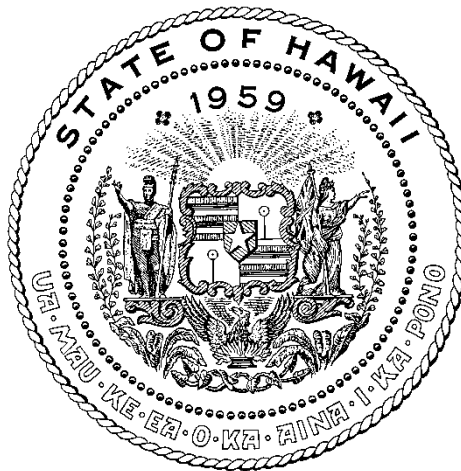


STATE OF HAWAII



THE MULTI-YEAR PROGRAM and FINANCIAL PLAN and EXECUTIVE BUDGET For the Period 2023-2029 (Budget Period 2023-2025)

Submitted to the Thirty-Second State Legislature
December 19, 2022

EXECUTIVE CHAMBERS
State Capitol
Honolulu, Hawai'i 96813

**GOVERNOR'S MESSAGE TO THE
32nd STATE LEGISLATURE OF HAWAII
MEETING IN THE REGULAR SESSION OF 2023**

In compliance with Article VII, Section 8, of the Hawai'i State Constitution, I hereby submit to the State Legislature the Executive Budget for Fiscal Biennium (FB) 2023-25 and the Program and Financial Plan for the period 2023-29.

OVERVIEW

In Hawai'i, everyone is family – we are one 'Ohana. Like many others, we believe in taking care of family. When we work together, we have proven that we can be successful as we were most recently in our response to the coronavirus (COVID-19) pandemic.

That success was not without great sacrifice, as the impact of the pandemic took its toll on our healthcare workers, our families, and Hawai'i's businesses. Ultimately, these sacrifices resulted in Hawai'i having the lowest fatality rate of any state in the country and, now, as the number of COVID-19 cases has continued to decline, life in the islands is returning to a level of normalcy.

We are, however, still dealing with the socioeconomic impact of COVID-19 and high inflation, on top of Hawai'i's already high cost of living. This has made life in Hawai'i more challenging for many. We believe that with community partners, other sectors of government, and the private sector, we can turn this around and can improve the lives of Hawai'i's people.

The Executive Budget can provide the means to help us address critical issues and is one of the most significant policy pieces that I, as Governor, can put forth. Our Administration's responsibility to provide a balanced budget to the Legislature and our constituents is one that we do not take lightly. We are fully committed to being fiscally responsible as we tackle the State's toughest challenges.

One of our biggest ongoing challenges is the lack of affordable housing. The State's housing crisis has widespread impact, affecting our ability to deal with urgent issues such as homelessness, the cost of living, and workforce shortages.

Thus, it will be my priority to implement my emergency housing plan. We will work with developers, the construction industry, and other stakeholders to expedite the development of affordable housing.

Hawai'i's families are struggling to make ends meet. Compounded by Hawai'i's already high cost of living, more residents are living paycheck to paycheck than before the pandemic. My Administration will work with the Legislature to reduce Hawai'i's high cost of living by easing the State tax burden on necessities such as food and medicine and finding ways to support our most vulnerable populations.

Education is a pathway to success, but it is difficult to consistently provide high quality education when our State has a chronic shortage of 1,200 teachers each year. We must do more to retain quality, experienced teachers and are committed to investing in education to increase the success of our keiki. One of our priorities will be to invest in universal prekindergarten, as it is proven that early childhood education improves outcomes for children throughout their lives.

Healthcare is undoubtedly a high priority. Having served as the State's COVID-19 liaison and as a rural emergency room physician providing direct care in the community for over 20 years, I understand the State's considerable needs in this sector.

As such, I am pleased that this budget request includes significant requests to support the University of Hawai'i's (UH) nursing program and Kamauleule, the Hawai'i State Laboratory. In addition, I have specifically requested funding for the expansion of Hilo Medical Center and to increase Medicaid provider payments. Increasing Medicaid provider payments expands access to high-quality healthcare and improves health outcomes for low-income individuals.

It is alarming that Native Hawaiians are likely to experience chronic disease ten years earlier than others in our State. They also have shorter life expectancies and are more likely to become homeless, when compared to other residents in our State.

These are sobering facts, and we must not let these inequities continue. Our Administration will provide the necessary support to the Native Hawaiian community to help heal past injustices and address ongoing disparities. We will also do our utmost to ensure that the Department of Hawaiian Home Lands (DHHL) provides homestead lands to the thousands of native Hawaiian beneficiaries more expeditiously.

The 'Ohana Zones Pilot Program (OZPP) was established by Act 209, SLH 2018, to improve the health and well-being of individuals experiencing homelessness and provide access to needed services. As of November 30, 2021, 'Ohana Zone programs served 5,510 individuals statewide and placed 1,368 individuals into permanent housing.

Act 235, SLH 2022, extended OZPP until June 30, 2026, and appropriated \$15 million in FY 23. To continue to provide these needed services to our homeless communities and build upon the success of this statewide program, I have requested to continue funding in FY 24 and FY 25.

We are all caretakers of these islands and, as caretakers, it is also our responsibility to rethink tourism. The visitor industry plays a huge part in Hawai'i's economy but there is a growing debate that we are reaching levels where the cost of tourism growth may outweigh its benefits.

Our visitor industry must be sustainable, with less social and environmental impact and more demonstratable benefits to the people of Hawai'i. We are already working with the Hawai'i Tourism Authority to re-envision tourism in Hawai'i.

