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TESTIMONY BY LUIS P. SALAVERIA
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STATE OF HAWAII'
TO THE HOUSE COMMITTEE ON FINANCE

January 6, 2025

Chair Yamashita and Members of the Committee:

Thank you for the opportunity to present an overview of the Administration's
FB 2025-27 Executive Biennium Budget and Multi-Year General Fund Financial Plan.

My presentation will cover the following:

- The Administration's FB 2025-27 Executive Biennium Budget priorities;
- Budget and fiscal considerations;
- Constitutional and statutory requirements;
- Budget transparency;
- Elimination of long-term vacancies;
- Budget provision considerations;
- A synopsis of the FB 2025-27 Executive Biennium Budget Requests – Operating and Capital Improvement Program (CIP);
- The Multi-Year General Fund Financial Plan based on the Council on Revenues' (COR) September 5, 2024 revenue projections;
- The general fund expenditure ceiling; legislative authorization of tax refund or credit, deposit to the Emergency and Budget Reserve Fund (EBRF), or pre-payment of certain costs; activation of required deposit to the EBRF; and State debt limit.

THE ADMINISTRATION'S FB 2025-27 EXECUTIVE BIENNIUM BUDGET PRIORITIES

This budget represents the first complete biennium budget under the Green Administration and embodies its vision, goals and priorities.

The highest priority of our Administration has been and continues to be improving the overall quality of life of Hawai'i's people. Together with the Legislature, we have made significant progress in providing much-needed direct relief for working families in Hawai'i with the enactment of these historic tax measures last session:

- Act 46, SLH 2024 (Act 46), Relating to Income Tax, the Green Affordability Plan II incrementally increases standard deduction amounts and widens income tax brackets; creating \$5.6 billion in savings for State taxpayers through 2031; and
- Act 47, SLH 2024 (Act 47), Relating to the General Excise and Use Tax (GET), exempts the GET from medical and dental services provided by healthcare providers to patients who receive Medicaid, Medicare, or TRICARE benefits, which provides crucial relief for providers in our State. This legislation will save taxpayers more than \$150 million in 2027 and 2028.

Our Administration is steadfast in continuing ongoing recovery efforts from the Maui wildfires, the worst natural disaster in the State's history, and has requested funding to provide continued mental health support, temporary housing and a new elementary school, as well as, funding the global settlement agreement for Maui wildfire property and personal injury damages. Additionally, we are requesting funding to continue wildfire mitigation programs and improve response capabilities.

Our Administration remains focused on increasing housing opportunities and addressing homelessness, improving access to health care and mental health services, expanding opportunities for educational equity, protecting our environment and natural resources, and improving government responsiveness and transparency.

BUDGET AND FISCAL CONSIDERATIONS

Our Administration is committed to being fiscally responsible as we tackle the State's toughest challenges. To ensure the State's fiscal health, the development of the Executive Biennium Budget requires that we understand the State's current fiscal position and the potential fiscal challenges, to the extent possible, through the upcoming biennium and beyond.

Administrative Directive No. 22-01, State Reserve Policy (A.D. No. 22-01), requires that for each year of the six-year planning period, the State shall endeavor to attain a minimum fund balance as a percentage of the preceding year's general fund revenues as follows:

1. 5% unassigned general fund carryover balance;
2. 10% Emergency and EBRF; and
3. 25% combined State reserves or 20% combined State reserves, if the EBRF balance objective has been met.

The State's EBRF is currently at its highest level, which is necessary to meet the objectives of A.D. No. 22-01 and ensure that the State is in a good fiscal position during an economic downturn.

Other funding concerns include the State's unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund, which continue to pose significant demands on the State's resources, and potential delays or decreases in federal fund awards.

There are significant risk factors that could have appreciable negative revenue impact, including the national economy and the possibility of a recession, the unrest in Eastern Europe and the Middle East, tensions with China, risks in the banking sector, continued labor shortages, supply chain disruptions, and sustained travel hesitancy

from Asian markets. These challenges could result in significant general fund impact and reinforce the need to be fiscally responsible with our expenditures to ensure the State's fiscal stability in the next biennium and beyond.

Additionally, the results of the presidential and congressional election this past November may result in changes that could create instability in the federal budget process and the timely distribution of federal funds to states for critical programs. Funding for significant federal programs could also be dramatically reduced or eliminated, which may require that the State provide funding for the continuation of federal programs that are considered vital.

CONSTITUTIONAL AND STATUTORY REQUIREMENTS

The FB 2025-27 Executive Biennium Budget includes the operating and CIP requirements of the Executive Branch as required by the Hawai'i State Constitution. In preparing the Biennium Budget, the Executive Branch is bound by constitutional and statutory requirements, which include, but are not limited to, the following:

- Article VII, Section 8, of the Hawai'i State Constitution, provides that “[w]ithin such time prior to the opening of each regular session in an odd-numbered year as may be provided by law, the governor shall submit to the legislature a budget in a form provided by law setting forth a complete plan of proposed expenditures of the executive branch. . . .”
- Section 37-69, the Hawai'i Revised Statutes (HRS), requires that “[t]he governor prepare a [S]tate six-year program and financial plan encompassing all state programs, . . .” The program and financial plan shall contain financial summaries displaying the State's financial condition including “[t]he changes proposed to the existing tax and nontax rates, sources or structure, and the estimated increases or reductions in revenues, the estimated cumulative increases or reductions, and the

estimated fund balance or deficit in each of the next six fiscal years as a result of such proposed changes. Proposals for changes in the existing tax and nontax rates, sources or structure shall be made in every case where the proposed, total state expenditures exceed the total resources anticipated from existing tax and nontax sources at existing rates.”

