



EXECUTIVE CHAMBERS  
KE KE'ENA O KE KIA'ĀINA

June 24, 2025

EXECUTIVE MEMORANDUM

MEMO NO. 25-02

TO: All Department Heads

SUBJECT: Interim Budget Execution Policies and Instructions for FY 26

Hawai'i's economic growth continues, with the tourism industry showing healthy gains in visitor arrivals (7.2%) and expenditures (3.2%) year-to-date through April 2025 compared to last year. The State's unemployment rate for April 2025 has remained stable at 2.9%, one of the lowest in the country, while our construction industry has remained steady.

Despite this growth, Hawai'i's economy remains sensitive to national economic trends that are currently impacted by federal policy. Changes to federal policy and programs affect the State both directly and indirectly. The loss of federal funds to support federal and State programs, even if over time, will be significant. Other challenges could result from the loss of essential community services, such as those provided by non-profit organizations, layoffs of federal workers, and tariffs that have widespread impact across various sectors.

The Council on Revenues' (COR) most recent general fund tax revenue growth projection considers the economic uncertainty brought about by fluctuating federal policy. At its meeting on May 21, 2025, the COR lowered its general fund tax revenue growth forecast for FY 25 to 4.4% from 5%.

In addition, the COR lowered its forecasts for FY 26 to -3.5% from -2.25%; FY 27 to 1% from 2.9%; and FY 28 to 1.5% from 2.5%. Aside from an adjustment for FY 26 due to a higher base in FY 25 due to a one-time boost in estate tax collections, the COR's lower forecasts for FY 26 through FY 28 reflect the economic uncertainty caused by federal policy changes. The COR did not change its forecasts for FY 29, FY 30, and FY 31, which remain at 2.6%, 1.9%, and 3.1%, respectively.

The COR expects that Hawai'i's economy will be affected by federal policy decisions regarding tariffs, tax law changes, budget cuts, workforce reductions, cuts to other jobs and programs, and immigration. Foreign policy disputes may also impact Hawai'i's tourism industry due to decreases in the number of international tourists, including those from Canada. However, the recovery of tourism on the island of Maui in the wake of the 2023 Wildfires, the slow return of Japanese visitors, a tight labor market, and a strong construction outlook may offset some of these impacts.

Preliminary actual cumulative general fund tax revenues through May 2025, the 11<sup>th</sup> month of FY 25, are up by 4.8% compared with the same period in FY 25. General Excise and Use Tax and Transient Accommodations Tax collections, key indicators of Hawai'i's economy, are up by 3.5% and 0.2%, respectively, compared to the last fiscal year. Individual Income Tax collections have also increased by 1.1%.

Federal policy and funding changes are expected to have a significant impact on the State's economy and the availability of funding for federal and State programs. While very little is certain at this time, we must be prudent with our expenditures as it is evident that thoughtful decisions will need to be made regarding the State's budget.

Therefore, to maintain sound financial management practices, first quarter allocations will reflect a 10% restriction. Going forward, 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 26 budget execution policies.

The following is currently authorized:

1. Continuation of FY 25 budget execution policies (E.M. No. 24-04, dated September 17, 2024), 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.
2. E.M. No. 97-07 shall remain in effect for the capital improvement program.
3. FY 26 interim operating allocations for the following are provided:
  - General funds: One-quarter (25%) of the net of FY 26 appropriation from House Bill (H.B.) No. 300, H.D. 1, S.D. 1, C.D. 1, as enacted, less 10% restriction, with limited exceptions for programs with fixed costs, entitlements, collective bargaining (CB) temporary hazard pay (THP) and

statutory requirements. Calculation of the 10% restriction has been applied to discretionary general fund appropriations. Full-year allocations will be provided with the FY 26 budget execution policies, after H.B. No. 300 is enacted.

- Non-general funds: One-quarter (25%) of the total FY 26 appropriation plus CB THP requirements.
4. Departments should submit “dummy” first quarter allotments. All dummy Requests for Allotment (Form A-19) should be dated July 1, 2025, or later.
  5. In anticipation of the enactment of H.B. No. 1424, H.D. 1, S.D. 1, C.D. 1, Relating to Appropriations, departments that submit Requests for Allotment (Form A-19) that include the transfer of operating appropriations for personal services (“10”) to other current expenses (including equipment and motor vehicles) (“20”), or vice versa, must submit their Report to the Legislature for Cost Element Transfers (see attached form) to B&F with each Request for Allotment (Form A-19) that include such transfers.
  6. Chapter 42F operating grant appropriations provided under Part IV, Grant-in-Aid Appropriations, of H.B. No. 300 are not included in departmental operating 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 its respective Chapter 42F operating grant appropriations. 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 26 budget execution policies and full-year allocations will be issued after the General 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