Locals understand the preciousness of Hawai'i's unique natural environment, and we have a duty to preserve it for future generations. As such, we will look at visitor impact fees or "green fees" as a way to provide more resources for our conservation efforts and to broaden the responsibility in preserving Hawai'i's natural beauty to include visitors to our State.

My Administration will also propose an aggressive plan of action to address climate change and mitigate its impact. Hawai'i will continue to lead in transitioning to clean renewable energy and will be an example of sustainability for the world.

In the coming years, we will accelerate our progress to reduce Hawai'i's dependence on fossil fuels and invest in sustainable renewable energy, which I have long advocated for. Expanding our clean energy industry can bring more high paying jobs to the State. We can be responsible with our environment while expanding our economy and creating good paying jobs.

Together, we must support those in need. Our Administration is prepared to face these historic challenges and will be putting together further budget submittals to reflect our priorities. We are ready to fulfill our commitments to each other, to our islands and to future generations.

STEADY STATE – A TRANSITION BUDGET

Due to the amount of time needed to prepare, review, and compile the Executive Biennium Budget to meet the statutory deadline to submit the budget to the Legislature, this budget was started by the previous Administration as a transitional “Steady State” budget to ensure the continuation of current services.

Thus, while we have included a few high priority requests, other requests are still undergoing thorough review by our Administration. Our department directors will be reviewing the operating and capital improvement program (CIP) budget requests that were submitted by the previous Administration to determine which requests are in line with the Administration’s priorities. Requests that are selected to be funded will be submitted to the Legislature by Governor’s Message.

BUDGET AND FISCAL CONSIDERATIONS

To ensure the State’s fiscal health, the development of the Executive Budget requires that the Administration understand the State’s current fiscal position and the potential fiscal challenges, to the extent possible, through the upcoming biennium and beyond.

The State was fortunate to receive widespread direct and indirect support from the federal government to address and offset the impact of the pandemic. The significant infusion of federal funds into the State’s economy played a large part in the State’s ability to weather the worst of the pandemic and continues to support our ongoing recovery.

The State has been tested and now, we know we must be better prepared. In addition, Administrative Directive No. 22-01, State Reserve Policy, requires that for each year of the six-year planning period, the State shall endeavor to attain a minimum fund balance as a percentage of the preceding year’s general fund revenues as follows:

1. 5% unassigned general fund carryover balance;
2. 10% Emergency and Budget Reserve Fund (EBRF); and
3. 25% combined State reserves or 20% combined State reserves, if the EBRF fund balance objective has been met.

Right now, we have the resources available to further build up the State’s EBRF to meet the objectives of the State Reserve Policy and ensure that the State is in a better position during an economic downturn. As such, the Executive Budget includes a request for \$500 million for deposit to the EBRF.

Other funding concerns include the State’s unfunded liabilities in the Employees’ Retirement System and Employer-Union Health Benefits Trust Fund, which continue to pose significant demands on the State’s resources, and potential delays or decreases in federal awards.

The recent changes in Congress could create instability that might impair the federal budget process and the timely distribution of federal funds to states for critical programs. It could also impact the availability of funding for federal programs, which may require the State to provide funding for the continuation of federal programs that are considered vital.

Constitutional and Statutory Requirements

The FB 2023-25 Executive Biennium Budget includes the operating and CIP requirements of the Executive Branch as required by the Hawai'i 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 Hawai'i 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.

Budget Transparency

To increase budget transparency, departments were instructed to review their FY 23 operating budget details for items that did not align with anticipated expenditures and could be addressed immediately. In addition, they were to review their positions to ensure compliance with Section 37-74(f), HRS, which 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.

As such, the FB 2023-25 Executive Budget includes requests for:

1. “Conversion of unbudgeted positions” 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 adjustments to fully fund underfunded or unfunded positions if the positions were deemed critical.
3. Trade-off and transfer adjustments to correct negative amounts or realign the budget to expenditures.

4. Base budget adjustments to delete underfunded or unfunded positions.

THE ECONOMY

The State's recovery from the economic impact of the COVID-19 pandemic got off to a good start due to the quicker than expected return of visitors. The resurgence of the visitor industry has been steady since we reopened our doors.

According to preliminary visitor statistics released by the Department of Business, Economic Development and Tourism (DBEDT), a total of 757,182 visitors arrived in the Hawaiian Islands this past October, resulting in a 95.1% recovery compared to the same month in 2019. Visitor expenditures in October 2022 also increased significantly by 15.1% compared to October 2019.

The construction industry held up the State's economy during the slowdown and continues to be a major player. In the third quarter of 2022, the economic indicators for the construction industry were mixed.

Six hundred construction jobs, or 1.6%, were lost in the third quarter of 2022 compared with the same quarter of 2021. The permit value for private construction also decreased by \$154.5 million or 16.5%. However, State government CIP expenditures increased in the third quarter by \$20.7 million or 6.5% compared with the same quarter last year.

The State's unemployment rate has declined by 19% from a high of 22.4% in April 2020 to a preliminary rate of 3.4% in October 2022, the lowest it has been since April 2020. However, it has not always been a smooth road to recovery as supply chain and labor shortage issues, along with the high rate of inflation, have made it more difficult for businesses and families to regain their footing.

The State's economic expansion is expected to continue into the next biennium but at a slower pace than previously anticipated. DBEDT projects that Hawai'i's economic growth will be pushed downward to 1.7% in 2023 and 2.1% in 2024 instead of 2.5% and 2.2%, respectively, due to high inflation and rising interest rates intended to curb inflation.

