



EXECUTIVE CHAMBERS
KE KE'ENA O KE KIA'ĀINA

August 18, 2025

EXECUTIVE MEMORANDUM

MEMO NO. 25-03

TO: All Department Heads

SUBJECT: FY 26 Budget Execution Policies and Instructions

Policy changes at the federal level have created challenges for a wide range of sectors across our country. This has led to increased costs for goods and services and uncertainty that has impacted national economic trends. These dynamics require the State to monitor and adapt as revenue projections shift and impact the availability of funding for federal and State programs.

Much of that is offset by the continued strength in construction, healthcare and the labor market and a rebounding tourism industry, which has experienced modest growth since the COVID-19 pandemic and Lahaina Wildfire downturns.

In light of these developments, the Council on Revenues' (COR) latest general fund tax revenue growth projection thoughtfully incorporated the broader economic landscape shaped by federal policy changes. The next COR meeting is scheduled for September 4, 2025.

On May 21, 2025, the COR set forecasts for FY 26 to -3.5%; FY 27 to 1%; FY 28 to 1.5%; FY 29 to 2.6%; FY 30 to 1.9%; and FY 31 to 3.1%.

The COR expects that federal policies changes regarding tariffs, tax law changes, budget cuts, workforce reductions, cuts to other jobs and programs, and immigration will have impacts to Hawai'i's economy. The COR also identified that 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.

For important context, the COR's FY 26 projection reflects an adjustment for the one-time boost in estate tax collections in FY 25 which created a higher base. In addition, the COR's forecast accounts for the significant tax relief legislation passed by the 2024 Legislature. Act 46, SLH 2024, Relating to Income Tax, incrementally increases standard deduction amounts and widens income tax brackets.

Another measure, 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.

For the first month of FY 26, general fund tax revenues are 3% lower than compared to FY 25, which is in line with the COR's current projection of -3.5% for FY 26. This decrease appears to be the result of the change in the individual income tax withholding tables pursuant to Act 46.

The construction industry continues to show strength and bolsters a strong outlook going forward. Large government projects and private industry investments are expected to continue to fuel growth. In the tourism sector, spending levels have generally outpaced annual inflation, which means the tourism industry is beginning to recover beyond pre-pandemic levels.

Growth in the tourism industry continues, with visitor arrivals increasing by 2% during the twelve months ending June 2025, while total expenditures also grew by 5.8% during the same period. Visitor expenditures have also seen double-digit growth of over 23% compared to pre-pandemic levels (June 2019 Year-To-Date), despite a decrease in arrivals of almost 5%.

The tourism industry on Maui is still recovering from the 2023 Wildfires, with visitor arrivals down but visitor spending through June 2025 increasing by 13.8% compared to pre-pandemic levels. Compared to the same period last year, however, Maui has shown favorable growth in both visitor arrivals (11.2%) and spending (11.6%).

The State's unemployment rate has steadily improved in 2025. From January through June 2025, the unemployment rate decreased from 3.0% to 2.8%, which is the lowest for the state since the pandemic and is one of the lowest rates in the country.

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 26. These policies will apply to all appropriations from the following:

- Act 250, SLH 2025, for operating and capital improvement program projects.
- Other specific appropriations authorized for expenditure in FY 26 by the 2025 Legislature or other legislative sessions.

To maintain sound financial management practices and ensure the State's fiscal stability, full-year allocations for FY 26 relating to general funded programs include a 5% hard restriction and 5% contingency restriction on adjusted discretionary general fund appropriations from Act 250, SLH 2025. The contingency restriction is intended as a contingency reserve for FY 26 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 5% restriction and 5% contingency restriction will also be applied to general-funded specific appropriations from other acts, upon release. Chapter 42F operating grant appropriations, which have been appropriated in Part IV, Section 13, Grant-In-Aid Appropriations, of Act 250, SLH 2025, are not included in operating allocations and will not be subject to restrictions.

Non-general-funded programs have been allocated their full FY 26 appropriation amounts. Each department's Exhibit 1 includes its full-year allocation for FY 26.

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 a significant number of the budget provisos requested in the Executive Budget bill were not provided, applicable procedures developed in their absence will continue.

Exhibit 1 contains each department's full-year allocation (net allocation), including each department's FY 26 operating program appropriation (gross allocation) from Act 250, SLH 2025, with applicable adjustments as follows:

- General funds

100% of nondiscretionary appropriation; \$4,000,000 of discretionary appropriation plus 90% (adjusted by a 5% hard restriction and a 5% contingency restriction) of the balance of discretionary appropriation.

- Other than general funds

All departments – 100% of appropriation.

Exhibit 1 also reflects included and excluded, as applicable, collective bargaining (CB) allocations for Bargaining Units (BU) 1, 2, 3, 4, 6, 7, 8, 9, 10, and 13 for the applicable negotiated agreements. CB allocations for BUs 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, and 13 for Hawai'i Employer-Union Health Benefits Trust Fund appropriations will be provided to the Department of Budget and Finance (B&F). Additionally, Exhibit 1 includes allocations to fund salary increases pursuant to the Commission on Salaries' 2025 Report to the Legislature.

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 26 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. Submittals to the Governor that do not require B&F review must be submitted through transmit.docs@hawaii.gov.

Mahalo,

/s/

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

Exhibit 1
Attachment A
Attachment B