



EXECUTIVE CHAMBERS
KE KE'ENA O KE KIA'ĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA

AUG 15 2023

EXECUTIVE MEMORANDUM

MEMO NO. 23-05

TO: All Department Heads

SUBJECT: FY 24 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 24. These policies will apply to all appropriations from the following:

- Act 164, SLH 2023, for operating and capital improvement program (CIP) projects.
- Other specific appropriations authorized for expenditure in FY 24 by the 2023 Legislature or other legislative sessions.

On August 8, 2023, heavy winds brought on by Hurricane Dora transformed brush fires in Maui and Hawai'i County into the deadly wildfires that scorched thousands of acres and destroyed nearly all of Lāhainā. Emergency proclamations issued by Maui County, Hawai'i County, and our Administration quickly followed. On the morning of August 10, 2023, President Joseph R. Biden Jr. issued a Major Disaster Declaration. As the State responds to the worst natural disaster in the history of the State of Hawai'i, our Administration is committed to supporting recovery efforts. These efforts will require flexibility and adaptability, including in the planning and execution of the State's budget.

The tourism sector is still showing healthy growth, with June 2023 visitor spending, measured in nominal dollars, up by 9.2% compared to June 2022 and 22.7% compared to June 2019, the benchmark year prior to the COVID-19 pandemic. Total visitor arrivals have also recovered to 93.9% compared to June 2019.

In addition, the State's unemployment rate continues to improve. Between October 2021 and December 2022, Hawai'i's unemployment rate fluctuated between 3.2% and 3.7% but has gradually decreased from 3.7% in December 2022 to 3.0% in June 2023.

Preliminary cumulative general fund tax revenue deposits for FY 23, however, decreased by 1.7% compared to FY 22 which was 0.7% below the Council on Revenues' (COR) projection for FY 23. The decrease in Individual Income Tax (IIT) collections caused the downward trend, coming in 17.6% less than last fiscal year.

Preliminary general fund tax revenue growth for FY 23 would be 1.6% if the constitutional IIT refunds provided under Act 115, SLH 2022, were not included. Despite the current downturn in general fund tax revenues, General Excise and Use Tax collections and Transient Accommodations Tax collections – which are the most reflective of the State's economic activity – showed healthy double-digit growth in FY 23 and were up 10.8% and 16.9%, respectively, compared to FY 22.

At its meeting on May 15, 2023, the 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 IIT refunds, which decreased FY 23 general fund tax revenues by \$312 million, lower estimated tax payments, and higher refunds. The COR indicated that 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.

House Bill No. 300, H.D. 1, S.D. 1, C.D. 1, the General Appropriations bill, was based on the COR's March 2023 projection of 2% general fund tax revenue growth for FY 23. The ongoing impact of the 3% decrease to the general fund financial plan made line-item vetoes and reductions necessary for the State to meet its reserve policy requirements. As such, department allocations to reflect the appropriations from Act 164, SLH 2023, which includes adjustments due to line-item vetoes or reductions.

To maintain sound financial management practices and ensure the State's fiscal stability, full-year allocations for FY 24 for general-funded programs include a 5% hard restriction and 5% contingency restriction on adjusted discretionary general fund appropriations from Act 164, SLH 2023. The contingency restriction is intended as a contingency reserve for FY 24 and may be adjusted during the second half of the fiscal year based on actual tax collection trends and the COR's updated forecasts later in the fiscal year.

The legislative worksheets for Act 164, SLH 2023, designated amounts in the operating budget for specific purposes and CIP projects; these amounts have not been included in department allocations. The 5% restriction and 5% contingency restriction will be applied to general-funded operating appropriations for specific purposes from Act 164, SLH 2023, as well as specific appropriations from other acts, upon release.

Chapter 42F operating grant appropriations, which have been appropriated in Part IV, Section 6, Grant-In-Aid Appropriations, of Act 164, SLH 2023, are also not included in operating allocations. Note that Section 6 does not include appropriation language nor the means of financing (MOF); 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.

Non-general funded programs have been allocated their full FY 24 appropriation amounts. Each department's Exhibit 1 includes its full-year allocation for FY 24.

These policies continue to delegate many responsibilities to the department level, including providing the authority to fill budgeted and funded civil service positions to department heads. For added flexibility, most approval thresholds have been increased from \$150,000 to \$200,000. Departments should be aware that there have been many changes made by the Legislature regarding budget provisos that have impacted some processes. Otherwise, the bulk of these budget execution policies are much like those from FY 23.

These budget controls must be executed thoughtfully and prudently as the expenditure of public funds comes with great responsibility. Proper management of your department's budget is expected and necessary. Departments are reminded that program expenditures should not exceed current allocations.

All departments should continue to be mindful with their spending, regardless of MOF, to ensure that we are in the best position to quickly deal with direct program impacts and changes to the State's economic climate. In addition, your immediate fiscal prudence is requested should funding be needed to aid relief efforts related to the county wildfires.

Our Administration has hit the ground running but there is a lot more for us to accomplish. As such, as we begin this new biennium, we must remain committed to using our resources wisely as we work to increase opportunities for educational equity, improve government transparency, increase housing opportunities and access to health care, protect our environment and natural resources, and improve the overall quality of life for the people of Hawai'i.

Exhibit 1 contains each department's full-year allocation (net allocation), which reflects each department's FY 24 operating program appropriation (gross allocation) from Act 164, SLH 2023, with applicable adjustments as follows:

- General funds

100% of non-discretionary appropriation; \$4,000,000 of discretionary appropriation plus 90% (adjusted by a 5% hard restriction and a 5% contingency restriction) of balance of discretionary appropriation (adjusted by appropriations for specific purposes, and CIP funding in the operating budget; i.e., these appropriations are not included in department allocations).

- Other than general funds

All departments – 100% of appropriation.

Exhibit 1 also reflects included and excluded (if applicable) collective bargaining (CB) allocations for Bargaining Unit (BU) 5 for the applicable negotiated agreement. CB allocations for BUs 1, 2, 3, 4, 6, 7, 8, 10, 11, 13, and 14 for Hawai'i Employer-Union Health Benefits Trust Fund appropriations will be provided to the Department of Budget and Finance (B&F).

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 24 budget execution.

Questions on the specific policies and instructions should be directed to B&F or the appropriate agency referenced. Electronic files of the budget execution forms will be provided for your use.

Mahalo,

/s/

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

Exhibit 1
Attachment A
Attachment B