Although Hawai'i's economy is still expanding, we are cautiously optimistic about its continued growth due to the many outside influences that could quickly turn our economy around. It has taken everyone's hard work to get our economy to where it is today but there is much more to be done to broaden the State's economy and make it more sustainable.

REVENUE PROJECTIONS

The Council on Revenues (COR) adjusted its May 2022 projections by increasing its general fund tax revenue projections for FY 23 from 5% to 6.5% and for FY 24 from 3.5% to 4% at its September 6, 2022 meeting. The COR also maintained its projections for FYs 25-28 of 3.5% and 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.

Following the COR's September 6, 2022 meeting, however, the Department of Taxation indicated that the effect of the constitutional income tax refunds pursuant to Act 115, SLH 2022, were not included in the FY 23 revenue projection. Thus, it is expected that the COR will make a downward adjustment for FY 23 at its January meeting. In the meantime, the General Fund Financial Plan reflects a revenue adjustment of \$308.9 million in FY 23 but there has been no adjustment to the COR's FY 23 projection.

The Economic Research Organization at UH's (UHERO) forecast that was released subsequent to the COR's projection was slightly more pessimistic. UHERO noted significant downside risks for the State, including the significant slowdown of the global economy and forecast 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-19 policy negatively impacted UHERO's 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 could still be adversely affected by softer global conditions, additional interest rate increases, and temporarily high inflation.

ADDITIONAL BUDGET AND FINANCIAL PLAN CONSIDERATIONS

Through separate legislation, the Administration will be requesting cost neutral emergency appropriations for the third and fourth quarters of FY 23 that are necessary due to the repeal of Section 72 of Act 88, SLH 2021, as amended by Act 248, SLH 2022. Section 72 allowed the Governor to authorize the transfer of operating funds between appropriations of the same fund, within an expending agency, for operating purposes.

It is not possible to consistently predict the service level requirements for certain programs. Therefore, this transfer provision provided the flexibility necessary to continue to provide services within the current operating budget, without additional funding. As such, we will be requesting the restoration of Section 72.

We will also be requesting the restoration of other repealed provisions that would allow the Administration to respond quickly to emergency situations. These provisions were Section 61, which allowed the Governor to authorize the transfer of savings or unrequired balances to cope with the effects of natural disasters or other unforeseen emergencies, and Section 87, which allowed the Governor to transfer savings or unrequired balances of general funds from any program to the Department of Land and Natural Resources' (DLNR) fire fighter's contingency fund, from Act 88, SLH 2021, as amended by Act 248, SLH 2022.

The General Fund Financial Plan does not include the revenue impact of other potential emergency appropriations, specific appropriations and revenue adjustments that may be proposed by our Administration.

THE EXECUTIVE BUDGET REQUEST FOR FB 2023-25

The Operating Budget

The development of the Executive Budget for FB 2023-25 began with an operating base budget amount based on each department's FY 23 appropriations from Act 88, SLH 2021, as amended by Act 248, SLH 2022, plus transfers, minus non-recurring costs, and plus collective bargaining and Commission on Salaries allocations (except for federal funds, other federal funds, private funds, county funds and American Rescue Plan funds). In addition, applicable adjustments were made due to statutory changes, including the transfer of positions and funding to the new Department of Law Enforcement (LAW) pursuant to Act 278, SLH 2022.

These base budget amounts have been adjusted by requests for:

- Trade-offs and transfers and conversion of unbudgeted positions to align the budget with current operational requirements.
- Select fixed costs and entitlements.
- Federal or other federal fund ceiling adjustments based on anticipated grant awards.
- Health and safety requirements.
- Full-year funding for half-year funded positions.

- Funding for programs currently funded by specific appropriations, or necessary due to statutory changes or critical program needs.
- Fringe benefit adjustments for special, revolving, and trust funded programs.

For FB 2023-25, the budget includes \$18.023 billion in FY 24 and \$17.862 billion in FY 25 from all means of financing (MOF) for operating costs. This represents net increases of \$2.040 billion (13%) and \$1.821 billion (11%), respectively, compared to the appropriate operating budget bases (FY 23 appropriations from Act 88, SLH 2021, as amended by Act 248, SLH 2022, as adjusted for FY 24 and FY 25). Of these amounts, the request for general funds is \$9.850 billion in FY 24 and \$9.657 billion in FY 25, resulting in increases of \$1.118 billion (13%) and \$846.3 million (10%), 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 \$90,932,904 in FY 24 and \$208,873,286 in FY 25 for the Department of Education (DOE), UH and other State CIP projects.
- Decreases health premium payments by \$9,343,547 in FY 24 and increases them by \$42,634,783 in FY 25 for DOE, UH and other State programs.
- Increases retirement benefits payments by \$61,938,702 in FY 24 and \$126,492,221 in FY 25 for DOE, UH and other State programs.

- Increases Medicaid health care payments by \$15,152,953 in general funds and \$7,191,798 in federal funds in FY 24 and by \$20,152,953 in general funds and \$7,191,798 in federal funds in FY 25 for Child Wellness Incentive Pilot Program incentive payments and increased payments to nursing facilities and private professional services providers.

The Executive Budget for FB 2023-25 includes the following significant requests by program area (requests are for general funds unless otherwise noted):

Economic Development

- Adds 25.00 full-time equivalent (FTE) temporary positions for both fiscal years and \$75,000,000 in FY 24 and \$60,000,000 in FY 25 to restore general fund support for the operations of the Hawai'i Tourism Authority.
- Adds \$28,500,000 in special fund ceiling in FY 24 and FY 25 for the operations of the Hawai'i Convention Center.

