

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR

TRACY M. BAN  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

September 23, 2022

FINANCE MEMORANDUM

MEMO NO. 22-11

TO: All Department Heads

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

SUBJECT: Fiscal Biennium 2023-25 Executive Budget Request and the Program and Financial Plan for the Period 2023-29

The following policies and guidelines shall be used in preparing the Executive Budget Request for FB 2023-25 and the Program and Financial Plan for the period 2023-29.

**General Background**

Hawaii's road to recovery from the impact of the coronavirus (COVID-19) pandemic has had its ups and downs. The quicker than anticipated resurgence of the visitor industry has played a significant role in the State's economic recovery. Case in point, visitor arrivals in July 2022 were the highest since January 2020, representing a 92.4% recovery from July 2019. However, while some businesses were reaping the benefits of the increase in visitors, others were closing their doors for good.

Over the past two years, the State's unemployment rate has declined from a high of 22.4% in April 2020 to a preliminary rate of 4.1% in August 2022, about where it has lingered since the end of 2021. While Hawaii's economic recovery has made great strides, labor shortages, supply chain issues and the high rate of inflation will continue to stress Hawaii's businesses and residents.

Locally, the number of COVID-19 cases has continued to go down in recent weeks but spread of COVID-19 variants continues worldwide. Thus, we must keep a watchful eye on the possible resurgence of COVID-19 on the public health front as we continue to deal with its ongoing and broad socioeconomic impact.

Dealing with the impact of the worldwide pandemic has emphasized the need for the State to be ready for the unexpected. While we have always been committed to building up the State's reserves, our experience with the pandemic was eye-opening.

Clearly, our reserves were not enough, and we cannot assume that the federal government will provide as much widespread economic support in the future should an event of similar, or even lesser, magnitude happen.

Thus, we will propose to further build up the State's Emergency and Budget Reserve Fund while we have the resources to do so. In addition, we must address our unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund. These are significant demands on the State's resources.

While life has returned to as close to normal as it has been since early 2020, it is not quite the same. In this new normal, we may need to look for alternative ways to provide and improve State services. Ultimately, we must always consider the needs of Hawai'i's people as we strive to improve the transparency and efficiency of our programs in this evolving environment.

Over the past eight years, there have been many trials and tribulations. The Administration has stressed fiscal responsibility and approached the budget with an abundance of caution. We have been and must continue to be fiscally responsible to ensure that the State is in good fiscal condition now and in the future.

### **The State's Fiscal Condition**

At its September 6, 2022 meeting, the Council on Revenues (COR) increased its general fund tax revenue projections for FY 23 from 5% to 6.5% and for FY 24 from 3.5% to 4% but maintained its projections for FYs 25-28 of 3.5% as compared to its May 2022 projections. The COR also forecasted general fund tax revenue growth of 3.5% for FY 29.

The COR attributed the 1.5% increase for FY 23 to strong economic and tax collection data thus far for FY 23 and noted that the rapid recovery of tourist arrivals, renewed consumer spending, and additional tax collections due to inflation have contributed to robust year-to-date collections. In addition, the federal government has begun significant construction and infrastructure projects that are expected to make a positive impact on Hawai'i's economy.

The COR noted many downside risks that could inhibit Hawai'i's economic recovery including new variants of COVID-19, an aggressive monetary policy response from the Federal Reserve to combat inflation, high oil and commodity prices, the potential for stagflation, geopolitical events including economic disruptions associated with the war in Ukraine, supply chain disruptions, labor shortages, sustained travel restrictions in Asian markets due to the pandemic, burdensome regulations imposed on businesses for public health and other reasons, and the reduction in federal stimulus spending.

In addition, the COR was concerned that due to the strength of the U.S. dollar compared to foreign currencies, Hawai'i would face strong competition from international travel destinations, such as Europe. Tourists from Japan may be less likely to travel to Hawai'i due to unfavorable foreign currency exchange rates. However,

the COR expects that visitor arrivals will recover through the end of the calendar year as countries wind down COVID-19 restrictions, with domestic travel returning more quickly than foreign travel.

The Economic Research Organization at the University of Hawai'i's (UHERO) recent forecast notes that there are significant downside risks for the State. The global economy has slowed significantly and UHERO projects a mild recession in the first half of the next year for the U.S.

The impact of high inflation, a possible recession in Europe, and China's Zero Covid policy have negatively impacted its global outlook. Hawai'i could escape economic contraction due to the recovery of Japanese travel, as growth in international travel will provide a needed boost as other sectors slow in 2023. However, the State's economy will still be adversely affected by softer global conditions, additional interest rate increases, and temporarily high inflation.