- Section 37-71(b)(4), HRS, prescribes that the information provided in the budget be formatted such that “[p]rogram costs shall include all costs, including research and development, operating and capital, regardless of the means of financing. . .”
- Section 37-71(c)(3), HRS, requires a summary listing of all capital improvement projects by program, at the lowest level of the program structure, which shows for each project, by investment cost elements, the amount of new appropriations and authorizations proposed. Under Section 37-62, Definitions, HRS, “cost elements” means the major subdivisions of a cost category. The category “capital investment” includes plan, land acquisition, design, construction, and equipment and furnishing.

BUDGET TRANSPARENCY

To increase budget transparency, departments were instructed to review their FY 25 operating budget details for items that did not align with anticipated expenditures and could be addressed immediately. In addition, they were to review their positions to ensure compliance with Section 37-74(f), HRS, which prohibits funds from being expended to fill a permanent or temporary position for the lowest level of a program if the filling of that position causes the position ceiling for that level of the program to be exceeded.

As such, the FB 2025-27 Executive Budget includes requests for:

1. “Conversion of unbudgeted positions” to authorize unbudgeted positions through trade-off and transfer of funding and position counts (if necessary, permanent or

temporary position counts have been requested).

2. Trade-off and transfer adjustments to fully fund underfunded or unfunded positions if the positions were deemed critical.
3. Trade-off and transfer adjustments to correct negative amounts or realign the budget to expenditures.
4. Base budget adjustments to delete underfunded or unfunded positions.

ELIMINATION OF LONG-TERM VACANCIES

The Administration recognizes that maintaining unfilled vacant positions can be a significant drain on public resources. As priorities, mandates, and strategic objectives of departments change over the years, some vacant positions may no longer serve the departments as intended. By removing the position counts for long-term (i.e., over four years) vacancies, departments could redirect the funds to more pressing needs.

As part of the budget preparation process, departments were instructed to delete position counts for long-term vacancies while the funding could be reprogrammed. The reallocation of resources will help to ensure that taxpayer money is being used effectively in order to better serve the public and that the budget more transparently reflects current program needs.

BUDGET PROVISION CONSIDERATIONS

Through separate legislation, the Administration will be requesting cost-neutral emergency appropriations for the third and fourth quarters of FY 25 that are necessary due to the lack of the special provision in Act 164, SLH 2023 (Act 164), as amended by Act 230, SLH 2024 (Act 230), that would have allowed the Governor to authorize the transfer of operating funds between appropriations of the same fund, within an expending agency, for operating purposes.

It is not possible to consistently predict the service level requirements for certain programs. Therefore, this special provision would provide the flexibility necessary to continue to provide services within the current operating budget, without additional funding. As such, we will be requesting that the provision be restored in the FB 2025-27 Executive Budget bill.

We will also be requesting the restoration of other provisions that would allow the Administration to meet unforeseen operating and CIP requirements and to respond quickly to emergency situations within existing budget appropriations.

SYNOPSIS OF THE EXECUTIVE BIENNIUM BUDGET REQUEST FOR FB 2025-27

The Operating Budget

The development of the Executive Budget for FB 2025-27 began with an operating base budget amount based on each department's FY 25 appropriations from Act 164, as amended by Act 230, minus non-recurring costs and plus collective bargaining (CB) (except for federal funds, other federal funds, private funds, county funds, and American Rescue Plan funds).

These base budget amounts have been adjusted to reflect the Administration's key priorities which include affordable housing development, expanded services for mental health and homelessness solutions and the 2023 Wildfire recovery efforts.

Additional adjustments include requests for:

- Trade-offs and transfers and conversion of unbudgeted positions to align the budget with current operational requirements.
- Select fixed costs and entitlements.
- Federal or other federal fund ceiling adjustments based on anticipated grant awards.

- Elimination of long-term vacant position counts with redirection of funding to current needs.
- Second-year funding for recurring costs.
- Full-year funding for new partially funded positions.
- Public health and safety or immediate requirements of court orders or federal mandates.
- Sustainable and reasonable or fringe benefit adjustment requests for special, revolving, and trust funded programs.

For FB 2025-27, the budget includes \$20.547 billion in FY 26 and \$20.460 billion in FY 27 from all means of financing (MOF) for operating costs. This represents net increases of \$2.663 billion (15%) and \$2.550 billion (14%), respectively, compared to the appropriate operating budget bases (FY 25 appropriations from Act 164, as amended by Act 230, as adjusted for FY 26 and FY 27). Of these amounts, the request for general funds is \$10.472 billion in FY 26 and \$10.542 billion in FY 27, resulting in increases of \$619.9 million (6%) and \$664.1 million (7%), respectively.