Employment

- Adds 1.00 FTE permanent position and \$1,000,000 in FY 24 and FY 25 to fold appropriations from Act 256, SLH 2022, Relating to Immigrant Resource Centers, into the base budget for the Office of Community Services.

Transportation

- Adds \$56,726,547 in special funds in FY 24 and \$61,722,000 in special funds in FY 25 for special maintenance projects for the Airports Division (AIR).
- Adds \$22,800,000 in special funds in FY 24 and FY 25 for consultant services to support special maintenance projects for AIR.

- Adds \$21,220,500 in special funds in FY 24 and \$22,281,525 in special funds in FY 25 for operational expenses for the Consolidated Rental Car Facilities at Daniel K. Inouye International Airport, O'ahu, and Kahului Airport, Maui.
- Adds \$25,000,000 in special funds in FY 24 and \$28,000,000 in special funds in FY 25 for consultant services and special maintenance projects for the Harbors Division.
- Adds \$50,000,000 in special funds in FY 24 and \$40,000,000 in special funds in FY 25 for special maintenance projects for the Highways Division.

Environmental Protection

- Adds 1.00 FTE temporary position and \$14,000,000 in FY 24 and FY 25 for transition and planning costs for the Mauna Kea Stewardship and Oversight Authority per Act 255, SLH 2022.
- Adds \$1,500,000 in FY 24 and FY 25 for the Hawai'i Invasive Species Council.

Health

- Adds \$47,630,145 in FY 24 and \$43,629,646 in FY 25 to restore general fund support for emergency medical services.
- Adds \$12,900,000 in FY 24 and \$14,100,000 in FY 25 to increase funding for the Medicaid 1915(c) Home and Community-Based Services Waiver for Individuals with Intellectual and Developmental Disabilities.

- Adds \$10,000,000 in FY 24 and \$20,000,000 in FY 25 for the Hawai'i State Loan Repayment Program administered through the John A. Burns School of Medicine.
- Adds \$41,238,400 in FY 24 and \$41,238,400 in FY 25 to restore general fund support for operating subsidies for Hawai'i Health Systems Corporation (HHSC) Regions.
- Adds \$16,320,700 in FY 24 and FY 25 to restore general fund support for the operating subsidy for the HHSC O'ahu Region.
- Adds \$35,000,000 in special fund ceiling in FY 24 and FY 25 for the HHSC O'ahu Region.
- Adds \$5,436,000 in FY 24 and \$1,620,000 in FY 25 for an operating subsidy for the Maui Health System, a Kaiser Foundation Hospitals LLC.

Social Services

- Increases the Spouse and Child Abuse Special Fund ceiling by \$5,000,000 in special funds in FY 24 and FY 25 for Child Protective Services to fund operations and services necessary to comply with the Family First Prevention Services Act.

Homelessness

- Adds 5.00 FTE permanent positions and \$500,000 in FY 24 and \$460,000 in FY 25 for the Office on Homelessness and Housing Solutions.
- Adds \$15,000,000 in FY 24 and FY 25 for OZPP.

Adds \$10,800,000 in FY 24 and FY 25 to restore general fund support for family assessment centers, the Housing First Program, the Rapid Re-Housing Program, and homeless outreach and civil legal services.

Education

Public School System

- Adds \$10,000,000 for various repairs and maintenance projects for essential school operating needs and other one-time non-recurring expenditures.
- Adds \$13,000,000 in FY 24 and FY 25 for electricity costs.
- Adds \$10,000,000 in FY 24 and FY 25 for Workers' Compensation to cover shortfalls to pay for statutorily mandated benefits.
- Adds \$7,000,000 in FY 24 and FY 25 for Advanced Practice Registered Nurses (RN) and RNs to provide additional support for students returning to in-person learning with unmet health needs.
- Adds \$6,000,000 in FY 24 and FY 25 for contracted skilled nursing services to provide services for 400 students at nearly 200 schools statewide.
- Adds \$4,000,000 in FY 24 and FY 25 for additional night security coverage at various schools.
- Adds \$26,000,000 in revolving funds in FY 24 and FY 25 to increase the appropriation ceiling for the After-School Plus Program Revolving Fund to reflect the actual costs of program operation.

- Adds \$6,406,000 in revolving funds in FY 24 and FY 25 to increase the appropriation ceiling to align with growth in Medicaid reimbursement revenue.
- Adds 43.00 FTE permanent positions and \$3,170,392 in FY 24 and FY 25 for virtual/distance learning.
- Adds 92.00 FTE permanent positions in FY 24 and FY 25 for Applied Behavior Analysis (ABA) positions so that ABA services for students can be delivered by qualified service providers.
- Adds 2.00 FTE permanent positions and \$1,000,600 in both fiscal years to administer Youth Suicide Awareness and Prevention Protocol.

Charter Schools

- Adds \$5,396,944 in FY 24 and \$6,507,926 in FY 25 for Charter Schools to equalize the per pupil funding based on DOE's FB 2023-25 operating budget and projected enrollment.

Public Library System

- Adds \$3,218,236 in FY 24 and FY 25 to restore general fund reductions made at the beginning of the COVID-19 pandemic.
- Adds \$550,000 in FY 24 and FY 25 for security services at various libraries.

University System

- Adds \$17,526,848 in FY 24 and FY 25 to restore funding reductions from Act 88, SLH 2021, as amended by Act 248, SLH 2022.

