (OPEB) unfunded liability, of which \$390 million was for FY 22.

Prior to the pandemic, the State's collective credit rating for G.O. bonds from all three rating agencies was the highest it had ever been. Concerns regarding the State's economy due to the pandemic negatively impacted those ratings. However, prior to our recent \$1.9 billion G.O. bond sale this past September, two of the rating agencies improved the State's ratings, or outlooks, currently "AA" (stable) by Fitch Ratings, "Aa2" (positive) by Moody's Investors Service, and "AA+" (stable) by S&P Global Ratings, because of, among other things, the State's strong budget and fiscal policies. Improved credit ratings mean lower borrowing costs for the State.

General fund tax revenue growth for the current fiscal year has been strong and consistently positive (the July 2021 growth rate was negative due to the deferment of the 2019 income tax payment deadline to July 2020 and would otherwise have been positive). The cumulative November 2021 general fund tax revenue growth rate is 27.3% and it is anticipated that the Council on Revenues (COR) may increase its FY 22 general fund tax revenue growth projection from 6.3% at its January 2022 meeting.

The State's fiscal situation is now positive in light of general fund revenue growth thus far and the substantial general fund balance of \$1.25 billion from FY 21. Given that changes in revenue growth can be unpredictable over a 12-month period, especially during a pandemic, we are optimistic but remain prepared to handle unforeseen events.

The State's recent revenue growth has been robust, but as always, we remain concerned about sustainability. The State must replenish the EBRF and has a significant funding commitment towards the State's unfunded pension and OPEB liabilities. We must ensure that adequate resources are available to meet these substantial demands.

We will be submitting several other emergency appropriation bills for FY 22 which total over \$28.4 million (\$1.4 million in general funds and \$27 million in G.O. bond funds) for DOE. These appropriations are necessary to provide critical support and facilities for the respective programs in FY 22. Such requests include \$1.4 million in general funds and \$6 million in G.O. bond funds for distance learning; \$15 million in G.O. bond funds for acquisition of a warehouse for DOE's Facilities Maintenance Branch; and \$6 million in G.O. bond funds for an agriculture innovation center on Kaua'i.

In addition, the State has gradually assumed more costs for federal programs for which federal grant funds were insufficient over the past few years. We expect this trend to continue; thus, the State must be prepared to fund federal programs for services which the State deems critical. The impact of significant federal fund reductions may be twofold, as the State will bear the economic impact of the reduced funding while providing additional funds for federal programs.

There are many pressing and competing demands for State resources. Basic and critical needs for education, housing, and health and human services must always be our highest priority. Programs that strengthen our communities and enhance our quality of life also deserve support. Now, we must also position ourselves to support the State as it moves past the pandemic.

We have proposed appropriate general fund appropriations in the Executive Supplemental Budget and will continue to work to align our current resources to solve our most critical problems and better serve the people of Hawai'i.

## **THE ECONOMY**

Hawai'i's economy is expected to show positive growth through 2021 and 2022. The conditions of the U.S. economy and key international economies, especially Japan,

significantly impact Hawai'i's economy. The State's economic recovery is reliant upon the continued growth of the tourism and construction industries, which are major components in the State's economy.

The tourism industry has been heavily impacted by the pandemic. In August 2021, due to the surge in new COVID-19 cases, I asked residents and visitors to delay all non-essential travel until the end of October. This understandably put a damper on momentum of the industry's recovery, which had been exceeding expectations, in part, due to Hawai'i's Safe Travels program.

The tourism industry had experienced record growth in 2019 and during the first two months of 2020. Currently, preliminary year-to-date visitor arrivals through October 2021, compared to October 2019, are down 37.3%, while visitor spending is down by 30.6%.

Most visitors are from the U.S. West and U.S. East, as international travel is still lagging due to pandemic concerns and restrictions. Thus, visitor arrivals from the U.S. West and U.S. East were up by 3% and 5%, respectively, for the month of October 2021, while international visitor arrivals decreased significantly.

The continued recovery of the tourism sector is contingent upon the U.S. and other countries managing the spread of COVID-19. While it may take years to return to pre-pandemic levels, it will give us time to reassess and refocus the direction of the tourism industry.

Through the third quarter of 2021, economic indicators for the construction industry were mixed with government contracts awarded decreasing by 29.2%, while private building authorizations increased by 32.9%. State CIP expenditures decreased by 3%, while construction jobs increased by 2.5% compared to the same period last year.

