

Informational
Briefing
Budget and
Finance

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 TO THE SENATE COMMITTEE ON WAYS AND MEANS

March 27, 2009

Chair Kim and Members of the Committees:

Thank you for this opportunity to update you on the State's Multi-Year General Fund Financial Plan.

I would like to begin by reviewing the overall revenue picture that has emerged in the past 12 months. As a result of the continuing economic contraction, our general fund revenues have been severely impacted. The table below shows the extent of successive reductions in revenue estimates since March 2008.

Changes in Revenue Projections by the Council on Revenues

	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>3-Year Total</u>
March 14, 2008				
Percentage growth	4.1%	4.9%	4.7%	
May 30, 2008				
Reduction in revenue	2.0% (\$123.3 m)	4.3% (\$154.7 m)	3.9% (\$199.5 m)	(\$477.5 m)
August 5, 2008				
Reduction in revenue	1.0% (\$144.4 m)	4.0% (\$167.9 m)	3.9% (\$174.4 m)	(\$486.6 m)
October 31, 2008				
Reduction in revenue	-0.5% (\$66.5 m)	3.5% (\$95.0 m)	4.5% (\$70.9 m)	(\$232.4 m)
January 9, 2009				
Reduction in revenue	-3.0% (\$118.1 m)	1.0% (\$236.3 m)	3.5% (\$295.9 m)	(\$650.3 m)
March 12, 2009				
Reduction in revenue	-5.0% (\$87.4 m)	0.5% (\$115.0 m)	5.0% (\$53.1 m)	(\$255.5 m)

In a period of one year, we have had to manage a cumulative reduction of \$2,102.3 million in general fund revenues extending over Fiscal Year 2009 and the next Fiscal Biennium 2009-11. Using the October 2008 Council on Revenues' revisions, the general fund budget gap was projected to be \$1.1 billion if no corrective action was taken. The budget gap continued to widen with each successive Council on Revenues' reduction, by an additional \$650.3 million in January 2009, and by another additional \$255.5 million in March 2009. The magnitude of these shortfalls is unprecedented and calls for extraordinary actions by all branches of government in Hawaii.

The Executive Branch took immediate steps to control and reduce expenditures in the current Fiscal Year 2009. These included a 4% restriction on discretionary spending, restriction on cash CIPs for the Department of Education and the University of Hawaii, restriction of specific appropriations, and debt restructure and adjustment. Total savings: \$221 million for Fiscal Year 2009.

For Fiscal Biennium 2009-11, we pursued further reductions in program expenses by cutting the budgets of Executive Branch departments and agencies by an average of 14%; we also planned for additional debt restructuring. Together with potential spending reductions from the Judiciary, the Legislature and the Office of Hawaiian Affairs, total savings were estimated to be \$731 million for Fiscal Biennium 2009-11.

On the other side of the balance sheet, we pursued possibilities for additional revenues. These included a transfer of \$75 million from the Emergency and Budget Reserve Fund for Fiscal Year 2009 and Fiscal Year 2010, transfer of available balances from certain special funds, and tax proposals to bring about better enforcement and re-focus Act 221 credits. Total additional revenues: \$242 million for Fiscal Year 2009 and Fiscal Biennium 2009-11.

With the above actions, the Multi-Year General Fund Financial Plan underlying the Executive Budget Request for Fiscal Biennium 2009-11, which was submitted to the Legislature in December 2008, was in balance as required by the State Constitution.

One month later in January 2009, we faced an additional, substantial drop in revenue projections (\$650 million) over the next three years. With a major reduction in Fiscal Year 2009, there was urgency regarding the actions that must be taken to close the budget gap by June 30, 2009 to meet the constitutional requirement. These included an additional 2% restriction on discretionary spending, accelerated transfer of reserves from the Emergency and Budget Reserve Fund, early transfer of excess balances from certain special funds, and making use of a one-time federal reimbursement of Fiscal Year 2008 Medicaid expenses. Total available: \$81 million for Fiscal Year 2009.

Actions to close the projected gaps in Fiscal Biennium 2009-11 and future years required a broader range of options due to the magnitude of the shortfalls and continuing uncertainties in the economy. It was clear to us that the State budget and financial plan could not be balanced through budget reductions alone and that we must continue our efforts in reducing costs and generating revenues.