- Adds \$10,000,000 in FY 24 and FY 25 to restore funding for unfunded positions.
- Adds \$3,600,000 in FY 24 and FY 25 for athletic subsidies.
- Adds 4.00 FTE permanent positions and \$2,000,000 in FY 24 and FY 25 to fold in positions and funding authorized in Act 262, SLH 2022, which expanded medical residency and training opportunities.
- Adds \$22,700,000 in FY 24 and FY 25 for the Hawai'i Promise Program to provide additional scholarships at UH community colleges and expand the program to include scholarship opportunities at UH's four-year institutions.
- Adds 61.50 FTE permanent positions and \$4,414,095 in FY 24 and 64.50 FTE permanent positions and \$4,874,467 in FY 25 to strengthen various medical related programs and institutions across UH campuses and community colleges.

Culture and Recreation

- Adds \$6,000,000 in FY 24 and \$8,000,000 in FY 25 in special funds to support State Parks operations.

Public Safety

- Adds 4.00 FTE permanent positions and \$534,388 in FY 24 and FY 25 for the Hawai'i Correctional System Oversight Commission (HCSOC).
- Adds \$5,000,000 in both fiscal years for operating costs in preparation of emergencies and disasters and other post-disaster expenditures, notwithstanding an active emergency or disaster proclamation from the Governor.

- Adds \$2,522,860 in general funds as a State match requirement and \$4,500,000 in other federal funds in FY 24 for the Hazard Mitigation Federal Grant and National Earthquake Reduction Grant.
- Adds 70.00 FTE permanent positions in both fiscal years and \$9,933,594 in FY 24 and \$9,708,355 in FY 25 for the operational costs, including salaries, leasing and other requirements of the new LAW.
- Adds \$1,854,030 in FY 24 and \$9,150,838 in FY 25 for the full-year funding of 193.00 FTE permanent positions (151.00 FTE Adult Corrections Officer positions, 29.00 FTE healthcare positions, and 13.00 FTE other support positions) established in Act 88, SLH 2021, as amended by Act 248, SLH 2022, for the new housing at Hawai'i Community Correctional Center, Maui Community Correctional Center, and Women's Community Correctional Center.
- Adds \$838,435 in FY 24 and \$1,808,611 in FY 25 for the full-year funding of various 37.00 FTE permanent positions (16.00 FTE RN positions, 6.00 FTE Clinical Psychologist positions, 4.00 FTE Human Resource positions, 9.00 FTE support positions for HCSOC, and 2.00 FTE Training and Staff Development positions) established in Act 88, SLH 2021, as amended by Act 248, SLH 2022.
- Adds \$1,500,000 in FY 24 for Enterprise Technology Services (ETS) lump sum for computer hardware refresh (replacement) needs.
- Adds \$1,695,000 in FY 24 and \$878,000 in FY 25 for Microsoft Office 365 increased costs.
- Adds \$1,495,000 in FY 24 and \$300,000 in FY 25 in ETS for Enterprise Resource Planning recurring costs, which includes costs for Test Automation Software (FY 24 only) and for Independent Verification and Validation.
- Adds \$500,000,000 in FY 24 to be deposited to the EBRF.
- Adds \$470,000 in FY 24 and FY 25 for additional litigation funds for the Department of the Attorney General.
- Adds \$7,560,000 in special funds in FY 24 and FY 25 for payments to the King Kalakaua Building's management association for repairs and renovations for the Department of Commerce and Consumer Affairs.
- Adds 10.00 FTE temporary positions and \$1,010,000 in both fiscal years to implement the Governor's initiatives on various policies and programs including housing, mental health, and federal funds.
- Adds 6.00 FTE temporary positions and \$734,608 in both fiscal years to support the Lieutenant Governor's initiatives.
- Adds \$4,305,000 in FY 24 and \$5,225,000 in FY 25 for Workers' Compensation claims.
- Transfers \$3,342,309 in FY 24 and FY 25 from ETS to the Department of Taxation for maintenance costs for the Tax System Modernization (TSM) project. The funds were appropriated to ETS in FY 23 in Act 88, SLH 2021, as amended by Act 248, SLH 2022.

Government-Wide Support

- Adds \$17,000,000 in general funds and the same amount in revolving funds in FY 24 and FY 25 for insurance cost increases to cover recurring annual costs for the Department of Accounting and General Services' Risk Management program.
- Adds \$1,200,000 in FY 24 for the Office of Elections' voting system contract and State matching funds.

- Adds \$8,017,617 in FY 24 and \$3,855,721 in FY 25 for professional services and upgrades for TSM.
- Adds 5.00 permanent positions and \$533,859 in FY 24 and \$546,579 in FY 25 to fold in positions and funding for the Tax Review Board authorized via Act 218, SLH 2022, which converted the board into a paid board rather than a volunteer one.

The Capital Improvement Program Budget

The FB 2023-25 Executive Budget includes “Steady State” requests for the following types of projects:

- Major repair and maintenance (R&M) for a public or educational facility.
- Completion of later phases of an ongoing CIP project.
- Public health and safety.
- Improvements for energy efficiency or conservation.

For the CIP budget, a total of \$2.107 billion in FY 24 and \$1.460 billion in FY 25 has been requested. Of these amounts, the requests for general obligation (G.O.) bond funds total \$462.2 million and \$358.6 million, respectively. The CIP budget also includes requests for general funds totaling \$324.9 million in FY 24 and \$295.4 million in FY 25 for selected R&M type projects.