Hawai'i's seasonally adjusted unemployment rate had trended downward from a high of 21.9% in April and May 2020 to the preliminary rate of 6.3% in October 2021. Prior to the pandemic, the unemployment rate had been consistently less than 6.3% since early 2012.

The national preliminary unemployment rate for October 2021 is 4.2%, which bodes well for Hawai'i. However, there is potential adverse economic impact to Hawai'i and the nation due to the ongoing pandemic, high levels of inflation, supply chain issues, instabilities in Congress and tensions in the Middle East.

We are cautiously optimistic about Hawai'i's economy but many potential challenges remain, including the uncertainty of the pandemic. It is our responsibility to ensure that the State is prepared and in the best position to mitigate possible issues. We will continue to work with the Legislature to ensure that the State's economic recovery continues.

## **REVENUE PROJECTIONS**

At its September 7, 2021 meeting, the COR increased its FY 22 general fund tax revenue projection from 3% to 6.3%, while it maintained its projections for FYs 23-27 at 4% each year. The increase for FY 22 was due to healthy year-to-date general excise and income tax collections, the rapid recovery of visitor arrivals, and renewed consumer spending.

However, the COR noted risks that could inhibit the State's economic recovery including new variants, vaccine reluctance, sustained travel restrictions, burdensome regulations imposed on businesses for public health reasons, and significant supply chain disruptions. The COR also expects the decrease in federal stimulus spending compared to last year to impact Hawai'i's economy.

## **THE FY 23 EXECUTIVE SUPPLEMENTAL BUDGET**

### ***Budget Approach and Priorities***

After two years of budgetary cuts to State programs, there are many needs to be met. Fulfilling these requirements must be done sustainably and must be weighed against the Administration's concurrent efforts to strengthen the State's fiscal position.

The Executive Supplemental Budget will continue the Administration's proactive approach to strengthen the State's fiscal stability by:

- Replenishing budget reserves by depositing \$1 billion into the EBRF in FY 23. (A separate legislative proposal will be submitted by the Administration.)
- Strategically planning expenditures and providing for limited expansion of annual recurrent spending to ensure fiscal sustainability.
- Aggressively addressing pension and OPEB unfunded liabilities while the resources are available.

To ensure that we can continue to provide critical State services, we have requested to replenish resources for programs that were severely impacted by budget reductions, including building back the State's workforce by restoring position counts and funds for deleted positions and funding for defunded and underfunded positions. We have also proposed funding for increases in essential operating costs, such as utilities and insurance.

With an ongoing pandemic, we must be prepared. As such, the requested FY 23 contingency funding to maintain statewide COVID-19 preparedness for DOD will be a critical resource.

The highest priority of our Administration has always been education. Last year, it was extremely difficult to consider reductions that would have impacted students and teachers. Unfortunately, both DOE and UH suffered significant budget reductions.

We are grateful that the State's current fiscal situation allows us to support funding for primary and secondary education again by restoring resources and providing for ESSER MOE requirements. The Executive Supplemental Budget adds substantial funding for DOE to restore general fund reductions, provide extra compensation for classroom teacher shortage differentials, and for improvements to schools to ensure healthy and safe learning environments.

We have been given the unique opportunity to pivot the State, post-pandemic, to provide opportunities for growth where we most need them. UH will be the key stakeholder to advance these programs which will benefit our communities.

We have requested funds for clinical nursing instructors and a Just in Time training program to support professional competency development related to teaching competencies for nurses newly recruited into the clinical instruction roles. Further, to address the State's doctor shortage, we have requested to expand the residency program for the John A. Burns School of Medicine to the neighbor islands, where doctors are especially needed. About 80% of graduates who perform their residency in Hawai'i, stay in Hawai'i to practice and this program would provide a pipeline for doctors to work on the neighbor islands.

Our reliance on information technology (IT), the internet and online systems came to the forefront during the pandemic. It has emphasized the need to develop our innovation economy here in Hawai'i. UH's IT and Cyber Leap-Start Experience Excelsior program is designed to provide significant



workforce experience for IT and cybersecurity program students approaching graduation and students who recently graduated but need substantive work experience.

The demand for affordable housing, including rentals, has reached critical proportions. The recent sales activity in the housing industry, spurred by low interest rates and mainland investors, has resulted in the increase in the median sale price of single-family homes to over \$1 million, a price that is out of reach for many of Hawai'i's families.

The situation is exacerbated by the increase in rental costs while some may be struggling with payments of back rent. The proposed infrastructure development in West O'ahu will support the future development of affordable rentals along the rail line.