The following is a breakdown of the operating budget by MOF, compared to FY 25 appropriations from Act 164, as amended by Act 230 (unadjusted):

<u>Means of Financing</u>	<u>FY 25*</u> <u>Appropriation</u> (\$million)	<u>FY 26</u> <u>Request</u> (\$million)	<u>FY 27</u> <u>Request</u> (\$million)
General Funds	10,321.7	10,471.6	10,541.7
Special Funds	3,805.5	4,817.7	4,700.4
Federal Funds	3,446.7	3,574.0	3,555.1
Other Federal Funds	437.5	301.6	284.6
Private Contributions	0.9	0.9	0.9
County Funds	0.0	0.0	0.0
Trust Funds	428.1	429.2	429.4
Interdept. Transfers	113.6	116.1	116.6
Revolving Funds	560.1	805.8	805.5
Other Funds	<u>21.2</u>	<u>29.8</u>	<u>25.1</u>
Total	19,135.3	20,546.6**	20,459.5**
Increase over FY 25		1,411.3	1,324.2
Percentage Increase		7.4%	6.9%

* - FY 25 appropriations from Act 164, as amended by Act 230.

** - Total differs due to rounding.

A department-by-department summary and highlights of what is contained in the FB 2025-27 Executive Biennium operating budget can be found in “The FB 2025-27 Executive Biennium Budget - Budget in Brief” that is available on the Department of Budget and Finance’s (B&F) website at www.budget.hawaii.gov/budget/.

The CIP Budget

For FB 2025-27, total requests for capital improvements amount to \$3.433 billion in FY 26 and \$2.471 billion in FY 27. Of these amounts, the requests for general obligation (G.O.) bond funds total \$1,321.3 million and \$601.2 million, respectively. The following is a breakdown of the CIP budget by MOF:

<u>Means of Financing</u>	<u>FY 26 Request</u> (\$million)	<u>FY 27 Request</u> (\$million)
General Funds	-	-
Special Funds	85.5	177.9
G.O. Bonds	1,321.3	601.2
G.O. Reimbursable	6.1	-
Revenue Bonds	711.2	963.3
Federal Funds	704.3	590.2
Other Federal Funds	302.7	137.8
Private Contributions*	-	-
County Funds	0.7	-
Trust Funds	-	-
Interdept. Transfers	-	-
Revolving Funds	-	-
Other Funds	<u>301.2</u>	<u>0.2</u>
Total	3,433.0	2,470.6

* - less than \$100,000 (rounded).

A department-by-department summary and highlights of what is contained in the FB 2025-27 Executive Biennium CIP budget can be found in “The FB 2025-27 Executive Biennium Budget - Budget in Brief” that is available on B&F’s website at www.budget.hawaii.gov/budget/.

THE MULTI-YEAR GENERAL FUND FINANCIAL PLAN

Attachment 1 is the Multi-Year General Fund Financial Plan that reflects the FB 2025-27 Executive Biennium Budget submitted to the Legislature on December 16, 2024, and the COR’s September 5, 2024, general fund tax and nontax revenue projections. The General Fund Financial Plan includes the revenue impact of other potential emergency appropriations, specific appropriations, and revenue adjustments that will be proposed by the Administration in the coming weeks.

The budgetary General Fund resources, expenditures and balances reflected in the General Fund Financial Plan are presented on a modified cash-basis. The State’s long-standing practice is to utilize this modified cash-basis methodology for budgetary

and financial planning purposes. Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by the Department of Accounting and General Services (DAGS). However, the General Fund Financial Plan records appropriations in the fiscal year for which the appropriation was authorized. In contrast, the State's audited financial statements are prepared on a modified accrual basis. Consequently, the modified cash information presented in this table is not directly comparable to the modified accrual basis information presented in the State's audited financial statements, and the differences in reporting may vary substantially.

Revenues

The "REVENUES" section incorporates the COR's tax and nontax revenue projections, and other revenue adjustments not part of the COR's projections.

The "Executive Branch: Tax revenues" row reflects the COR lowering its FY 25 general fund tax revenue growth rate forecast from 4.8% to 3.5% and reducing its forecasts from 4.5% to 2.2% for FY 26; 4.0% to 3.5% for FY 27; 3.5% to 3.1% for FY 28 and FY 29; and 3.5% to 1.9% for FY 30. The COR also added its projection for FY 31 of 3.1%.

The COR downward revisions reflect the impact of Act 46 (Relating to Income Tax) and Act 47 (Relating to the GET). The COR expects a temporary boost in general fund tax revenues in FY 25 and FY 26 that will be followed by a return to the State's long-term average rate of economic growth due to the recovery of tourism on Maui, a gradual return of Japanese visitors, a strong construction outlook, and the stimulative effects from the anticipated cuts to the Federal Reserve's benchmark rate.

(NOTE: For the first five months of FY 25, actual preliminary general fund tax revenues have increased by 13.5%. While 13.5% is markedly above the COR's

projection of 3.5% for FY 25, it includes a one-time \$350 million inheritance tax payment which, if factored out, would result in a growth rate of 4.1%. GET collections and Transient Accommodation Tax collections – which are the most reflective of the State’s economic activity – have respectively increased by 0.8% and decreased by 2.9% compared to the same period of FY 24. Pursuant to Act 46, lower individual income tax (IIT) withholding rates will take effect in January 2025 and will decrease IIT withholding collections starting in January 2025.)

The COR will be meeting on January 8, 2025, to review and deliberate its tax revenue projections.

The “Nontax revenues” and “Judicial Branch revenues” rows reflect nontax revenue estimates that departments and the Judiciary prepare on a quarterly basis, and which are presented to the COR for inclusion in its general fund revenue estimates. The “Other revenues” row reflects the estimated revenue losses from several tax measures that will be proposed by the Administration in the coming weeks.

