



EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

December 1, 2022

ADMINISTRATIVE DIRECTIVE NO. 22-01

TO: All State Departments and Agencies

FROM: David Y. Ige
Governor

SUBJECT: State Reserve Policy

This Administrative Directive supersedes Administrative Directive 16-03, State Reserve Policy.

The State is committed to ensuring greater financial stability and capacity to handle future economic downturns. Prudent fiscal management and best practices indicated the need for a formal policy governing the State's reserve funds which was established by Administrative Directive 16-03. That reserve policy has been reviewed in multiple contexts including revenue volatility, potential force majeure or other major economic event, rating agency criteria, and state peers and industry best practices.

Based on that review, it continues to be the State's policy to maintain an amount equal to at least ten percent of general fund revenue in the emergency and budget reserve fund (EBRF) and an amount equal to at least five percent of general fund revenue as a general fund balance. These amounts are consistent with state law and help provide the State with financial flexibility to mitigate the consequences of future emergencies and recessions.

Additionally, it is hereby established that the State should maintain an overall target balance of either twenty-five percent of general fund revenue or, if the EBRF fund balance objective is met, twenty percent of general fund revenue. This Administrative Directive also establishes periodic reporting of information to inform decisions regarding funding of state reserves.

I. GENERAL PROVISIONS:

- a. Purpose. The purpose of this policy is to establish reserve fund balance objectives consistent with state law and to institutionalize good financial management practices that promote financial stability and flexibility.
- b. Authority. Section 37-65, Hawaii Revised Statutes (HRS) requires the governor to direct the preparation and administration of state programs, program and financial plans, and budget.
- c. Scope. This policy governs the management of state reserves which shall include the following:
 - i. Unassigned general fund carryover balance;
 - ii. Emergency and budget reserve fund; and
 - iii. Combined state reserves.
- d. Fund balance objectives. 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:
 - i. Unassigned general fund carryover balance: Five percent
 - ii. Emergency and budget reserve fund: Ten percent
 - iii. Combined state reserves of twenty-five percent or, if the EBRF fund balance objective is met, twenty percent.
- e. Attaining fund balance objectives. The State shall consider the prudent management of its resources, expenditure requirements, and liabilities in its efforts to attain the fund balance objectives.
- f. Review of state reserves. The Director of Finance shall review applicable laws and policies concerning state reserves at least once every four years to ensure they remain relevant and prudent. Based on the review, the Director of Finance may submit recommendations to improve the laws and policies to the governor as appropriate.

II. UNASSIGNED GENERAL FUND CARRYOVER BALANCE:

- a. Statutory reference. Article VII Section 6 of the Hawaii Constitution provides that whenever the state general fund balance at the close of each

of two successive fiscal years exceeds five percent of general fund revenues for each of the two fiscal years, the legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, or make a deposit into one or more funds, as provided by law, which shall serve as temporary supplemental sources of funding for the State in times of an emergency, economic downturn, or unforeseen reduction in revenue, as provided by law.

- b. Fund balance objective. In accordance with Article VII Section 6 of the Hawaii Constitution, the State shall endeavor to attain an unassigned general fund carryover balance for each year of the six-year planning period of at least five percent of general fund revenues for the preceding fiscal year. The State may suspend its efforts to attain the desired balance when conditions that permit the use of the balance exist and for periods following those conditions whereby the State's financial condition remains under strain.
- c. Allowed uses. Expenditures of amounts comprising the five percent unassigned general fund carryover balance objective may be a temporary supplemental source of funding for the State during times of unforeseen reduction in revenues or unforeseen increases in expenditure requirements.
- d. Disallowed uses. The amount comprising the five percent unassigned general fund carryover objective should not be used to implement new programs or expand services unless specifically required by State or Federal law or for health and safety.
- e. Replenishment of the balance. The State shall implement appropriate measures to achieve the timely replenishment of any amount of the five percent fund balance objective that is used. The State shall also develop expenditure reduction or revenue enhancement proposals to address structural and long-term general fund balance issues.

III. EMERGENCY AND BUDGET RESERVE FUND:

- a. Statutory reference. Section 328L-3, HRS established in the state treasury the emergency and budget reserve fund that is administered by the director of finance.
- b. Fund balance objective. In accordance with Section 328L-3(a)(4), HRS, the State shall endeavor to attain a fund balance for each year of the six-year planning period equal to at least ten percent of general fund revenues for the preceding fiscal year. The State may suspend discretionary efforts to attain the desired fund balance when conditions that permit the use of the

fund exist and for periods following those conditions whereby the State's financial condition remains under strain.