Anticipated increases in federal reimbursement through the Federal Medicaid Assistance Percentage program have been authorized by Congress in the federal stimulus package to start in Fiscal Year 2009 and continue through Fiscal Year 2011. Our current estimate: \$315 million.

To augment general fund revenues, we proposed additional measures to further restrict Act 221 tax credits, change the filing date for the general excise tax, reallocate tobacco tax revenues and tobacco settlement funds, remove the current exemption from central services

assessment for certain special funds, and transfer to the general fund interest earnings from special funds. Total revenues: \$188.7 million for Fiscal Biennium 2009-11.

Most recently, the additional budget gap created by the March 2009 revisions by the Council on Revenues requires yet another set of solutions. To meet the challenge of a new shortfall amounting to over \$255 million, we propose to use federal stimulus funds that are authorized in the American Recovery and Reinvestment Act of 2009 and made available through the State Fiscal Stabilization Fund. Total available: \$157.2 million for Fiscal Year 2009 and Fiscal Year 2010.

The new revenue picture makes it necessary to further control labor costs and the Administration will seek adjustments to employee wages and fringe benefits in the next fiscal biennium through on-going negotiations for collective bargaining. Total goal for labor-related savings is: \$278 million for Fiscal Biennium 2009-11.

The updated Multi-Year General Fund Financial Plan summarizing all the steps and proposals discussed above is attached to my testimony. This Plan shows that we expect to end the current fiscal year with a balance of \$131.5 million on June 30, 2009 and will be able to maintain a positive balance for each year in the planning period.

Our goal at the end of session is to collectively produce a fiscally-sound solution that will continue delivering quality public services while moving forward on our priorities of economic transformation, energy security, STEM education, Recreational Renaissance, affordable housing, and infrastructure modernization without raising general taxes or laying off employees. With an estimated \$2 billion less in revenues, we cannot continue to spend in the same way and we cannot be doing business as usual.

Thank you for this opportunity to provide this update of our financial plan.

Attachment

MULTI-YEAR FINANCIAL SUMMARY - Revised March 27, 2009

GENERAL FUND

FISCAL YEARS 08 - 15

(in millions of dollars)

	Actual* FY 08	Estimated FY 09	Estimated FY 10	Estimated FY 11	Estimated FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15
REVENUES:								
Executive Branch:								
Tax revenues	4,640.8	4,409.8	4,431.8	4,653.4	4,909.4	5,213.7	5,537.0	5,808.3
Nontax revenues	569.8	512.8	500.1	508.2	514.3	522.3	525.1	527.5
Judicial Branch revenues	34.2	32.7	35.2	35.9	36.7	37.4	38.2	39.1
Other		62.6	133.6	196.2	165.8	155.4	110.3	117.0
TOTAL REVENUES	5,244.8	5,017.9	5,100.7	5,393.7	5,626.0	5,928.8	6,210.5	6,491.8
EXPENDITURES								
Executive Branch:								
Operating	5,185.8	5,318.2	5,361.3	5,464.0	5,741.2	5,875.3	5,964.2	6,065.0
CIP	50.0	12.5						
Specific appropriations	206.3	237.2	2.0	1.8	1.9	1.9	1.9	1.9
Other		(476.5)	(329.7)	(209.6)	(99.2)	(99.4)	(57.8)	(58.1)
Sub-total	5,442.1	5,091.5	5,033.6	5,256.2	5,643.8	5,777.7	5,908.3	6,008.7
Legislative Branch	37.5	37.5	30.5	30.5	30.5	30.5	30.5	30.5
Judicial Branch	143.8	150.4	120.3	120.3	120.3	120.3	120.3	120.3
OHA	3.1	3.1	2.5	2.5	2.5	2.5	2.5	2.5
Lapses	(219.6)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	5,406.9	5,217.6	5,122.0	5,344.5	5,732.1	5,866.1	5,996.6	6,097.0
REVENUES OVER EXPEND.	(162.2)	(199.8)	(21.3)	49.1	(106.1)	62.7	213.9	394.7
CARRY-OVER BALANCE (DEFICIT)								
Beginning	493.4	331.2	131.5	110.2	159.3	53.2	116.0	329.9
Ending	331.2	131.5	110.2	159.3	53.2	116.0	329.9	724.7
<i>Emergency & Budget Reserve Fund</i>	74.0	6.2	3.5	15.7	28.0	40.3	52.5	64.8

* unaudited