Expenditures

The “EXPENDITURES” section incorporates the FB 2025-27 Executive Biennium Budget, Judiciary’s FB 2025-27 Biennium Budget, updated funding levels for the Office of Hawaiian Affairs, continuation of funding levels for the Legislature, and other expenditures/adjustments not accounted for in the Executive Biennium Budget or specific appropriations.

The “Executive Branch: Operating” row reflects the FB 2025-27 Executive Biennium Budget for FY 26 and FY 27 and projected out-year requirements based on carry over of FY 27 non-fixed costs through FY 31 and projected increases for fixed costs (debt service, fringe benefits, Medicaid, etc.) through FY 31. The Executive Biennium Budget also incorporates: CB increases from the current CB contract for

FY 26 and FY 27 for Unit 5, Teachers; and costs to fold in recurring funding requirements for programs and services that were established through specific legislation.

The “Executive Branch: Other expenditures/adjustments” row reflects emergency appropriations in FY 25 for: Supplemental Nutrition Assistance Program information technology upgrades; emergency aeromedical services program; and State Hospital mold mitigation. The FY 26 and FY 27 amounts include: funding for the State’s share towards a global \$4.0 billion settlement for Lahaina wildfire victims; costs for the recently negotiated CB contract for FY 26 and FY 27 for Unit 7, University faculty; a \$5.0 million per year set aside for claims against the State; and other appropriation measures that will be proposed by the Administration in the coming weeks.

Ending Balances

For FY 24, total revenues were \$10,635.7 million and total expenditures were \$11,221.7 million, resulting in revenues under expenditures of -\$586.0 million for the fiscal year. This amount added to the beginning balance of \$2,178.9 million resulted in an unaudited ending balance of \$1,592.9 million for FY 24. For FY 25, estimated total revenues are \$10,792.6 million and estimated total expenditures are \$11,302.6 million, resulting in revenues under expenditures of -\$510.0 million for the fiscal year. This amount added to the FY 24 beginning balance of \$1,592.9 million results in an estimated ending balance of \$1,082.9 million for FY 25.

For FY 26, estimated total revenues are \$11,060.1 million and estimated total expenditures are \$11,092.9 million, resulting in revenues under expenditures of -\$32.8 million and an estimated ending balance of \$1,050.2 million. For FY 27, estimated total revenues are \$11,424.3 million and estimated total expenditures are

\$11,184.4 million, resulting in revenues over expenditures of \$239.9 million and an estimated ending balance of \$1,290.0 million.

Revenues are estimated to exceed expenditures for FY 28, FY 29, FY 30, and FY 31, resulting in estimated balances of \$2,161.9 million; \$3,212.6 million; \$4,342.3 million; and \$5,756.0 million, respectively.

Reserve Balances

At the bottom of Attachment 1 (below the dashed line), we reflect the actual and estimated balances of the EBRF and Hawai'i Hurricane Relief Fund (HHRF), which are two components of the State's reserves under A.D. No. 22-01, and the percentages of the EBRF and HHRF balances of prior year revenues. For FY 24, the EBRF and HHRF balances were \$1,687.7 million, which represents 16.6% of FY 23 revenues. For FY 25, the estimated EBRF and HHRF balances are \$1,737.8 million, which represents 16.3% of FY 24 revenues. For FY 26, the estimated EBRF and HHRF balances are \$1,789.9 million, which represents 16.6% of FY 25 estimated revenues. For FY 27, the estimated EBRF and HHRF balances are \$1,850.3 million, which represents 16.7% of FY 26 estimated revenues. For FY 28 through FY 31, the EBRF and HHRF percentages are around 16.9% of previous fiscal years' estimated revenues.

THE GENERAL FUND EXPENDITURE CEILING

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Article VII, Section 9, of the Hawai'i State Constitution and Section 37-92 of the HRS.

At the aggregate level that includes all branches of government, the total proposed appropriations from the general fund exceeded the FY 25 expenditure but are within the expenditure ceilings for FY 26 and FY 27.

For the Executive Branch, the total proposed appropriations from the general fund (which include emergency appropriations for FY 25, the Executive Biennium Budget for FB 2025-27 and other specific appropriation measures to be submitted) are within the expenditure ceilings for FY 25, FY 26 and FY 27.

Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by DAGS. However, the financial plan records appropriations and revenues in the fiscal year for which they were authorized.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included as Attachment 2.

LEGISLATIVE AUTHORIZATION OF TAX REFUND OR CREDIT, DEPOSIT TO THE EBRF, OR PRE-PAYMENT OF CERTAIN COSTS

Article VII, Section 6, of the Hawai'i State Constitution requires that whenever the State general fund balance at the close of each of two successive fiscal years exceed 5% of general fund revenues for each of the two fiscal years, the Legislature must:

- 1) provide for a tax refund or tax credit to the taxpayers of the State; or 2) make a deposit into one or more emergency funds, as provided by law; or 3) appropriate general funds for the pre-payment of either or both: a) debt service for obligation bonds issued or b) pension or other post-employment benefit (OPEB) liabilities.

FY 23 and FY 24 general fund balances were greater than 5% of FY 22 and FY 23 (the prior fiscal years) general fund revenues. Because two successive fiscal years' balances exceed 5% of revenues, the 2025 Legislature must provide for a tax refund or tax credit or make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of emergency, economic downturn, or

unforeseen reduction in revenues, or appropriate general funds for the prepayment of either or both of 1) debt service or 2) pension or OPEB liabilities.

Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by DAGS. However, the financial plan records appropriations and revenues in the fiscal year for which they were authorized.

ACTIVATION OF REQUIRED DEPOSIT TO THE EBRF

Section 328L-3, HRS, provides that whenever general fund revenues for each of two successive fiscal years exceed revenues for each of the preceding fiscal years by 5%, the Director of Finance shall deposit 5% of the general fund balance into the EBRF. However, no such transfer shall be made whenever the balance of the EBRF is equal to or more than 10% of general fund revenues for the preceding fiscal year.

For FY 23 and FY 24, general fund revenues decreased by -0.2% from FY 22 to FY 23 and increased by 4.4% from FY 23 to FY 24, not exceeding the 5% threshold. Additionally, the EBRF balance as of June 30, 2024, represented 14.9% of FY 23 revenues, which is more than the 10% threshold. The two criteria have not been met and, thus, did not trigger activation of a required deposit to the EBRF.

Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by DAGS. However, the financial plan records appropriations and revenues in the fiscal year for which they were authorized.

THE DEBT LIMIT

Article VII, Section 13 of the Hawai'i State Constitution places a debt limit on G.O. bonds that may be issued by the State. It has been determined that the total amount of principal and interest calculated on: a) all bonds issued and outstanding; b) all bonds authorized and unissued; and c) all bonds proposed in the Executive Budget (including State guaranties) will not cause the debt limit to be exceeded at the time of each bond issuance.

The Declaration of Findings with respect to the G.O. bond debt limit is included as Attachment 3.

In summary, the FB 2025-27 Executive Biennium Budget and Multi-Year General Fund Financial Plan reflect our continued commitment to ensure the State's fiscal stability and long-term sustainability. You will be hearing from the respective departments on details of their FB 2025-27 Executive Biennium Budget requests. The Green Administration will work with you on a continual basis during the 2025 Session deliberations on the FB 2025-27 Executive Biennium Budget and the Multi-Year General Fund Financial Plan.

Thank you again for the opportunity to make this presentation.

Attachments

GF Financial Plan - Fiscal Biennium 2025 - 2027 with 2025 Legislative Proposals
GENERAL FUND
FISCAL YEARS 24 - 31
(in millions of dollars)

	Adj. Act <u>FY 24</u>	Estimated <u>FY 25</u>	Estimated <u>FY 26</u>	Estimated <u>FY 27</u>	Estimated <u>FY 28</u>	Estimated <u>FY 29</u>	Estimated <u>FY 30</u>	Estimated <u>FY 31</u>
REVENUES:								
Executive Branch:	4.0%	3.50%	2.2%	3.5%	3.1%	3.1%	1.9%	3.1%
Tax revenues	9,568.3	9,902.1	10,124.5	10,480.1	10,807.9	11,148.1	11,365.5	11,723.5
Nontax revenues	1,041.8	863.8	880.9	889.1	912.5	928.7	928.8	928.8
Judicial Branch revenues	25.6	26.7	26.7	27.0	27.0	27.0	27.0	27.0
Other revenues	0.0	0.0	28.1	28.1	(1.0)	(1.0)	(1.0)	(1.0)
TOTAL REVENUES	10,635.7	10,792.6	11,060.1	11,424.3	11,746.5	12,102.9	12,320.4	12,678.3
EXPENDITURES								
Executive Branch:								
Operating	10,733.7	10,321.7	10,471.6	10,541.7	10,695.9	10,873.3	11,011.7	11,085.5
CIP	330.1	113.3	0.0	0.0	0.0	0.0	0.0	0.0
Specific appropriation/CB	780.9	558.5	0.0	0.0	0.0	0.0	0.0	0.0
Other expenditures/adjustments	0.0	139.8	485.7	506.8	42.7	42.7	42.7	42.7
Sub-total - Exec Branch	11,844.7	11,133.3	10,957.2	11,048.6	10,738.6	10,916.0	11,054.4	11,128.2
Legislative Branch	47.5	55.7	47.5	47.5	47.5	47.5	47.5	47.5
Judicial Branch	189.5	230.6	203.3	203.4	203.4	203.4	203.4	203.4
OHA	3.3	3.0	4.9	5.0	5.1	5.3	5.5	5.6
Counties	-	-	-	-	-	-	-	-
Lapses	(863.3)	(120.0)	(120.0)	(120.0)	(120.0)	(120.0)	(120.0)	(120.0)
TOTAL EXPENDITURES	11,221.7	11,302.6	11,092.9	11,184.4	10,874.6	11,052.2	11,190.7	11,264.6
REV. OVER (UNDER) EXPEND.	(586.0)	(510.0)	(32.8)	239.9	871.9	1,050.7	1,129.7	1,413.7
CARRY-OVER BALANCE (DEFICIT)								
Beginning	2,178.9	1,592.9	1,082.9	1,050.2	1,290.0	2,161.9	3,212.6	4,342.3
Ending	1,592.9	1,082.9	1,050.2	1,290.0	2,161.9	3,212.6	4,342.3	5,756.0
Ending fund bal as % of prior yr revenues	15.6%	10.2%	9.1%	9.6%	15.4%	22.5%	29.8%	39.4%
<i>Emergency and Budget Reserve Fund (EBRF)</i>	1,516.2	1,566.8	1,618.9	1,679.3	1,741.6	1,806.2	1,870.5	1,937.1
<i>Hawaii Hurricane Relief Fund (HHRF)</i>	171.4	171.0	171.0	171.0	171.0	171.0	171.0	171.0
Total EBRF and HHRF	1,687.7	1,737.8	1,789.9	1,850.3	1,912.6	1,977.2	2,041.5	2,108.1
<i>EBRF & HHRF fund balance as % of prior yr revenues</i>	16.6%	16.3%	16.6%	16.7%	16.7%	16.8%	16.9%	17.1%

* unaudited

Sources: Department of Accounting and General Services; Department of Budget and Finance, June 2024

Note: Due to rounding, details may not add to totals.