Hawai'i's natural resources are unique and vital. They play an essential part in our culture and way of life. As stewards of these islands, we recognize that we must do our part to maintain these resources for future generations. As such, we have asked to restore funding for many programs for the Department of Land and Natural Resources.

Hawai'i's agricultural industry is looking towards developing plantation lands for diversified agriculture, combining traditional farming with new technology for higher yields, and considering what can be grown for local consumption. We propose to move forward with the development of the Royal Kunia Agricultural Park to support the agricultural industry's expansion.

When we look at sustainability, we must also look at sustainable growth, including the infrastructure that forms the foundation for it. Great strides have been made in maintaining and improving our airports, harbors, and highways and those efforts must be continued.

Our modernization projects to increase government efficiency and responsiveness are also ongoing. As such, we have requested funding to support the State's Enterprise Financial System project, which is in its beginning phases.

Our Administration remains committed to being fiscally responsible. We will continue to look for thoughtful and innovative ways to improve our operations and services to the public while making the best use of our resources. We have approached the Executive Supplemental Budget, which is aligned with our Administration's strategic priorities, in that manner.

The Executive Supplemental Budget contains operating and CIP requests for FY 22 and FY 23 that propose changes and adjustments to Act 88, SLH 2021, including transfers (operating only), which authorized funding for the two-year fiscal period that began on July 1, 2021 and ends on June 30, 2023, as follows:

	FY 22 Appropriations (\$million)	FY 22 Adjustments (\$million)	FY 22 Requests (\$million)
<b>Operating Budget</b>			
All Means of Financing (MOF)	16,039.7	-22.5	16,017.2
General Funds	7,663.9	0.0	7,663.9
<b>CIP Budget</b>			
All MOF	1,758.8	-112.1	1,646.7
G.O. Bond Funds	984.8	-2.0	982.8
G.O. Reimbursable Bond Funds	7.3	.....	7.3

	FY 23 <u>Appropriations</u> (\$million)	FY 23 <u>Adjustments</u> (\$million)	FY 23 <u>Requests</u> (\$million)
Operating Budget			
All MOF	15,363.9	1,562.5	16,926.4
General Funds	7,758.6	942.3	8,701.0
CIP Budget			
All MOF	929.2	1,788.3	2,717.5
G.O. Bond Funds	294.1	827.4	1,121.5
G.O. Reimbursable Bond Funds	2.5	.....	2.5

### ***The Operating Budget***

The Executive Supplemental Budget includes amendments for FY 22 and FY 23 that total -\$22.5 million and \$1.562 billion, respectively, from all MOF for operating costs. This represents a decrease of 0.1% and an increase of 10.2% compared to FY 22 and FY 23 appropriations, respectively, in the FB 2021-23 Executive Budget (Act 88, SLH 2021, including transfers).

Significant requests for priority areas include the following (FY 23 general funds unless otherwise noted; most positions funded for six-months). Additional information on funding distribution by MOF and department may be found in the forthcoming sections.

Major FY 23 general fund adjustments for fixed costs and entitlements include:

- Increases OPEB payment by \$335,068,000.
- Decreases debt service payments by \$23,485,639.

- Increases retirement benefits payments by \$14,750,010.
- Increases Medicaid health care payments by \$15,864,124 in general funds and \$10,177,219 in federal funds to provide additional home- and community-based services, extend post-partum categorical coverage, and restore adult dental benefits.

### **Education**

#### *Public School System*

- Adds \$100,200,000 for various DOE programs to restore funding due to reductions made at the beginning of the pandemic.
- Adds \$78,300,000 for various repairs and maintenance projects for essential school operating needs and other one-time nonrecurring expenditures.
- Adds \$32,500,000 for extra compensation for classroom teacher shortage differentials.
- Adds \$10,000,000 for workers' compensation to cover shortfalls to pay for statutorily mandated benefits.
- Adds \$5,000,000 to repair and maintain existing converged infrastructure.
- Adds \$5,000,000 for increased electricity costs.
- Adds \$4,326,507 for virtual/distance learning.
- Adds \$17,109,803 for Charter Schools to equalize the per pupil funding based on DOE's FY 23 proposed operating budget and projected enrollment.

### *University System*

- Adds \$30,000,000 for UH at Mānoa.
- Adds \$2,280,000 for UH at Hilo.
- Adds \$4,600,000 for UH, Community Colleges.
- Adds 20.00 permanent positions and \$2,040,000 for Graduate Medical Education Residency Program expansion.
- Adds \$21,700,000 for repairs, maintenance and equipment.
- Adds \$842,572 for nursing clinical instructors at UH, Community Colleges.

