



EXECUTIVE CHAMBERS
KE KE'ENA O KE KIA'ĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA

September 17, 2024

EXECUTIVE MEMORANDUM

MEMO NO. 24-04

TO: All Department Heads

SUBJECT: FY 25 Budget Execution Policies and Instructions

Following their most recent meeting of September 5, 2024, the State of Hawai'i's Council on Revenues (COR) forecasted solid economic growth for the current and subsequent fiscal years. The COR additionally factored projected revenue impacts from last session's historic tax relief package. Despite the revised forecast from the COR, tax revenue collections for Fiscal Year (FY) 2024 finished at 4.0%, which was above the May projection of 3.3%.

Across our state, construction bolsters a strong outlook. Nationally, the U.S. Federal Reserve's anticipated cuts to their benchmark rate will stimulate economic growth in the coming years. Internationally, we remain optimistic about Japanese visitor and business spending in Hawai'i. Tourism is re-bounding beyond its pre-pandemic baseline and real visitor spending is above 2019 levels, outpacing annual inflation.

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 25. These policies will apply to all appropriations from the following:

- Act 164, SLH 2023, as amended by Act 230, SLH 2024, for operating and capital improvement program projects.
- Other specific appropriations authorized for expenditure in FY 25 by the 2024 Legislature or other legislative sessions.

Maui's recovery process in full force. There is much more to be done; through the collaborative efforts of county, federal and community partners, we must maintain our flexibility and adaptability, including in the planning and execution of the State's budget, to ensure resources are available.

The tourism sector continues to grow in other markets around the State. Visitor spending for July 2024 is up 22% when compared to July 2019 despite arrivals at 93% of July 2019 levels. Japanese visitor arrivals are up over 30% as of July 2024 compared to 2023. This indicates a strong return of Japanese travelers despite unfavorable currency conditions for Japanese travelers, with additional room to grow. Spending levels have generally outpaced annual inflation which means the tourism industry is beginning to recover beyond pre-pandemic levels, despite lower visitor counts. Overall, Hawai'i's tourism industry has recovered better than other premier destinations worldwide and continues to be an important source of revenue for the State and local businesses.

Beyond visitor promotion, our administration is taking steps to aggressively rebuild private sector relationships and increase the inflow of foreign direct investment (FDI) from Japan into the state, which we anticipate will grow in the coming years and benefit Hawai'i's housing, transportation, and energy sectors.

Following fluctuations throughout 2023, the State's unemployment rate is steadily improving in 2024. From January through July 2024, the unemployment rate decreased from 3.1% to 2.9%. Our labor market continues to be very strong as our state has one of the lowest unemployment rates in the country.

Significant tax relief legislation will impact the state's projected revenues. Act 46, SLH 2024, *Relating to Income Tax*, incrementally increases standard deduction amounts and widens income tax brackets. Act 47, SLH 2024, *Relating to the General Excise and Use Tax (GET)*, exempts the GET from medical and dental services provided by health care providers to patients who receive Medicaid, Medicare, or TRICARE benefits, which provides crucial relief for providers in our state. These tax relief measures will provide critical and direct relief for working families in Hawai'i.

To factor the phased in impact to revenue projections, the COR set the FY 25 general fund tax revenue growth rate forecast at 3.5% for FY 25; 2.2% for FY 26; 3.5% for FY 27; 3.1% for FY 28 and FY 29; and 1.9% for FY 30.

Line-item reductions to appropriations in House Bill No. 1800, H.D. 1, S.D. 1, C.D. 1, were necessary to rebalance the general fund financial plan and adhere to the State's

reserve policy. Based on feasibility, priority, and departmental capacity, general fund appropriations were reprioritized to guarantee a prudent financial plan, preserve our base budget, and balance the State's most essential needs. The respective department allocations reflect the total line-item reduction amounts reflected in Act 164, SLH 2023, as amended by Act 230, SLH 2024.

To maintain sound financial management practices and ensure the State's fiscal stability, full year allocations for FY 25 relating to general funded programs include a 5% hard restriction and 5% contingency restriction on adjusted discretionary general fund appropriations from Act 164, SLH 2023, as amended by Act 230, SLH 2024. The contingency restriction is intended as a contingency reserve for FY 25 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, as amended by Act 230, SLH 2024, designated amounts in the operating budget for specific purposes; those which exceed \$200,000 have not been included in department allocations. The Department of Budget and Finance created a list of specific purpose appropriations that is provided.

The 5% restriction and 5% contingency restriction will be applied to general funded operating appropriations for specific purposes from Act 164, SLH 2023, as amended by Act 230, SLH 2024, as well as specific appropriations from other acts, upon release. Chapter 42F operating grant appropriations, which have been appropriated in Part IV, Section 6.1, *Grant-In-Aid Appropriations*, of Act 164, SLH 2023, as amended by Act 230, SLH 2024, are also not included in operating allocations.

Non-general funded programs have been allocated their full FY 25 appropriation amounts. Each department's Exhibit 1 includes its full year allocation for FY 25.

These policies continue to delegate many responsibilities to the department level, including the authority of department heads to fill budgeted and funded civil service positions. Approval thresholds, as applicable, are maintained at \$200,000. Given that the majority of the budget provisos requested in the Supplemental Budget bill were not provided, applicable procedures developed in their absence will continue. Thus, the bulk of these budget execution policies are much like those from FY 24. Submittals to the Governor that require B&F review must be submitted via email in PDF format from your department's designated email account to B&F at DBF.DOCS@hawaii.gov and the Office of the Governor at gov.submittal@hawaii.gov.

The 2024 U.S. Presidential Election and shifts in the U.S. Congress raise concerns about possible stalemates regarding the federal budget, the debt ceiling, and potential federal fund reductions. These challenges could result in significant general funds due to federal program delays and funding reductions.

The expenditure of public funds is a great responsibility. Budget controls must be executed thoughtfully and prudently. Departments must remain mindful with their spending, regardless of means of financing, to ensure that we are in the best position to quickly deal with direct program impacts and changes to the State's economic climate. Proper management of your department's budget is expected and required. Departments are reminded that program expenditures should not exceed current allocations.

During the biennium's first year, our Administration made great strides thanks to the hard work of our public servants. I wanted to express my appreciation for all of the hard work accomplished by our departments and their staff, especially as we managed the immediate response on Maui. We know many went above and beyond to provide support. Public service is a thankless task full of great power and responsibility. Mahalo for your hard work, dedication, and commitment to making Hawai'i a stronger, healthier state.

Exhibit 1 contains each department's full year allocation (net allocation), including each department's FY 25 operating program appropriation (gross allocation) from Act 164, SLH 2023, as amended by Act 230, SLH 2024, 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 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 25 budget execution. Submittals to the Governor that require B&F review must be submitted via email in PDF format from your department's designated email account to B&F and the Governor at DBF.DOCS@hawaii.gov and gov.submittal@hawaii.gov.

Questions on the specific policies and instructions should be directed to your assigned B&F analyst 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