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JOSH GREEN, M.D.
GOVERNOR
KE KIAʻĀINA

June 20, 2023

EXECUTIVE MEMORANDUM MEMO NO. 23-02

TO: All Department Heads

SUBJECT: Interim Budget Execution Policies and Instructions for FY 24

Hawaiʻi's economy is still recovering from the lingering impact of the coronavirus (COVID-19) pandemic. The significant influx of federal funds, bolstered by the return of visitors to the islands, accelerated the improvement of the State's economy. There have been, however, a few rough patches on the road to recovery.

Inflation has been a double-edged sword, helping to increase tax collections while inhibiting economic recovery. The Federal Reserve's monetary response has caused higher interest rates that have stifled the real estate market. Supply chain and labor shortage issues, which impacted many businesses throughout the pandemic, also continue to remain areas of concern.

At its meeting on May 15, 2023, the Council on Revenues (COR) revised its general fund tax revenue growth projection of 2.0% for FY 23 to -1.0%. In addition, the COR maintained its projections for FY 24 at 4.0% and for FY 25 through FY 29 at 3.5%.

The COR reduced its FY 23 projection by 3.0% due to the constitutional income tax refund, which decreased FY 23 general fund tax revenues by $312 million, lower estimated tax payments, and higher refunds. The COR indicated that lower capital gains income due to poor performance of the stock market and a cooling of the real estate market were likely causes of lower estimated tax payments.

The recovery of tourist arrivals, renewed consumer spending, solid construction activity, and additional tax collections due to inflation, have contributed to robust general excise tax and transient accommodations tax collections. However, there are many risks that may inhibit the State's economic recovery including inflation, an aggressive monetary policy response from the Federal Reserve, risks in the banking sector, labor shortages, supply chain disruptions, sustained travel hesitancy from Asian markets, and the reduction in Federal stimulus spending.

As we near the end of FY 23, preliminary general fund tax revenue growth (through May 2023) is down by 0.9% compared to the same period in FY 22. However, if the income tax refunds were not included, preliminary general fund tax revenue growth for FY 23 (through May 2023) would be 2.8%. While better, this is significantly less than the COR's September 2022 projection of 6.5% growth for FY 23 that was used for the development of the Governor's FB 2023-25 budget.

House Bill (H.B.) No. 300, H.D. 1, S.D. 1, C.D. 1 (H.B. No. 300), the General Appropriations bill, however, was based on the COR's March 2023 projection of 2% growth for FY 23. Thus, the ongoing impact of the 3% decrease to the State's general fund financial plan in each forthcoming fiscal year necessitated that general fund appropriations be reprioritized. Because of this, general fund appropriations were subject to an assessment of items which require additional planning, public input, and clarity on the use of moneys and an evaluation of each expending agency's ability and capacity to spend down the moneys efficiently within the authorized appropriation period.

Line-item vetoes and reductions to H.B. No. 300 were necessary to balance the budget and maintain healthy financial reserves so that the State can meet its reserve policy requirements. As such, adjustments have been made to the appropriation amounts in the respective department allocation to reflect the total line-item veto or reduction amount. A list of operating appropriations proposed for line-item veto or reduction is attached.

As the Legislature has ten working days to take action to overturn the vetoes, it is expected that H.B. No. 300 will not be enacted until the end of June. In the meantime, we must start the process to begin FY 24.

Despite the current downturn in revenues, we are cautiously optimistic about the State's economy. **<u>However, to maintain sound financial management practices, it is in the best interest of the State to maintain the 5% hard restrictions and 5% contingency restrictions imposed on discretionary general fund appropriations when full-year allocations are released with the FY 24 budget execution policies. In addition, Governor's approval is required for the release of specific purpose appropriations and capital improvement program (CIP) project appropriations in the operating budget; thus, these amounts are not included in the initial department allocations.</u>**

Chapter 42F operating grant appropriations, which have been appropriated in Part IV, Section 6, Grant-In-Aid Appropriations, of H.B. No. 300, are also not included in operating allocations. Section 6 does not include appropriation language nor the means of financing; however, the Department of the Attorney General has indicated that the operating grants listed in Section 6 can be considered specific general fund grant appropriations.

Pursuant to Executive Memorandum (E.M.) No. 19-03, Administration of Operating Grants Pursuant to Chapter 42F, Hawaiʻi Revised Statutes, the department head of the designated expending agency is delegated the authority to approve the expenditure of the respective Chapter 42F operating grant funds.

Given the lack of a Biennium Budget Act at this time, the following is authorized:

1. Continuation of FY 23 budget execution policies (E.M. No. 22-03, dated August 22, 2022), except for allocation amounts and as noted in this memorandum. However, due to the lack of many significant provisos, departments should consult their Department of Budget and Finance (B&F) analyst for appropriate authorization if pertinent provisos are no longer available. E.M. No. 97-07 shall remain in effect for CIP.

2. FY 24 interim operating allocations for the following are provided:

   - General funds: One quarter of the net of FY 24 appropriation less specific purpose and CIP operating appropriations, and 5% hard restriction and 5% contingency restriction. Calculation of the restrictions on discretionary general fund appropriations will be done for the full-year allocations, to be provided with the FY 24 budget execution policies, after H.B. No. 300 is enacted.

   - Non-general funds: One quarter of the total FY 24 appropriation.

3. Departments should submit “dummy” first quarter allotments. All dummy Requests for Allotment (A-19) should be dated July 1, 2023 or later.

4. Consideration of the release of specific purpose appropriations and CIP in the operating budget on a case-by-case basis. General funded specific purpose appropriations would be subject to the 5% hard restriction and 5% contingency restriction upon release.

5. Appropriations for Chapter 42F operating grants are not included in department allocations. E.M. No. 19-03 remains in effect; as such, the department head of the designated expending agency is delegated the authority to approve the expenditure of the respective Chapter 42F operating grant funds appropriated under Section 6 of H.B. No. 300. Requests for Allotment (Form A-19) to B&F for each Chapter 42F grant with a copy of the department head's approval to expend is required.

FY 24 budget execution policies and full-year allocations will be issued after the Biennium Budget is enacted. Questions on specific policies and procedures should be directed to the B&F analyst assigned to your department.

Mahalo,

/s/

Josh Green, M.D.
Governor, State of Hawaiʻi

Exhibit 1
Attachments