



EXECUTIVE CHAMBERS
KE KE'ENA O KE KIA'ĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA

June 27, 2024

EXECUTIVE MEMORANDUM

MEMO NO. 24-02

TO: All Department Heads

SUBJECT: Interim Budget Execution Policies and Instructions for FY 25

In light of recent statewide, national, and international trends, the State of Hawai'i continues to chart a stable—although slightly slowed—pace of economic growth. The 2023 wildfires understandably affected Maui's tourism industry; the tourism industry's growth has plateaued across Hawai'i, but remains stable in spite of Japan's comparatively weak currency. Meanwhile, investment in public and private infrastructure in response to our affordable housing crisis is shoring-up our construction industry. Billions of dollars secured by Hawai'i's Congressional Delegation for defense initiatives and Maui's long-term recovery will contribute to Hawai'i's economy in the near future.

National and international trends impact Hawai'i's economic outlook. The Federal Reserve's economic response to slow inflation by increasing interest rates has stifled the real estate market. National economic conditions have slowly been moving in the right direction, which may allow the Federal Reserve to lower interest rates later this year. Inflation increases tax collections and slows economic recovery while disproportionately impacting our residents as costs rise.

The Council on Revenues (COR) reinforced that the economic outlook remains steady since its last projection made in March 2024. On May 29, 2024, the COR lowered the FY 24 general fund tax revenue growth rate forecast from 4.0% to 3.3% while maintaining a forecast of 4.8% for FY 25; 4.5% for FY 26; 4.0% for FY 27; and 3.5% for FYs 28-30. The 0.7% reduction for FY 24 reduced expected general fund tax revenues between \$60-\$75 million each fiscal year. Compared to the national average of 3.9%, the unemployment rate is 3.1% as of April 2024.

Recovery efforts on Maui total over \$2.3 billion of assistance and our state has successfully secured hundreds of millions of dollars in state savings through generous

federal-state cost share agreements which have brought our costs well below the standard 75-25 federal state cost share. This crucial federal assistance from the Biden–Harris Administration is expected to boost growth and mitigate the disaster’s impacts.

As we end FY 24, preliminary general fund tax revenue in May is up by 3.5% compared to the same period in FY 23. Revenue growth is in line with the COR’s recent projection. The COR’s projection does not take into consideration bills passed by the 2024 Legislature that had not yet been enacted.

The 2024 State Legislature prioritized Hawai’i’s affordability crisis through the passage of House Bill 2404, which was enacted on June 3, 2024 as Act 46, SLH 2024. Act 46 will decrease the tax burden for Hawai’i’s families and lower Hawai’i’s high cost of living, providing much needed relief for Hawai’i’s residents.

Enacted legislation with specific appropriations or revenue impact will affect the state’s general fund financial plan. Strategic decisions will ensure a balanced budget while prioritizing Hawai’i’s high cost of living, addressing the state’s affordable housing crisis, and recovery from the Maui wildfires. Vetoes or reductions of selected measures and line-item reductions to appropriations in House Bill (H.B.) No. 1800 are necessary to maintain a balanced budget while preserving our state’s priorities.

General fund appropriations have been reprioritized based on feasibility, priority, and departmental capacity to maintain a prudent financial plan, preserve our base budget, and balance the state’s most essential needs. Adjustments will be made to the appropriation amounts in the respective department allocation to reflect the total line-item reduction amount. A list of appropriations that have been line-item reduced will be provided to the departments with the FY 25 budget execution policies. As the Legislature has ten working days to take action to overturn the vetoes, it is expected that H.B. No. 1800 will be enacted after FY 25 begins. In the meantime, we must start the process to begin FY 25.

We remain cautiously optimistic about the state’s economy. There are uncertainties regarding wildfire recovery costs for Maui. To maintain sound financial management practices, it is in the state’s best interest 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 25 budget execution policies.

Chapter 42F operating grant appropriations provided under Section 6 of H.B. No. 1800, which amends Part IV of Act 164, SLH 2023, to include Section 6.1, Supplemental Appropriations, will not be included in departmental operating allocations as they have not been included in the program appropriation totals.

The Supplemental Budget Act will become law in early July. At this time, the following is authorized:

1. Continuation of FY 24 budget execution policies (E.M. No. 23-05, dated August 15, 2023), except for allocation amounts and as noted in this memorandum, as applicable. 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 not available. E.M. No. 97-07 shall remain in effect for the capital improvement program.
2. FY 25 interim operating allocations for the following are provided:
 - General funds: One quarter of the net of FY 25 appropriation from Act 164, SLH 2023, less 10% restriction, with limited exceptions for programs with fixed costs, entitlements, and statutory requirements. Calculation of the 5% hard restrictions and 5% contingency restrictions on discretionary general fund appropriations will be done for the full-year- allocations, to be provided with the FY 25 budget execution policies, after H.B. No. 1800 is enacted.
 - Non-general funds: One quarter of the total FY 25 appropriation.
3. Departments should submit “dummy” first quarter allotments. All dummy Requests for Allotment (A-19) should be dated July 1, 2024 or later.
4. Appropriations for Chapter 42F operating grants are not included in department allocations.

FY 25 budget execution policies and full-year allocations will be issued after the Supplemental Appropriations bill 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 Hawai'i