Additional information on funding distribution by MOF and department may be found in the sections that follow. The FB 2023-25 CIP requests support the following program areas (G.O. bond funds unless otherwise noted):

Economic Development

- Adds \$6,000,000 in FY 24 for tar deposit removal at the Halawa Animal Quarantine Station, O’ahu.
- Adds \$3,500,000 in FY 24 for Waimea Irrigation System Improvements, Hawai’i.
- Adds \$3,000,000 in FY 24 for State Irrigation System Reservoir Safety Improvements, Statewide.
- Adds \$2,000,000 in general funds in FY 24 for Kahuku Agricultural Park Miscellaneous Improvements, O’ahu.
- Adds \$2,000,000 in FY 24 for Waimānalo Irrigation System Improvements, O’ahu.
- Adds \$12,125,000 in FY 24 for improvements to electrical and communication infrastructure along Saratoga Avenue in the Kalaeloa Community Development District, O’ahu.
- Adds \$1,100,000 in FY 24 for improvements to the ‘A’āhoaka Reservoir, Kaua’i.
- Adds \$20,000,000 in FY 24 and FY 25 for DLNR major CIP projects.
- Adds \$10,000,000 in general funds in FY 24 and FY 25 for DLNR’s R&M.

Transportation

- Adds \$452,601,000 (\$452,600,000 in revenue bond funds and \$1,000 in federal funds) in FY 24 and \$66,001,000 (\$66,000,000 in revenue bond funds and \$1,000 in federal funds) in FY 25 for Airfield Improvements, Statewide.

- Adds \$95,251,000 (\$95,250,000 in revenue bond funds and \$1,000 in federal funds) in FY 24 and \$12,760,000 in revenue bond funds in FY 25 for Daniel K. Inouye International Airport, Airport Improvements, O'ahu.
- Adds \$58,947,000 (\$58,946,000 in revenue bond funds and \$1,000 in federal funds) in FY 24 for Airport Facility Improvements, Statewide.
- Adds \$50,000,000 (\$49,988,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 24 and \$35,000,000 (\$34,988,000 in revenue bond funds, \$4,000 in special funds, \$4,000 in federal funds, and \$4,000 in private contributions) in FY 25 for Honolulu Harbor Improvements, O'ahu.
- Adds \$36,100,000 (\$11,300,000 in revenue bond funds and \$24,800,000 in federal funds) in FY 24 and \$27,300,000 (\$7,300,000 in revenue bond funds and \$20,000,000 in federal funds) in FY 25 for Highway Traffic Operational Improvements, Statewide.
- Adds \$3,498,000 and \$26,016,000 in federal funds in FY 24 and \$5,515,000 and \$27,573,000 in federal funds in FY 25 for Wastewater Treatment Revolving Fund for Pollution Control, Statewide.
- Adds \$3,604,000 and \$29,028,000 in federal funds in FY 24 and \$6,208,000 and \$31,038,000 in federal funds in FY 25 for Safe Drinking Water Revolving Funds, Statewide.
- Adds \$19,010,000 in general funds in FY 24 and \$4,240,000 in general funds in FY 25 for Kamauleule Building R&M, O'ahu.
- Adds \$50,000,000 in FY 24 for the expansion of the Intensive Care Unit and Medical Surgical Unit at the Hilo Medical Center, Hawai'i.
- Adds \$12,000,000 in general funds in FY 24 and \$15,500,000 in general funds in FY 25 for various HHSC Regions projects, Statewide.
- Adds \$6,000,000 in general funds in FY 24 and FY 25 for various projects for the Maui Health System, a Kaiser Foundation Hospitals LLC, Maui.
- Adds \$3,000,000 in general funds in FY 24 and FY 25 for various projects for the HHSC O'ahu Region, O'ahu.
- Adds \$3,000,000 in general funds in FY 24 and \$7,000,000 in general funds in FY 25 for various projects for the Kahuku Medical Center, O'ahu.

Health

- Adds \$15,000 in FY 24 and \$2,477,000 in FY 25 for Kalaupapa Settlement, Municipal Solid Waste Landfill Cover and Related Improvements, Moloka'i.
- Adds \$3,900,000 in FY 24 and \$39,000,000 in FY 25 for Hawai'i State Hospital, Guensberg Building, Renovations and Improvements, O'ahu.
- Adds \$11,557,000 in FY 24 for Kamauleule Building, Hawai'i State Laboratory, Biosafety Level 3 Laboratory, O'ahu.

Social Services

- Adds \$600,000 in general funds in FY 24 and \$6,000,000 in other federal funds in FY 25 for the Veterans Cemetery Restoration and Improvements, Statewide.

- Adds \$4,900,000 in FY 24 for the Kawaihoa Youth and Family Wellness Center (KYFWC) Water System Improvements, O'ahu.
- Adds \$1,550,000 in FY 24 for KYFWC Sewer System Improvements, O'ahu.

Housing

- Adds \$10,000,000 in general funds in FY 24 and FY 25 for Lump Sum Statewide Public Housing Development, Improvements, and Renovations, Statewide.

Native Hawaiians

- Adds \$20,000,000 in both FY 24 and FY 25 for repairs and maintenance to infrastructure within DHHL subdivisions, Statewide.

Formal Education

Public School System

- Adds \$147,300,000 in FY 24 and \$74,750,000 in FY 25 for Lump Sum – for increased student capacity for ongoing school projects, Statewide.
- Adds \$22,600,000 and \$90,400,000 in other federal funds in FY 24 and \$80,000,000 and \$320,000,000 in other federal funds in FY 25 for Lump Sum – Federal Grants, Statewide.
- Adds \$96,000,000 in general funds in FY 24 and FY 25 for Lump Sum – Deferred Maintenance Projects, Statewide.
- Adds \$26,850,000 in FY 24 and \$29,000,000 in FY 25 for Lump Sum – Support, Statewide.