### *Public Library System*

- Adds \$1,000,000 for security services at various libraries.
- Adds \$750,000 for library books and materials.

### Health and Human Services

- Adds \$3,601,533 for additional funds for federally mandated delivery of Early Intervention Services.
- Adds \$3,487,633 for additional operating funds for a new Hawai'i State Hospital forensic building.
- Adds \$1,500,000 for Kupuna Care.
- Creates a new program ID (HTH 215/OR) for the O'ahu Region of the Hawai'i Health Systems Corporation and adds \$16,320,700 for an operating subsidy.

- Adds \$2,236,853 in general funds and \$8,249,095 in federal funds for General Support for Self-Sufficiency Services to reimplement exit and retention bonus payments; establish new afterschool and summer program sites for eligible youth; and replace the Benefits, Employment and Support Services Division's IT equipment.
- Increases the Spouse and Child Abuse Special Fund ceiling by \$5,000,000 in special funds for Child Protective Services to provide prevention services and programs to minimize the number of children entering foster care.

### Effective, Efficient, and Open Government

- Adds \$805,000 for consultant's contract and \$1,219,725 for annual maintenance contracts for the Enterprise Financial System IT project.
- Adds \$17,000,000 in general funds and \$17,000,000 in revolving funds for insurance premiums.
- Adds \$3,300,000 for Deputy Attorney General salary increases.
- Reduces \$9,700,000 in ARP funds in FY 22 and FY 23 and adds \$9,700,000 in general funds in FY 23 for vacation payouts.
- Adds \$33,333,334 in ARP funds for State match requirements of Broadband Equity, Access, and Deployment State grants appropriated by the IJJA.
- Adds 5.00 permanent positions and \$304,744 in special funds for the Professional and Vocational Licensing Program to process and renew licenses.

- Adds \$450,000 in special funds for the Insurance Regulatory Services Program for a new fraud investigation system.
- Adds 3.00 permanent positions and \$3,681,623 for Student Helpers/Interns and Kuana'ike programs.
- Adds \$321,000,000 in trust funds to increase the ceiling for the UI Trust Fund to accommodate increased UI claim benefit payments.
- Adds 5.00 permanent positions and \$1,003,364 to establish 5.00 Delinquent Tax Collection Assistants and restore funding for 14.00 positions in the Compliance program.
- Adds \$6,252,251 for maintenance and support for the Tax System Modernization project.

#### Housing

- Adds \$40,000,000 in special funds for the School Facility Agency for teacher housing in the West O'ahu Region (to provide a special fund ceiling for expenditure of G.O. bond fund cash infusion).

#### Economy

- Adds \$60,000,000, 1.00 permanent position, and 23.20 temporary positions for the operations of the Hawai'i Tourism Authority.
- Adds \$28,500,000 in special funds and 0.80 temporary positions for the operations of the Hawai'i Convention Center.

- Adds \$1,000,000 for the Hawai'i Small Business Innovation Research Phases II and III grant program for the Hawai'i Technology Development Corporation (HTDC).
- Adds \$500,000 for the Accelerator program for HTDC.
- Adds \$500,000 for the Manufacturing Assistance grant program for HTDC.

#### Agriculture

- Converts positions in the Plant Pest and Disease Control program from special to general funds by reducing 23.00 permanent positions and \$1,825,885 in special funds and adding 23.00 permanent positions and \$1,407,252.
- Adds \$1,474,000 for various agricultural development and biosecurity projects.

#### Environment

- Adds \$2,500,000 in special funds to be used as State matching funds for federal grants for the Hawai'i State Energy Office.
- Adds \$11,906,688 in special funds to support State Parks operations.
- Adds 8.00 permanent positions and \$3,598,424 in special funds for the Land Division.
- Adds 15.00 permanent positions and \$1,154,646 in general funds and \$382,852 in special funds for the State Historic Preservation Division.

- Adds 9.00 permanent positions, 4.00 temporary positions, and \$1,659,832 to restore resources for program operations.

#### Native Hawaiians

- Adds \$5,000,000 for statewide loan capitalization for the Department of Hawaiian Home Lands (DHHL).

#### Transportation

- Adds \$8,633,626 in special funds for Wiki Wiki shuttle services and \$5,505,208 for additional Wiki Wiki buses at Daniel K. Inouye International Airport.
- Adds \$5,000,000 in special funds for the Highways Division's (HWY) Special Maintenance Program.
- Adds \$3,500,000 in ARP funds for HWY's stored property and debris removal services.