### **Constitutional and Statutory Requirements**

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

- Article VII, Section 8, of the State Constitution provides that “[w]ithin such time prior to the opening of each regular session in an odd-numbered year as may be provided by law, the governor shall submit to the legislature a budget in a form provided by law setting forth a complete plan of proposed expenditures of the executive branch. . .”
- Section 37-71(b)(4), HRS, prescribes that the information provided in the budget be formatted such that “[p]rogram costs shall include all costs, including research and development, operating and capital, regardless of the means of financing. . .”
- Section 37-71(c)(3), HRS, requires a summary listing of all capital improvement projects by program, at the lowest level of the program structure, which shows for each project, by investment cost elements, the amount of new appropriations and authorizations proposed. Under Section 37-62, Definitions, HRS, “cost elements” means the major subdivisions of a cost category. The category “capital investment” includes plan, land acquisition, design, construction, and equipment and furnishing.

### **Budget Approach for FB 2023-25**

Budget preparation policies for FB 2023-25 must take into consideration the ongoing economic recovery and its underlying uncertainties. Our approach to the development of the Executive Biennium Budget for FB 2023-25 will allow us to move forward and transition the State for a new Administration.

### ***“Steady State” Budget Submittal***

Because the Administration will change in December before the budget process is completed, two budget submittals to the Legislature are anticipated due to the timing of the change and the need to put budget adjustments in place. The first budget submittal on December 19, 2022, necessary to meet constitutional and statutory budget submittal requirements, will be a “Steady State” budget.

The initial Executive Budget Request for FB 2023-25 will be primarily focused on maintaining the status quo and will reflect the FY 23 budget, including transfers, less non-recurring expenses, plus collective bargaining (CB) and Commission on Salaries allocations, and plus or minus adjustments due to statutory changes, as applicable. Departments may submit the following types of requests for the initial budget review: 1) cost-neutral trade-offs and transfers, including requests to fund unbudgeted or unfunded positions; 2) selected fixed cost and entitlement expense requirements; 3) selected federal fund adjustments; 4) health and safety or court order or federal mandate requirements; 5) full-year funding for half-year funded positions; and 6) funding for the continuation of programs funded by specific appropriations or necessary due to statutory changes. The “Steady State” budget approach will apply to all means of financing (MOF) for the operating budget.

Departments may submit operating budget requests for other critical resource allocations for current programs besides those enumerated above. However, those requests will not be included in the initial Executive Budget Request for FB 2023-25 and will be provided to the incoming Administration for consideration in the second budget submittal.

With respect to the capital improvement program (CIP) budget, the intent is that the CIP budget follow a “Steady State” approach by concentrating the initial FB 2023-25 CIP budget on: 1) addressing the backlog of major repair and maintenance; 2) energy efficiency; 3) addressing health and safety requirements; and 4) completing ongoing projects that were previously authorized. The “Steady State” budget approach will apply to all MOF for the CIP budget.

Lump sum CIP requests that include new construction or public infrastructure projects and ongoing projects should indicate the respective totals by cost element and MOF. Requests for new construction or public infrastructure projects, including those included in lump sum CIP requests, will not be considered for inclusion in the initial Executive Budget Request for FB 2023-25. These requests will be provided to the incoming Administration for consideration in the second budget submittal.

### ***Second Budget Submittal***

The second budget submittal, to be submitted to the Legislature in an anticipated February-March 2023 timeframe, will contain specific budget adjustments determined by the incoming Administration. The intent is to provide the incoming Administration with the flexibility to make appropriate budget adjustments that are in line with its policy and budget priorities.

The timing and focus of the second budget submittal will be dependent on the direction of the incoming Administration. More than likely, further instructions will await the COR's next forecast in early January 2023. This will provide a more definitive indication of the general fund revenue picture for FY 23 and give the incoming Administration time to make its own assessment of the State's needs and fiscal situation. It is envisioned that the work started by this Administration in identifying possible budget adjustments will be a large part of what the incoming Administration may consider for the second budget submittal.

### ***Budget Transparency***

Departments should review their FY 23 operating budget details for items that do not align with anticipated expenditures and can be addressed immediately. Each department's review should include, but should not be limited to, the following, as applicable:

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

Be aware that Section 37-74(f), HRS, as amended, prohibits 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, all departments should review their unbudgeted positions. All unbudgeted positions that are critical and on-going must be identified and incorporated into the budget. Additional funding will not be provided for these positions because they are currently funded within existing budgets; as such, only requests for "conversion of unbudgeted positions," which are cost neutral but may increase temporary or permanent position counts, may be submitted.