- Adds \$22,000,000 in general funds in FY 24 and FY 25 for Lump Sum – Compliance, Statewide.
- Adds \$2,500,000 in FY 24 and \$11,000,000 in FY 25 for Lump Sum – Instructional, Statewide.
- Adds \$750,000 in FY 24 and \$5,250,000 in FY 25 for Lump Sum – School Facilities Authority for increased student capacity for new school projects, Statewide.

Public Library System

- Adds \$10,000,000 in FY 24 for Keaau-Mountain View Public Library, Hawai'i.
- Adds \$10,000,000 in general funds in FY 24 and FY 25 for Health and Safety, Statewide.

University System

- Adds \$20,000,000 and \$30,000,000 in general funds in FY 24 and FY 25 for System, Renew, Improve, and Modernize, Statewide.
- Adds \$17,500,000 in FY 24 and \$26,500,000 in FY 25 for UH Hilo, Renew, Improve, and Modernize, Hawai'i.
- Adds \$25,000,000 in general funds in FY 24 and FY 25 for the Community College System (CCS), Capital Renewal and Deferred Maintenance, Statewide.
- Adds \$5,000,000 in FY 24 and \$3,500,000 in FY 25 for UH West O'ahu, Renew, Improve, and Modernize, O'ahu.
- Adds \$20,000,000 in general funds in FY 24 and FY 25 for CCS, Minor CIP for the Community Colleges, Statewide.

Youth Challenge

- Adds \$5,000,000 in general funds in FY 24 for Youth Challenge Academy Buildings 1786 and 1789 Upgrades and Improvements, O'ahu.

Public Safety

- Adds \$1,680,000 in general funds and \$4,490,000 in other federal funds in FY 24 and \$1,657,000 in general funds and \$4,680,000 in other federal funds in FY 25 for the Upgrades and Improvements to Hawai'i Army National Guard Facilities, Statewide.
- Adds \$5,000,000 to the Hawai'i Emergency Management Agency in FY 24 and FY 25 for Siren Maintenance and Modernization, Statewide.
- Adds \$5,000,000 in general funds in FY 24 for Birkhimer Emergency Operations Center Upgrades and Improvements, O'ahu.
- Adds \$1,500,000 in general funds and \$1,500,000 in other federal funds in FY 24 and FY 25 to Retrofit Public Buildings with Hurricane Protective Measures, Statewide.
- Adds \$15,000,000 in FY 24 and \$10,000,000 in FY 25 for the Request for Proposals for the Solicitation and Delivery of the New O'ahu Community Correctional Center Facility, O'ahu.
- Adds \$15,000,000 in general funds in FY 24 and \$7,500,000 in general funds in FY 25 for various lump sum capital improvement projects to provide facility repairs, upgrades, and improvements in compliance with the Americans with Disabilities Act and building code standards.

- Adds \$3,000,000 in general funds in FY 24 and FY 25 for Department of Public Safety Facility-Wide Repairs, Deferred Maintenance, Related Support and Improvements, Statewide.

Government-Wide Support

- Adds \$33,500,000 in FY 24 for State Capitol Building, Rehabilitation of Chambers Level Waterproofing System, O'ahu.
- Adds \$15,000,000 in general funds in FY 24 and FY 25 for Lump Sum Maintenance of Existing Facilities, Public Works Division, Statewide.
- Adds \$4,700,000 in FY 24 for Washington Place, Health and Safety and Queen's Gallery Renovation, O'ahu.
- Adds \$3,400,000 in FY 24 for Kekauluohi, State Archives Building, Halon System Replacement, O'ahu, and \$700,000 in FY 24 for Kekauluohi Backup Generator, O'ahu.

A NEW BEGINNING "HULIAU"

We begin our Administration with optimism and hope, knowing that we can face big challenges when we come together. We look forward to working with the Legislature and our communities to make Hawai'i a place where every person can pursue their goals and dreams.

Our Administration will hit the ground running to provide better education, healthcare, affordable housing and economic opportunities for Hawai'i's people. We will invest in Hawai'i's future by taming our high cost of living, preserving our quality of life, and protecting our natural and cultural heritage.

In our actions, we will be transparent and accountable because that is what Hawai'i's people deserve. With trusted and caring leadership, we are ready to take Hawai'i through this turning point and into a brighter, bolder future ahead.

Mahalo,

/s/ Josh Green

Josh Green, M.D.
Governor of Hawai'i

APPENDIX TO THE GOVERNOR'S MESSAGE

A. THE EXECUTIVE BUDGET RECOMMENDATIONS

The Operating Budget

All Means of Financing

For FB 2023-25, total operating budget requests from all sources of funding amount to \$18.023 billion in FY 24 and \$17.862 billion in FY 25, resulting in increases of 4.4% and 3.4%, respectively.

<u>Means of Financing</u>	<u>FY 23*</u> <u>Appropriation</u> (\$million)	<u>FY 24</u> <u>Request</u> (\$million)	<u>FY 25</u> <u>Request</u> (\$million)
General Funds	9,184.3	9,850.3	9,656.9
Special Funds	3,402.7	3,567.2	3,624.5
Federal Funds	3,022.3	3,166.8	3,195.0
Other Federal Funds	236.9	266.8	259.4
Private Contributions	0.9	0.9	0.9
County Funds	0.9	0.2	0.2
Trust Funds	762.4	473.1	423.4
Interdept. Transfers	82.4	84.8	86.7
Revolving Funds	554.1	592.5	593.5
Other Funds	<u>20.1</u>	<u>20.6</u>	<u>21.1</u>
Total	17,267.0	18,023.2	17,861.5**
Increase over FY 23		756.2	594.5
Percentage Increase		4.4%	3.4%

* - Includes FY 23 appropriations from Act 88, SLH 2021, as amended by Act 248, SLH 2022, including transfers pursuant to statutory requirements and transfers from other acts.

