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GOVERNOR
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October 15, 2025

EXECUTIVE MEMORANDUM MEMO NO. 25-04

TO: All Department Heads

SUBJECT: Amendments to Executive Memorandum No. 25-03, FY 26 Budget Execution Policies and Instructions

The economic instability brought about by constant changes to federal policy continues, compounded by the impact of the lack of a federal FY 26 budget. These widespread challenges are expected to affect the nation's and Hawaiʻi's economy for the foreseeable future and have raised concerns about a mild recession in Hawaiʻi.

The potential economic impact due to fluctuating federal policies was a factor in the recent changes to the Council on Revenues' (COR) general fund tax revenue growth projection. While acknowledging the high level of uncertainty, the COR lowered its general fund tax revenue growth forecast for FY 26 from -3.5% to -4.7% but raised its forecasts for FY 27 from 1% to 2% and FY 28 from 1.5% to 1.9% at its September 4, 2025 meeting. The COR also lowered its forecast for FY 29 from 2.6% to 2.5%, while leaving the forecast for FY 31 at 3.1% and setting a new forecast for FY 32 at 3.4%.

The COR's downward revision in FY 26 reflects the weakening U.S. economy and the resulting anticipated decline in the tourism industry. The negative growth in FY 26 is due, in part, to an adjustment for the higher base in FY 25 due to the one-time boost of $315 million in estate tax collections in September 2024. The COR noted that Hawaiʻi's inflation is lower than the national average, which may be signaling a weakness in the economy and the real estate market.

The COR's forecast also accounts for the impact of several acts that affect general fund tax revenues: Act 46, SLH 2024 (income tax reductions); Act 47, SLH 2024 (general excise tax exemptions of medical and dental services paid with Medicare, Medicaid and TRICARE); Act 58, SLH 2025 (Pass-Through Entity tax add-back); and Act 96, SLH 2025 ("Green Fee" through the transient accommodations tax).

The economic instability and anticipated loss of federal funds over the next several fiscal years place significant pressure on the State's budget. Continuing federally funded programs that provide essential services to the public will be costly but necessary, especially in consideration of the possible loss of other community services.

These factors make it critical that the State continue to monitor and adapt as revenue projections shift and impact the availability of funding for federal and State programs. In this light, departments should review their planned expenditures and find innovative ways to deliver essential services.

Additionally, the Administration must take a more critical eye to new expenditures. From this point forward, the expenditure of appropriations for specific purposes over $200,000 from Act 250, SLH 2025, will require the Governor's approval through the Department of Budget and Finance (B&F).

Effective immediately, the following amendments to Executive Memorandum (E.M.) No. 25-03, FY 26 Budget Execution Policies and Instructions, shall apply.

<u>Memorandum, Page 3, Paragraph 6</u>

Paragraph 6, General funds, shall be amended to exclude appropriations for specific purposes from department allocations as follows.

Original:

- 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.

Amended:

- General funds

  100% of nondiscretionary appropriation; $4,000,000 of discretionary appropriation plus the balance of discretionary appropriation (includes appropriations for specific purposes over $200,000) adjusted by a 5% hard restriction and a 5% contingency restriction, less 90% of appropriations for specific purposes over $200,000.

Appropriations for specific purposes over $200,000 are not included in department allocations as expenditure is subject to Governor's approval through B&F (90% is not included and 10% is restricted).

Attachment A, Page 1, Paragraph 1

Paragraph 1 (list of substantive changes) reference to the deletion of Item No. 5 shall be deleted as follows. Item No. 5, updated and renumbered as Item No. 4A, will now be included with no substantive changes.

~~[5]. Allotment of Appropriations for Specific Purposes from Act 164, SLH 2023, as Amended by Act 230, SLH 2024 (deleted)~~

Attachment A, Page 4, Paragraph 1, Item No. 3

Item No. 3, Allocations, General funds, Paragraph 1, shall be amended to exclude appropriations for specific purposes from department allocations as follows.

Original:

- 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 the balance of discretionary appropriation.

Amended:

- General funds

  100% of nondiscretionary appropriation; $4,000,000 of discretionary appropriation plus the balance of discretionary appropriation (includes appropriations for specific purposes over $200,000) adjusted by a 5% hard restriction and a 5% contingency restriction, less 90% of appropriations for specific purposes over $200,000.

  Appropriations for specific purposes over $200,000 are not included in department allocations as expenditure is subject to Governor's approval through B&F (i.e., 90% is not included and 10% is restricted).

Attachment A, Page 5, Top of Page

New Item No. 4A shall be inserted as follows:

4A. **Allotment of Appropriations for Specific Purposes from Act 250, SLH 2025**

Appropriations included in Act 250, SLH 2025, that have been designated for specific purposes and are over $200,000 in the legislative budget worksheets require Governor's approval through B&F to expend. 90% of these appropriations have not been included in departmental FY 26 budget allocations and 10% has been subject to the general fund restriction (5% hard restriction and 5% contingency restriction).

All affected departments will receive a revised Exhibit 1 with a list of the respective appropriations for specific purposes from Act 250, SLH 2025, attached, and shall submit amended full-year Requests for Allotment (Form A-19) for the appropriate programs by October 24, 2025. Amended Operational Expenditure Plans are not required.

Note that Exhibit 1 has also been revised to delete Chapter 42F operating grants, as applicable. Chapter 42F operating grants were appropriated separately and were inadvertently included.

Requests for approval to expend appropriations for specific purposes over $200,000 from Act 250, SLH 2025, shall 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.

Your expeditious attention to this matter is appreciated. Should you have any questions, please contact your B&F analyst.

Mahalo,

/s/

Josh Green, M.D.
Governor, State of Hawaiʻi

Revised Exhibit 1