The budgetary General Fund resources, expenditures and balances above are presented on a modified cash-basis. The State's normal practice is to utilize this modified cash-basis methodology for budgetary and financial planning purposes. Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by the Department of Accounting and General Services. However, the financial plan records appropriations in the fiscal year for which the appropriation was authorized. In contrast, the State's audited financial statements are prepared on a modified accrual basis. Consequently, the modified cash information presented in this table is not directly comparable to the modified accrual basis information presented in the State's audited financial statements, and the differences in reporting may vary substantially.

**SUMMARY STATEMENT OF GENERAL FUND
EXPENDITURE CEILING AND APPROPRIATIONS**

A. Total State Personal Income and State Growth

Total State Personal Income (in \$ millions)

Calendar Year 2020	82,714
Calendar Year 2021	88,342
Calendar Year 2022	90,054
Calendar Year 2023	94,971
Calendar Year 2024*	100,194
Calendar Year 2025*	105,003

* As estimated by the Council on Revenues Nov. 2024

State Growth

Fiscal Year 2026	4.30%
Fiscal Year 2027	5.25%

B. All Branches of Government

General Fund Appropriations

Fiscal Year 2025 (incl proposed)	11,422,554,213
Fiscal Year 2026 (incl proposed)	11,212,864,563
Fiscal Year 2027 (incl proposed)	11,304,392,632

General Fund Expenditure Ceiling

Fiscal Year 2026	11,729,636,611
Fiscal Year 2027	12,345,812,640

C. Executive Branch

Recommended General Fund Appropriations

Fiscal Year 2026	10,957,235,941
Fiscal Year 2027	11,048,552,865

Actual General Fund Appropriations

Fiscal Year 2024	11,844,732,320
Fiscal Year 2025	10,998,491,017
Proposed additions in appropriations	134,827,164

11,133,318,181

General Fund Appropriation Ceiling

Fiscal Year 2025	12,405,450,230
Fiscal Year 2026	11,611,944,213
Fiscal Year 2027	11,532,836,563

DECLARATION OF FINDINGS

Pursuant to Section 37-71(d)(6) of the Hawaii Revised Statutes, the Director of Finance finds and declares that with respect to the proposed capital improvement appropriations for the budget period 2025-2027 for which the source of funding is general obligation bonds:

(1) Limitation on general obligation debt. Article VII, Section 13, of the State Constitution, states in part: "General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed ... a sum equal to eighteen and one-half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance." Article VII, Section 13, also provides that in determining the power of the State to issue general obligation bonds, certain bonds are excludable, including "reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year."

(2) Actual and estimated debt limits. The limit on principal and interest of general obligation bonds issued by the State, actual for fiscal year 2024-2025 and estimated for each fiscal year from fiscal year 2025-2026 to 2028-2029, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2021-2022	10,205,616,785	
2022-2023	10,183,780,738	
2023-2024	10,629,766,311	
2024-2025	10,786,642,000	1,912,848,436
2025-2026	11,026,098,000	1,948,678,325
2026-2027	11,392,417,000	2,000,621,223
2027-2028	11,743,991,000	2,047,651,348
2028-2029	(not applicable)	2,106,687,870

For fiscal years 2024-2025, 2025-2026, 2026-2027, 2027-2028 and 2028-2029 respectively, the debt limit is derived by multiplying the average of the net general fund revenues for the three preceding fiscal years by eighteen and one-half percent. The net general fund revenues for fiscal years 2021-2022, 2022-2023 and 2023-2024 are actual, as certified by the Director of Finance in the Statement of the Debt Limit of the State of Hawaii as of July 1, 2024, dated November 18, 2024. The net general fund revenues for fiscal years 2024-2025 to 2027-2028 are estimates, based on general fund revenue estimates made as of September 5, 2024, by the Council On Revenues, the body assigned by Article VII, Section 7, of the State Constitution to make such estimates, and based on estimates made by the Department of Budget and Finance of those receipts which cannot be included as general fund revenues for the purpose of calculating the debt limit, all of which estimates the Director of Finance finds to be reasonable.