** - Total differs due to rounding.

General Fund

Total requests for general funds amount to \$9.850 billion in FY 24 and \$9.657 billion in FY 25, which represents an increase of \$666 million (7.3%) in the first year and \$472.6 million (5.2%) in the second year over the FY 23 appropriation level.

It should be noted that the preceding table compares the FB 2023-25 Executive Budget Request to FY 23 operating budget appropriations from Act 88, SLH 2021, as amended by Act 248, SLH 2022, and Act 6, SpSLH 2021. However, the operating budget bases used in preparation of the budget reflect FY 23 appropriations from Act 88, SLH 2021, as amended by Act 248, SLH 2022, and Act 6, SpSLH 2021; and include appropriation and position ceiling transfers between departments, collective bargaining (except federal funds, other federal funds, and American Rescue Plan funds) and specific recurring costs, less non-recurring expense adjustments, less appropriations treated as specific appropriations, less grants, and less capital improvement funds included in operating. Generally, the significant amounts of the reductions (non-recurring costs, appropriations treated as specific appropriations, grants, and capital improvement funds included in operating) account for the large differences between the FY 23 operating budget appropriations and the FB 2023-25 operating budget bases, which may differ for FY 24 and FY 25.

For the FB 2023-25 Executive Budget, the increases are primarily due to general fund requests for the deposit to the Emergency and Budget Reserve Fund (EBRF), escalating other non-discretionary costs (general funds for debt service; health premium payments; and federal and

general funds for Medicaid) and the restoration of general fund support for programs that were funded by the federal American Rescue Plan funds in FY 23.

The Capital Improvement Program Budget

For FB 2023-25, total requests for capital improvements amount to \$2.107 billion in FY 24 and \$1.460 billion in FY 25, to be funded from the following sources:

Means of Financing	FY 24 Request (\$million)	FY 25 Request (\$million)
General Funds	324.9	295.4
Special Funds	13.5	7.0
G.O. Bonds	462.2	358.6
G.O. Reimbursable	-	-
Revenue Bonds	852.4	248.7
Federal Funds	312.1	217.2
Other Federal Funds	96.4	332.8
Private Contributions	-	-
County Funds	-	-
Trust Funds	-	-
Interdept. Transfers	-	-
Revolving Funds	-	-
Other Funds	<u>45.2</u>	<u>0.2</u>
Total	2,106.8*	1,459.9

* - 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 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 exceeded the FY 23 expenditure but are within the expenditure ceilings for FYs 24 and 25.

For the Executive Branch, the total proposed appropriations from the general fund (which includes a \$5.0 million placeholder for a FY 23 emergency appropriation for claims against the State and the Executive Biennium Budget for FB 2023-25 but does not include other specific appropriation measures) exceed the appropriation ceiling by \$1.79 billion (or 19.5%) in FY 23 but are within the expenditure ceilings for FY 24 and FY 25. In FY 23, the excess is primarily due to the costs to support education, the development of rental housing, deposits to the EBRF and Pension Accumulation Fund, and other critical operational needs.

Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by the Department of Accounting and General Services (DAGS). However, the financial plan records appropriations and revenues in the fiscal year for which they were authorized.

C. LEGISLATIVE AUTHORIZATION OF TAX REFUND OR CREDIT, DEPOSIT TO THE EMERGENCY AND BUDGET RESERVE FUND, OR PRE-PAYMENT OF CERTAIN COSTS

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: 1) provide for a tax refund or tax credit to the taxpayers of the State; or 2) make a deposit into one or more emergency funds, as provided by law; or

3) appropriate general funds for the pre-payment of either or both: a) debt service for obligation bonds issued or b) pension or other post-employment benefit (OPEB) liabilities.

FYs 21 and 22 general fund balances were greater than 5% of FYs 20 and 21 (the prior fiscal years) general fund revenues. Since two successive fiscal years' balances exceed 5% of revenues, the 2023 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.

Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by DAGS. However, the financial plan records appropriations and revenues in the fiscal year for which they were authorized.

D. ACTIVATION OF REQUIRED DEPOSIT TO THE EMERGENCY AND BUDGET RESERVE FUND

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%, the Director of Finance shall deposit 5% of the general fund balance into the EBRF. However, no such transfer shall be made whenever the balance of the EBRF is equal to or more than 10% of general fund revenues for the preceding fiscal year.

For FYs 21 and 22, general fund revenues increased by 8.7% from FY 20 to FY 21 and 13.4% from FY 21 to FY 22, exceeding the 5% threshold. Additionally, the EBRF balance as of June 30, 2022, represented 3.6% of FY 21

revenues, which is less than the 10% threshold. Since the two criteria have been met, the Director of Finance transferred 5% of the FY 22 general fund ending balance or \$131.0 million to the EBRF in November 2022.

Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by DAGS. However, the financial plan records appropriations and revenues in the fiscal year for which they were authorized.

E. THE DEBT LIMIT

Section 13 of Article VII of the Hawai'i State Constitution places a debt limit on general obligation 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 Budget (including State guaranties) will not cause the debt limit to be exceeded at the time of each bond issuance.