- c. Allowed uses. In accordance with Section 328L-3(c), HRS, expenditures from the emergency and budget reserve fund shall be a temporary supplemental source of funding for the State during times of emergency, severe economic downturn, or unforeseen reduction in revenues. The governor, through an appropriations bill, may recommend expenditures from the emergency and budget reserve fund by setting forth the purposes of the expenditures, the amounts, and the reasons justifying the necessity for the appropriations. The legislature may make appropriations from the fund for the following purposes:
- i. To maintain levels of programs determined to be essential to public health, safety, welfare, and education;
 - ii. To provide for counter cyclical economic and employment programs in periods of economic downturn;
 - iii. To restore facilities destroyed or damaged or services disrupted by disaster in any county; and
 - iv. To meet other emergencies when declared by the governor or determined to be urgent by the legislature.

Any act making appropriations from the emergency and budget reserve fund shall include a declaration of findings and purposes setting forth the purposes, the amounts, and the reasons why the appropriations are necessary and shall require a two-thirds majority vote of each house of the legislature.

- d. Disallowed uses. In accordance with Section 328L-3(e), HRS, the fund shall not be used for the following:
- i. To meet expenses of the legislature;
 - ii. To provide for salary adjustments for officials appointed pursuant to article V, section 6 or article VI, section 3 of the Constitution of the State of Hawaii and for others whose salaries are directly related to salaries of these officials; and
 - iii. To fund cost items in any collective bargaining contract.

- e. Replenishment of the fund. In accordance with Sections 328L-2(b)(1) and 328L-3(a), HRS, the fund shall be replenished from sources that include the following:
 - i. Fifteen percent of the moneys received from the tobacco settlement moneys under section 328L-2(b)(1);
 - ii. Any moneys received through a civil action in which the State is a party, and no other law or court order specifically provides for the deposit elsewhere of moneys received through the action;
 - iii. Appropriations made by the legislature to the fund; and
 - iv. Transfers of five percent of the state general fund balance at the close of the fiscal year, whenever state general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by five percent, pursuant to article VII, section 6 of the Hawaii constitution. For the purpose of this section, the general fund balance at the close of the fiscal year shall be calculated before any tax refund or tax credit is authorized by the legislature, pursuant to article VII, section 6 of the Hawaii constitution, that is provided during the same regular session as the transfer depositing such moneys to the emergency and budget reserve fund; provided that the transfers shall be executed until the balance of the emergency and budget reserve fund is equal to or more than ten percent of general fund revenues for the preceding fiscal year. The transfer shall be executed by the director of finance.

IV. COMBINED STATE RESERVE TARGETS:

- a. Scope. For the purposes of the State Reserve Policy, combined state reserves which shall include the following:
 - i. Unassigned general fund carryover balance;
 - ii. Emergency and budget reserve fund; and
 - iii. Hawaii hurricane relief fund established under Chapter 431P, HRS.
- b. Combined state reserve targets. The State shall endeavor to attain a combined state reserve balance for each year of the six-year planning period of one of the following:

- i. Twenty-five percent of general fund revenues for the preceding fiscal year; or
- ii. Twenty percent of general fund revenues for the preceding fiscal year if the EBRF balance is at least ten percent of the preceding year's general fund revenues.

The State shall consider relevant information, including information provided under Section V, in its efforts to achieve a combined state reserve target. When conditions that permit the use of the underlying funds exist and for periods following those conditions whereby the State's financial condition remains under strain, the State may suspend its efforts to attain or maintain combined state reserve targets.

V. PERIODIC REPORTING

- a. The Director of Finance shall periodically report on information relevant to the State Reserve Policy that may include the following:
 - i. Revenue volatility;
 - ii. Stress test scenarios that evaluate the ability to meet budgetary needs under identified "stress tests" such as a major hurricane, pandemic, or a major recession; and
 - iii. Summary information on current reserve funding levels and historic trends.
- b. The information under this section may be included in the state debt affordability study that is submitted biennially to the State legislature or in a format determined by the Director of Finance.

/S/
David Y. Ige
Governor, State of Hawaii

Dec 1, 2022
Date