Departments should submit the following for changes necessary to align their budgets in FB 2023-25, as applicable:

1. "Conversion of unbudgeted positions" requests to authorize unbudgeted positions through trade-off and transfer of funding and position counts (if necessary, permanent or temporary position counts may be requested).
2. Trade-off and transfer adjustment requests necessary to fully fund underfunded or unfunded positions if the positions are deemed critical.
3. Trade-off and transfer adjustment requests necessary to correct negative amounts or realign the budget to expenditures.

4. Base adjustment requests to delete underfunded or unfunded positions.

### ***Federal Fund Budgeting***

We expect a significant decrease in the amount of federal funding that will be available to the State following the monumental infusions of federal funding from, but not limited to, the Coronavirus Aid, Relief, and Economic Security Act; the American Rescue Plan Act; and the Infrastructure Investment and Jobs Act that were provided in response to the impact of COVID-19. As with all federal funds, departments that have received federal awards should ensure that the funds are spent in accordance with the applicable federal guidelines.

Nevertheless, federal funds will still play a significant part in the State's budget. In general, federal awards are budgeted and expended by grant award on a one-to-one (grant award to appropriation symbol) basis to ensure transparency and support the State's ability to meet federal reporting requirements.

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

The attached listing of "Major, Recurring Federal Awards for FB 2023-25," based on information provided by Federal Funds Information for States, shall be used to determine the appropriate MOF for all federal awards anticipated to be received and appropriated in FY 24 and FY 25. This list is based on the federal FY 21 budget. All federal awards on the list for FB 2023-25 should be considered MOF "N" (federal funds). All other federal awards that are not on the list but are anticipated to be received in FY 24 or FY 25 should be requested as MOF "P" (other federal funds).

For planning purposes, it should not be assumed that State funding will automatically replace federal funding should federal funding be disrupted or discontinued, nor should it be assumed that State funding will be increased to qualify for increases in available federal matching funds. Agencies receiving federal funds for operational purposes shall review such operations in case there are changes to anticipated federal grants or other federal funding agreements. The use of discretionary federal funds for positions is discouraged and should be minimized.

Departments should submit requests to adjust former fiscal year federal fund ceilings to reflect anticipated federal award amounts more accurately or to correct the MOF, if necessary, for FB 2023-25.

The Federal Award Management System electronic workflow, which is part of Datamart, should be used to update your department's **Form FF** (*Federal Awards for FB 2023-25*) that should include all anticipated grants to be received in FY 24 and FY 25 and should

be used to determine MOF “N” and MOF “P” ceiling adjustments. The appropriate budget request **Form A** (*Operating Budget Adjustment Request*) should be submitted to reflect all adjustments; all requests should also be included on **Form B** (*Department Summary of Operating Budget Adjustment Requests*).

This department’s Office of Federal Awards Management will send out further information on the online electronic workflow process which should be used to complete your department’s Form FF for the FB 2023-25 budget process.

#### **A. General Policies**

The following general policies are hereby provided for the development of the Executive Budget Request for FB 2023-25.

1. For operations, the Biennium Budget will be based on FY 23 appropriations from Act 88, SLH 2021, as amended by Act 248, SLH 2022, including transfers, minus non-recurring costs, plus CB and Commission on Salaries adjustments, plus or minus other adjustments due to statutory changes, as applicable. Individual departmental budget ceilings are established for all departments by the Department of Budget and Finance (B&F).
2. Program goals and objectives are generally expected to be accomplished within authorized funding levels, as applicable.
3. Under their respective budget ceilings, departments are authorized and encouraged to recommend trade-offs and transfers within and among programs under their purview to reflect the department’s current priorities and changing conditions.
4. Existing positions must be funded for the full year; new positions shall be funded for a maximum of six months for the first year then for the full year thereafter. Vacant positions must be funded for the full year; partially funded or unfunded positions should be eliminated.
5. Increases to non-general fund appropriation ceilings may be requested if there is sufficient basis for the department’s revised estimates and if such increases will not require additional general fund appropriations. A financial plan for the fund supporting the request must also be submitted. Changes in receipts must be reflected in the Quarterly Update of Revenue Estimates.
6. Departments should continue to maximize their efforts to use non-general funds, as appropriate, to support their programs. Federal funds, special funds, and other available funding sources should be considered as a replacement for general funds. Departments should not, however, assume that general funds will be available to support program costs if non-general (special, federal, etc.) funds are no longer available.