#### Public Safety

- Adds \$61,849,216 in ARP funds to address Safe Travel requirements, National Guard costs, and other COVID-19 expenditures.
- Adds \$7,233,000 in general funds and \$24,700,000 in other federal funds from Hazard Mitigation federal grants to provide contingency funding for statewide COVID-19 operations.
- Adds \$5,000,000 to restore the Major Disaster Fund pursuant to Section 127A-16, HRS.
- Adds \$1,743,572 in operating funds for increased utility expenditures for various DOD programs.

- Adds 26.00 temporary positions (10.50 in federal funds and 15.50 in other federal funds), \$247,841 in federal funds, and \$964,824 in other federal funds and trades off \$447,751 in federal funds from other current expenses to payroll to fund various disaster positions under the Hawai'i Emergency Management Agency (HI-EMA). Also adds 2.00 permanent positions and \$227,760 in general funds and reduces 2.00 permanent positions and \$165,756 in federal funds to provide full State funding for certain leadership positions under HI-EMA.

- Adds \$17,633,345 to restore the funding of 291.50 permanent positions for various programs for the Department of Public Safety (PSD).
- Adds 193.00 permanent positions (151.00 Adult Corrections Officer positions, 29.00 healthcare positions, and 13.00 other support positions) and \$8,104,694 for the new housing at the Hawai'i Community Correctional Center, Maui Community Correctional Center, and Women's Community Correctional Center.
- Adds 24.00 permanent Deputy Sheriff positions and \$1,168,908 to support law enforcement services on O'ahu and Hawai'i.
- Adds 22.00 permanent healthcare positions (16.00 Registered Nurse positions and 6.00 Clinical Psychologist positions), \$1,335,396 for payroll costs, and \$455,000 in non-recurring equipment costs to improve healthcare services in various correctional facilities.
- Adds \$1,220,743 for increased utility costs for various programs in PSD.

### ***The Capital Improvement Program Budget***

The Executive Supplemental Budget includes amendments for FY 22 and FY 23 that total -\$112.1 million and \$1.788 billion, respectively, from all MOF for CIP costs. This represents a decrease of 6.4% and an increase of 192.5% compared to FY 22 and FY 23 appropriations, respectively, from Act 88, SLH 2021.

Significant requests for priority areas include the following (FY 23 G.O. bond funds unless otherwise noted). Additional information on funding distribution by MOF and department may be found in the forthcoming sections.

#### Education

##### *Public School System*

- Adds \$90,000,000 for Lump Sum – Deferred Maintenance Projects, Statewide, for building and site repair and maintenance, electrical and infrastructure improvements, hazardous materials remediation, and various renovations to school facilities.
- Adds \$29,600,000 for Lump Sum – Support, Statewide, for various school improvements including athletic facilities improvements and electrical upgrades.
- Adds \$28,850,000 for Lump Sum – Compliance, Statewide, to bring DOE in compliance with the Americans with Disabilities Act, including architectural barrier removal, and gender equity requirements.
- Adds \$25,000,000 for Lump Sum – Project Completion, Statewide, for construction management costs, purchase orders, utilities charges, change orders, and all other costs associated with the completion of a project.

- Adds \$15,150,000 for Lump Sum – Health and Safety, Statewide, for improvements to school facilities and grounds to meet health, safety requirements, laws, ordinances and county requirements.
- Adds \$6,400,000 for Lump Sum – Instructional, Statewide, to address compliance requirements and provide support spaces for 21st century learner program.
- Adds \$5,000,000 for Lump Sum – Office of IT Services, Statewide, to maintain and improve DOE's converged infrastructure providing bells and paging for school safety.

##### *University System*

- Adds \$32,000,000 for UH System, Renew, Improve, and Modernize, Statewide.
- Adds \$11,500,000 for Waikīkī Aquarium Discharge System Upgrade, O'ahu.
- Adds \$24,000,000 for Capital Renewal and Deferred Maintenance at UH Community Colleges, Statewide.
- Adds \$6,500,000 for Leeward Community College Fascias, O'ahu.
- Adds \$10,000,000 for UH West O'ahu, Campus Expansion and Development of University Village, O'ahu.

##### *Public Library System*

- Adds \$28,000,000 for Pearl City Library, New Community Library Learning Center, O'ahu.

- Adds \$5,000,000 for Health and Safety, Statewide.