(3) Principal and interest on outstanding bonds applicable to the debt limit. In determining the power of the State to issue general obligation bonds for the fiscal years 2024-2025 to 2042-2043, the total amounts of principal and interest on outstanding general obligation bonds are as follows:

Fiscal Year Ending June 30	Gross			Excludable			Net Debt Service		
	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable
2025	728,625,473	306,669,662	1,035,295,135	4,756,657	1,156,468	5,913,125	723,868,816	305,513,194	1,029,382,010
2026	755,005,747	283,859,776	1,038,865,523	4,949,940	962,877	5,912,817	750,055,807	282,896,899	1,032,952,706
2027	619,986,178	261,242,974	881,229,152	3,010,535	756,364	3,766,899	616,975,643	260,486,610	877,462,253
2028	616,254,107	238,317,271	854,571,378	2,823,484	647,663	3,471,147	613,430,623	237,669,608	851,100,231
2029	606,939,815	215,614,322	822,554,137	1,985,000	545,069	2,530,069	604,954,815	215,069,253	820,024,068
2030	582,137,126	193,773,312	775,910,438	2,050,000	484,544	2,534,544	580,087,126	193,288,768	773,375,894
2031	556,298,919	172,161,381	728,460,300	2,110,000	420,825	2,530,825	554,188,919	171,740,556	725,929,475
2032	576,217,152	152,168,036	728,385,188	2,180,000	352,431	2,532,431	574,037,152	151,815,605	725,852,757
2033	523,678,856	133,445,867	657,124,723	2,250,000	280,444	2,530,444	521,428,856	133,165,423	654,594,279
2034	501,389,932	115,988,830	617,378,762	2,325,000	206,100	2,531,100	499,064,932	115,782,730	614,847,662
2035	464,285,000	98,602,808	562,887,808	2,405,000	127,734	2,532,734	461,880,000	98,475,074	560,355,074
2036	427,610,000	82,193,868	509,803,868	2,490,000	43,575	2,533,575	425,120,000	82,150,293	507,270,293
2037	386,115,000	65,941,208	452,056,208	0	0	0	386,115,000	65,941,208	452,056,208
2038	323,460,000	51,265,529	374,725,529	0	0	0	323,460,000	51,265,529	374,725,529
2039	281,725,000	38,048,230	319,773,230	0	0	0	281,725,000	38,048,230	319,773,230
2040	255,475,000	26,768,423	282,243,423	0	0	0	255,475,000	26,768,423	282,243,423
2041	265,600,000	16,643,843	282,243,843	0	0	0	265,600,000	16,643,843	282,243,843
2042	172,280,000	7,259,380	179,539,380	0	0	0	172,280,000	7,259,380	179,539,380
2043	56,635,000	1,534,242	58,169,242	0	0	0	56,635,000	1,534,242	58,169,242

Additionally, the outstanding principal amount of bonds constituting instruments of indebtedness in which the State has incurred a contingent liability as a guarantor is \$233,500,000, all or a portion of which pursuant to Article VII, Section 13 of the State Constitution, is excludable in determining the power of the State to issue general obligation bonds.

(4) Amount of authorized and unissued general obligation bonds and proposed bonds. As calculated from the State Comptroller's bond fund report as of October 31, 2024, adjusted for the lapses proposed in THE MULTI-YEAR PROGRAM AND FINANCIAL PLAN AND EXECUTIVE BUDGET FOR THE PERIOD 2025-2031 [Budget Period: 2025-2027] (referred to as the "Budget"), the total amount of authorized and unissued general obligation bonds is \$5,007,386,439. The amount of general obligation bonds proposed in the Budget is \$1,928,539,000 (but does not include capital improvement appropriations to be funded through the issuance of general obligation bonds proposed by the Judiciary). The total amount of general obligation bonds previously authorized and unissued and the general obligation bonds proposed in the Budget is \$6,896,543,439.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2024-2025 to 2028-2029, the State proposed to issue \$800,000,000 in general obligation bonds during the first half of fiscal year 2024-2025; and \$800,000,000 in general obligation bonds during the second half of fiscal year 2024-2025, \$750,000,000 in general obligation bonds during the first half of fiscal year 2025-2026, and \$750,000,000 in general obligation bonds during the second half of fiscal year 2025-2026, \$700,000,000 in general obligation bonds during the first half of fiscal year 2026-2027, and \$700,000,000 in general obligation bonds during the second half of fiscal year 2026-2027, \$650,000,000 in general obligation bonds during the first half of fiscal year 2027-2028, and \$650,000,000 in general obligation bonds during the second half of fiscal year 2027-2028, and \$550,000,000 in general obligation bonds during the first half of fiscal year 2028-2029, and \$550,000,000 in general obligation bonds during the second half of fiscal year 2028-2029. The State anticipates issuing a combination of twenty-year serial bonds with principal repayments beginning the first year and seven-year serial bonds with principal repayments beginning the first year, payable in substantially equal annual installments of principal and interest payment with interest payments commencing six months from the date of issuance and being paid semi-annually thereafter. It is assumed that this practice will continue to be applied to the bonds which are proposed to be issued.

(6) Sufficiency of proposed general obligation bond issuance to meet the requirements of authorized and unissued bonds and the bonds proposed in the Budget. From the schedule reported in paragraph (5), the total amount of general obligation bonds, which the State proposes to issue during this fiscal year and in fiscal years 2025-2026, 2026-2027, 2027-2028, and 2028-2029, is \$6,900,000,000. The total amount of \$6,900,000,000, which is proposed to be issued through fiscal year 2028-2029 is sufficient to meet the requirements of the previously authorized and unissued bonds and the bonds proposed in the Budget, the total amount of which is \$6,896,543,439, as reported in paragraph (4). Thus, taking the Budget into account the amount of previously authorized and unissued bonds and bonds proposed versus the amount of bonds which is proposed to be issued by June 30, 2029, the Director of Finance finds that in the aggregate, the amount of bonds is sufficient to meet these requirements.