7. Except as otherwise provided by law, special or other funds authorized to receive general revenue receipts or general fund appropriations should consider the feasibility of discontinuing such general fund support as funds of this type should generally be self-sustaining. As necessary, draft legislative proposals should be prepared to discontinue such general fund support.
8. Non-general fund programs should plan for a fringe benefit assessment rate of 64% for FY 24 through FY 29.
9. Departments should not assume that State funds will be available to support program costs if federal funds are reduced or no longer available or that State funding will be increased to qualify for increases in federal matching funds. All agencies receiving federal funds for operational purposes shall review such operations for possible changes to anticipated federal grants or other federal funding agreements. At this time, the use of discretionary federal funds for positions is discouraged and should be minimized.
10. Pursuant to Section 37-68(1), HRS, any proposal for new programs, regardless of funding sources, must demonstrate that such programs are appropriate functions of State government and can be implemented by government as cost-effectively as by the private sector.
11. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable. Legislative proposals shall be coordinated with the Office of the Governor. Additionally, the B&F analyst assigned to your department should be informed of the applicable proposals as part of the budget review. **Form A** (*Request for Operating Budget Adjustment*) should be used to provide the necessary information to justify the related request and indicate the required legislation.

## **B. Submission Requirements and Formats**

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

## **C. Due Dates/Other Requirements**

1. By Friday, October 14, 2022, your department's budget submission shall be submitted, as follows:
  - a. The following must be submitted via email in PDF format from your department's designated email account to B&F at [DBF.DOCS@hawaii.gov](mailto:DBF.DOCS@hawaii.gov):
    - i. Transmittal memorandum from department head.



- ii. Operating Forms A, A-Attachment, B, C, and FF.
  - iii. CIP Tables P, Q, and R, and Forms CIP Details, CIPOp, CIPOpB, PAB, and S.
  - iv. Financial plans to support non-general fund requests.
- b. The following must be submitted via email in Excel format to your B&F analyst. These files should match the PDF files being submitted.
- i. Operating Forms A, A-Attachment, B, and C.
  - ii. CIP Forms CIP Details, CIPOp, CIPOpB, and S.
2. By Wednesday, November 30, 2022, the following must be submitted, reflecting the Governor's final budget decision. Please notify your B&F analyst and Mr. Gregg Hirohata-Goto ([gregg.h.hirohata-goto@hawaii.gov](mailto:gregg.h.hirohata-goto@hawaii.gov)) via email when online updates have been completed.
- a. For all departments except the Department of Education (DOE), the University of Hawai'i (UH), and the Department of Transportation (DOT): Updated BJ Summary Tables and Budget Narratives in eBUDDI. Totals (by cost element and MOF) must match the grand totals on the Form B for the Governor's decision.
  - b. For DOE, UH, and DOT: Excel or other electronic files of the updated BJ Summary Tables must be submitted via email to your B&F analyst. Totals (by cost element and MOF) must match the grand totals on the Form B for the Governor's decision. Updated Budget Narratives in eBUDDI.
  - c. All departments: Updated Tables P, Q, and R in eCIP and Tables A, B and C (Performance Measures) in eANALYTICAL. Total (by cost element and MOF) for all Table Ps must match the grand total on the Form S for the Governor's decision.
  - d. All departments: All Excel files which reflect the Governor's final budget decisions of Forms A and A-Attachment (relating to the operating budget); and Forms CIP Details, CIPOp, and CIPOpB, and PDF files of Form PAB (relating to CIP budget) should be emailed to your B&F analyst.
3. By Wednesday, November 30, 2022: Form DMC (additional requirement for deferred maintenance costs) with a cover letter from your department head submitted via email in PDF format from your department's designated email account to B&F at [DBF.DOCS@hawaii.gov](mailto:DBF.DOCS@hawaii.gov). The Excel file of Form DMC must be transmitted to your B&F analyst.

4. By Wednesday, December 28, 2022: The BJ details updated in eBUDDI reflecting the Governor's final budget decisions for all departments, except DOE, UH, and DOT for which Excel or other electronic files are required.

Attachments

Attachment 1: FB 2023-25 Operating Budget Ceilings

Attachment 2: Guidelines for Operating and Capital Improvement Program Budgets for FB 2023-25 and the Planning Period

Attachment 3: Additional Operating Budget Detail Guidelines for FB 2023-25 and the Planning Period

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

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

Attachment 6: General Budget Information and Instructions for Completing Program Budget Request Forms (September 2022)

Attachment 7: Major, Recurring Federal Funds for State FB 2023-25