#### Effective, Efficient, and Open Government

- Adds \$5,125,000 for Lump Sum Maintenance of Existing State Facilities, Statewide.
- Adds \$25,000,000 for Data Centers, Renovations, Replacements, and/or New, Statewide.
- Adds \$109,562,000 in ARP funds for Lump Sum CIP Broadband, Statewide.
- Adds \$5,766,000 in ARP funds for Lump Sum CIP Broadband Administrative Costs, Statewide.

#### Housing

- Adds \$40,000,000 for teacher housing in the West O'ahu Region (cash infusion to the School Facility Agency for deposit to their special fund).
- Adds \$10,000,000 for public housing development, improvements, and renovations, Statewide.

#### Health

- Adds \$9,334,000 for Kalaupapa Settlement for various projects to close landfills, provide improvements and remove underground storage tanks, Moloka'i.
- Adds \$1,000,000 for emergency room department renovations at Kaua'i Veterans Memorial Hospital, Kaua'i.

#### Economy

- Adds \$64,000,000 for repair and enhancement of the Hawai'i Convention Center rooftop terrace deck, O'ahu.
- Adds \$12,125,000 for Saratoga Avenue Electrical and Communication Infrastructure Improvements in Kalaeloa, O'ahu.
- Adds \$25,000,000 for repair of the Fisherman's Wharf Bulkhead-Kewalo Basin Harbor, O'ahu.

#### Agriculture

- Adds \$5,100,000 for tar removal at the Animal Quarantine Station in Halawa, O'ahu.
- Adds \$10,000,000 for Royal Kunia Agricultural Park, O'ahu.
- Adds \$3,000,000 for Agricultural Infrastructure Improvements, O'ahu.
- Adds \$3,500,000 for Kekaha Ditch Irrigation System Modification, Kaua'i.
- Adds \$6,000,000 for Waiahole Water System Improvements, Kunia, O'ahu.

#### Environment

- Adds \$4,000,000 for Watershed Protection and Initiatives, Statewide.
- Adds \$3,000,000 for He'eia Kea Small Boat Harbor Wastewater System Improvements, Kāne'ohe, O'ahu.

- Adds \$8,350,000 (\$1,850,000 in G.O. bonds, \$3,000,000 in private contributions, and \$3,500,000 in trust funds) for Waikīkī Master Plan Improvements, O'ahu.
- Adds \$3,000,000 in special funds for Hawai'i District Land Office Renovation, Hawai'i.
- Adds \$3,450,000 for Maunawili and Kāne'ōhe Pali acquisitions, O'ahu.

#### Native Hawaiians

- Adds \$10,000,000 for DHHL lot development projects, Statewide.

#### Transportation

- Adds \$173,200,000 in revenue bond funds for Airfield Improvements at Various Airports, Statewide.
- Adds \$45,000,000 in revenue bond funds for Kahului Airport, Airport Improvements, Maui.
- Adds \$33,000,000 in revenue bonds for Airports Division Facility Improvements, Statewide.
- Adds \$162,800,000 (\$32,800,000 in revenue bonds and \$130,000,000 in federal funds) for Major Pavement Improvements, Statewide.
- Adds \$95,000,000 for Farrington Highway Widening, Kapolei Golf Course to Fort Weaver Road, O'ahu.
- Adds \$75,001,000 (\$75,000,000 in G.O. bonds and \$1,000 in federal funds) for West O'ahu Regional Transportation Improvements, O'ahu.

- Adds \$55,000,000 (\$11,000,000 in revenue bonds and \$44,000,000 in federal funds) for Interstate Route H-1 Improvements, Vicinity of Ola Lane to Vicinity of Vineyard Boulevard, O'ahu.

#### Public Safety

- Transfers \$3,000,000 in FY 22 and \$3,000,000 in FY 23 from Amelioration of Physical Disasters (DEF 110) to HI-EMA (DEF 118); adds \$6,000,000 in other federal funds; and re-appropriates lapsed funds of \$3,000,000 to Retrofit Public Buildings with Hurricane Protective Measures, Statewide.
- Transfers \$2,500,000 in FY 22 from Amelioration of Physical Disasters (DEF 110) to HI-EMA (DEF 118) for Disaster Warning and Communications, Statewide.
- Adds \$5,000,000 for Birkhimer Emergency Operations Center Upgrades and Improvements, O'ahu.
- Adds \$1,350,000 for the replacement of emergency generators and related improvements at the Hawai'i Youth Correctional Facility on O'ahu.
- Adds \$45,000,000 for Halawa Correctional Facility, Consolidated Health Care Unit, O'ahu.
- Adds \$30,000,000 for various lump sum capital improvement projects to provide major repairs, upgrades, improvements to comply with Americans with Disabilities Act standards, and deferred maintenance to PSD facilities, Statewide.
- Adds \$21,000,000 for the Corrections Collaboration System to replace the existing inmate management system for PSD facilities, Statewide.