(7) Bonds excludable in determining the power of the State to issue bonds. As noted in paragraph (1), certain bonds are excludable in determining the power of the State to issue general obligation bonds. (A) General obligation reimbursable bonds can be excluded under certain conditions. It is not possible to make a conclusive determination as to the amount of reimbursable bonds which are excludable from the amount of each proposed bond issuance because:

- (i) It is not known exactly when projects for which reimbursable bonds have been authorized in prior acts and in the Budget, will be implemented and will require the application of proceeds from a particular bond issue; and
- (ii) Not all reimbursable general obligation bonds may qualify for exclusion.

However, the Director of Finance notes that with respect to the principal and interest on outstanding general obligation bonds, as reported in Section 3 herein, the average proportion of principal and interest which is excludable each year from calculation against the debt limit is 0.48 percent for approximately ten years from fiscal year 2024-2025 to fiscal year 2033-2034. For the purpose of this declaration, the assumption is made that 0.25 percent of each bond issue will be excludable from the debt limit, an assumption which the Director of Finance finds to be reasonable and conservative. (B) Bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor can be excluded but only to the extent the principal amount of such guaranties does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under subparagraph (A) of this paragraph (7) and provided that the State shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State as provided by law. According to the Department of Budget and Finance and the assumptions presented herein, the total principal amount of outstanding general obligation bonds and general obligation bonds proposed to be issued, which are not otherwise excluded under Article VII, Section 13 of the State Constitution for the fiscal years 2024-2025, 2025-2026, 2026-2027, 2027-2028 and 2028-2029 are as follows:

<u>Fiscal Year</u>	<u>Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution</u>
2024-2025	9,699,752,832
2025-2026	11,196,002,832
2026-2027	12,592,502,832
2026-2028	13,889,252,832
2028-2029	14,986,502,832

Based on the foregoing and based on the assumption that the full amount of a guaranty is immediately due and payable when such guaranty changes from a contingent liability to an actual liability, the aggregate principal amount of the portion of the outstanding guaranties and the

guaranties proposed to be incurred, which does not exceed seven percent of the average amount set forth in the last column of the above table and for which reserve funds have been or will have been established as heretofore provided by, can be excluded in determining the power of the State to issue general obligation bonds. As it is not possible to predict with a reasonable degree of certainty when a guaranty will change from a contingent liability to an actual liability, it is assumed in conformity with fiscal conservatism and prudence, that all guaranties not otherwise excluded pursuant to Article VII, Section 13 of the State Constitution will become due and payable in the same fiscal year in which the greatest amount of principal and interest on general obligation bonds, after exclusions, occurs. Thus, based on such assumptions and on the determination in paragraph (8), the aggregate principal amount of the portion of the outstanding guaranties; which must be included in determining the power of the State to issue general obligation bonds, is \$0.

(8) Determination whether the debt limit will be exceeded at the time of issuance. From the foregoing and on the assumption that the bonds identified in paragraph (5) will be issued at an interest rate of 7.50 percent thereafter, as reported in the Budget, it can be determined from the following schedule that the bonds which are proposed to be issued, which includes all bonds issued and outstanding, bonds previously authorized and unissued and the bonds proposed in the Budget, will not cause the debt limit to be exceeded at the time of each bond issuance:

<u>Time of Issue and Amount of Issue to be Counted Against Debt Limit</u>	<u>Debt Limit at Time of Issuance</u>	<u>Greatest Amount & Year of Principal & Interest</u>
1st half FY 2024-2025 \$798,000,000	1,912,848,436	1,144,318,773 (2025-2026)
2nd half FY 2024-2025 \$798,000,000	1,912,848,436	1,251,548,773 (2025-2026)
1st half FY 2025-2026 \$748,125,000	1,948,678,325	1,279,603,461 (2025-2026)
2nd half FY 2025-2026 \$748,125,000	1,948,648,325	1,293,175,089 (2026-2027)
1st half FY 2026-2027 \$698,250,000	2,000,621,223	1,358,524,940 (2027-2028)
2nd half FY 2026-2027 \$698,250,000	2,000,621,223	1,452,348,690 (2027-2028)
1st half FY 2027-2028 \$648,375,000	2,047,651,348	1,505,616,075 (2028-2029)
2nd half FY 2027-2028 \$648,375,000	2,047,651,348	1,592,744,200 (2028-2029)
1st half FY 2028-2029 \$548,625,000	2,106,687,870	1,618,052,501 (2029-2030)
2nd half FY 2028-2029 \$548,625,000	2,106,687,870	1,691,779,376 (2029-2030)

(9) Overall and concluding finding. From the facts, estimates, and assumptions stated in this declaration of findings, the conclusion is reached that the total amount of principal and interest estimated for the general obligation bonds proposed in the Budget and for all bonds previously authorized and unissued and calculated for all bonds issued and outstanding and guaranties, will not cause the debt limit to be exceeded at the time of issuance.

The Director of Finance hereby finds that the bases for the declaration of findings set forth herein are reasonable. The assumptions set forth in this declaration with respect to the principal amount of general obligation bonds which will be issued, the amount of principal and interest on reimbursable general obligation bonds which are assumed to be excludable and the assumed maturity structure shall not be deemed to be binding, it being the understanding that such matters must remain subject to substantial flexibility.

A handwritten signature in blue ink, appearing to be 'J. P. ...', written over a horizontal line.

Director of Finance
State of Hawaii