- Adds \$15,000,000 for O'ahu Community Correctional Center (OCCC) New Housing and Support Facilities, O'ahu.
- Adds \$8,000,000 for OCCC, Laumaka Work Furlough Center Infrastructure Repairs, Renovation and Improvements, O'ahu.
- Adds \$6,000,000 for PSD Sheriffs Division Relocation from Keawe Station to Kalanimoku Building, O'ahu.

### **HAWAII'S FUTURE**

The Executive Supplemental Budget implements a plan of action for a healthier, safer, and more vibrant Hawaii. It addresses the issues of today and continues to make strategic investments in education to expand careers in priority industries and in measures to accelerate more affordable housing.

Hawaii continues to show remarkable strength in the face of adversity, and we can all be proud of what we have accomplished as a state. Our ability to respond to COVID-19 is a testament to the investments we have made and the work we have done to improve the State's physical and social infrastructure.

As the socio-economic impact of this pandemic continues to unfold, it will take all of us, working together, to make things better in the days ahead. The values instilled in us by our parents and grandparents to work hard, take care of our families, and support our communities are especially important now.

The health and welfare of Hawaii's people and the good of future generations have always guided our actions. We have worked to put the State on solid footing and set Hawaii on a better trajectory. This budget continues to invest in Hawaii's

future, allows us to continue on a path where Hawaii's children have all the opportunities they deserve and where they can choose, and want to choose, to call Hawaii home.

Sincerely,



DAVID Y. IGE  
Governor of Hawaii

APPENDIX TO THE GOVERNOR'S MESSAGE

**A. THE FY 23 EXECUTIVE SUPPLEMENTAL BUDGET RECOMMENDATIONS**

THE OPERATING BUDGET

General Funds

For **FY 22**, there were no proposed general fund adjustments to the operating budget. The current appropriation level and recommended general fund amount for FY 22 is \$7.664 billion.

For **FY 23**, total proposed general fund adjustments to the operating budget amount to a net increase of \$942.3 million, or 12.2% more than the current appropriation level of \$7.759 billion. The recommended general fund amount for FY 23 is \$8.701 billion.

All Means of Financing

For **FY 22**, total proposed adjustments to the operating budget for all MOF amount to a net decrease of \$22.5 million, or 0.1% less than the current appropriation level of \$16.040 billion for all MOF. The recommended amount for all MOF for FY 22 is \$16.017 billion.

For **FY 23**, total proposed adjustments to the operating budget for all MOF amount to a net increase of \$1,562 billion, or 10.2% more than the current appropriation level of \$15.364 billion for all MOF. The recommended amount for all MOF for FY 23 is \$16.926 billion.

Breakdowns by MOF are as follows:

Means of Financing	FY 22 Act 88/2021* Appropriation (\$)	FY 22 Proposed Adjustment (\$)	FY 22 Recommended Appropriation (\$)
General Funds	7,663,861,874	.....	7,663,861,874
Special Funds	3,200,803,173	.....	3,200,803,173
Federal Funds	2,946,214,715	.....	2,946,214,715
Other Federal Funds	222,616,643	.....	222,616,643
Private Contributions	903,067	.....	903,067
County Funds	2,937,802	.....	2,937,802
Trust Funds	433,944,641	.....	433,944,641
Interdept. Transfers	79,165,797	.....	79,165,797
ARP Funds	958,870,133	(22,502,391)	936,367,742
Revolving Funds	511,441,034	.....	511,441,034
Other Funds	18,954,519	.....	18,954,519
Total	16,039,713,398	(22,502,391)	16,017,211,007

Means of Financing	FY 23 Act 88/2021* Appropriation (\$)	FY 23 Proposed Adjustment (\$)	FY 23 Recommended Appropriation (\$)
General Funds	7,758,639,688	942,312,514	8,700,952,202
Special Funds	3,286,403,848	114,661,966	3,401,065,814
Federal Funds	2,937,916,956	30,036,883	2,967,953,839
Other Federal Funds	201,608,370	30,942,429	232,550,799
Private Contributions	903,067	.....	903,067
County Funds	2,937,802	(2,000,000)	937,802
Trust Funds	433,944,641	328,412,322	762,356,963
Interdept. Transfers	79,165,797	3,097,010	82,262,807
ARP Funds	131,794,506	71,932,550	203,727,056
Revolving Funds	511,607,962	42,832,817	554,440,779
Other Funds	19,018,519	238,292	19,256,811
Total	15,363,941,156	1,562,466,783	16,926,407,939

\*/ Act 88, SLH 2021, including transfers.

The distribution by department and the significant changes in the Operating Supplemental Budget by department are presented in the sections that follow.

THE CAPITAL IMPROVEMENT PROGRAM BUDGET

General Obligation Bond Funds

For **FY 22**, total proposed CIP adjustments for G.O. bond funds amount to a net decrease of \$2.0 million, or 0.2% less than the total of the current G.O. bond fund and G.O. reimbursable (G.O.R.) bond fund appropriation levels of \$984.8 million and \$7.3 million, respectively.

For **FY 23**, total proposed CIP adjustments for G.O. bond funds amount to a net increase of \$827.4 million, or 279.0% more than the total of the current G.O. bond fund and G.O.R. bond fund appropriation levels of \$294.1 million and \$2.5 million, respectively. The recommended G.O. bond fund and G.O.R. bond fund amounts for FY 23 are \$1.121 billion and \$2.5 million, respectively.

All Means of Financing

For **FY 22**, total proposed CIP adjustments for all MOF amount to a net decrease of \$112.1 million, or 6.4% less than the total of the current appropriation level for all MOF of \$1.759 billion.

For **FY 23**, total proposed CIP adjustments for all MOF amount to a net increase of \$1.788 billion, or 192% of the current level for all MOF of \$929.2 million. The recommended amount for all MOF for FY 23 is \$2.718 billion.

Breakdowns by MOF are as follows:

Means of Financing	FY 22 Act 88/2021 Appropriation (\$)	FY 22 Proposed Adjustment (\$)	FY 22 Recommended Appropriation (\$)
General Funds	.....	.....	.....
Special Funds	20,960,000	.....	20,960,000
G.O. Bonds	984,796,000	(1,972,000)	982,824,000
G.O.R. Bonds	7,300,000	.....	7,300,000
Revenue Bonds	346,272,000	.....	346,272,000
Federal Funds	208,257,000	.....	208,257,000
Other Federal Funds	1,200,000	.....	1,200,000
Private Contributions	32,000	.....	32,000
County Funds	21,250,000	.....	21,250,000
Trust Funds	.....	.....	.....
Interdept. Transfers	.....	.....	.....
ARP Funds	110,109,000	(110,109,000)	.....
Revolving Funds	.....	.....	.....
Other Funds	<u>58,577,000</u>	<u>.....</u>	<u>58,577,000</u>
Total	1,758,753,000	(112,081,000)	1,646,672,000

Means of Financing	FY 23 Act 88/2021 Appropriation (\$)	FY 23 Proposed Adjustment (\$)	FY 23 Recommended Appropriation (\$)
General Funds	.....	.....	.....
Special Funds	6,960,000	13,300,000	20,260,000
G.O. Bonds	294,105,000	827,384,000	1,121,489,000
G.O.R. Bonds	2,500,000	.....	2,500,000
Revenue Bonds	430,211,000	513,410,000	943,621,000
Federal Funds	167,056,000	306,352,000	473,408,000
Other Federal Funds	3,210,000	6,000,000	9,210,000
Private Contributions	5,032,000	3,000,000	8,032,000
County Funds	20,000,000	.....	20,000,000
Trust Funds	.....	3,500,000	3,500,000
Interdept. Transfers	.....	.....	.....
ARP Funds	.....	115,328,000	115,328,000
Revolving Funds	.....	.....	.....
Other Funds	<u>157,000</u>	<u>.....</u>	<u>157,000</u>
Total	929,231,000	1,788,274,000	2,717,505,000

The distribution by department and the highlights of the CIP program by department are presented in the sections that follow.

**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 Hawai'i 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 both FY 22 and FY 23.

For the Executive Branch, the total proposed appropriations from the general fund (which include the Executive Supplemental Budget for FB 2021-23 and other specific appropriation measures to be submitted) are also within the Executive Branch's appropriation ceilings for both FY 22 and FY 23.

**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 exceeds 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 FY 20 and FY 21, general fund balances were greater than 5% of general fund revenues. However, it is important to note 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 the enactment of the authorizing legislation and accounting system limitations, those transactions 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 FY 20 and FY 21, FY 20 and FY 21 total (tax and non-tax) general fund revenues did not exceed the respective previous year's revenues by 5% or more. Accordingly, the 2022 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.