



STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

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EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY CRAIG K. HIRAI
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STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS AND
THE HOUSE COMMITTEE ON FINANCE

January 4, 2022

Chairs Dela Cruz and Luke and Members of the Committees:

Thank you for the opportunity to present an overview of the Administration's
FY 23 Executive Supplemental Budget and Multi-Year General Fund Financial Plan.

My presentation will cover the following:

- Balancing the budget through the pandemic;
- Federal funds;
- Budget and fiscal considerations;
- Budget transparency;
- Constitutional and statutory requirements relating to the Executive Budget;
- A brief synopsis of the FY 23 Supplemental operating and capital improvement program (CIP) budgets;
- The Multi-Year General Fund Financial Plan based on the Council on Revenues' (COR) September 7, 2021 revenue projections; and
- The general fund expenditure ceiling, the requirement to provide a tax refund or credit and deposit to the Emergency and Budget Reserve Fund (EBRF), and the State debt limit.

BALANCING THE BUDGET THROUGH THE PANDEMIC

At the start of the pandemic and through most of calendar year 2020, we expected to experience sizable general fund revenue shortfalls for several fiscal years. Thus, it was necessary to impose restrictive fiscal controls on general fund expenditures in FY 20 and FY 21.

The 2020 Legislature authorized general fund to general obligation (G.O.) bond swaps, special fund transfers, and a \$345 million transfer from the EBRF, which increased the FY 20 balance of the general fund by \$648 million. As a result of this and spending restrictions, the FY 20 general fund balance ballooned to \$1 billion.

The \$1 billion in carryover funds was necessary to support operations at the beginning of FY 21, as tax revenue collections had decreased dramatically. With huge budget deficits looming, we imposed restrictions on top of the sizeable reductions to FY 21 general fund appropriations made by the Legislature.

Given that further reductions to the State's budget would necessitate significant layoffs or furloughs, we took out a \$750 million working capital loan to provide short-term liquidity through the end of FY 21 to give the Administration and the Legislature time to consider the best options to balance the budget going forward. The loan will be paid back over five fiscal years, FY 22 through FY 26.

As we approached the FB 2021-23 Executive Budget, we were looking at estimated annual general fund revenue shortfalls of \$1.4 billion. We were dealing with the initial public health and fiscal impact of COVID-19 and had not yet received the federal American Rescue Plan (ARP) Act funds, which have helped to improve the State's fiscal stability.

Based on a structured program review, we prioritized and identified recurring budget reductions, which would offset a portion of the projected budget deficit, along with other cost saving measures. Our proposed budget reflected the sudden reductions to revenues due to the pandemic's impact on the State's economy and the tax revenue that funds our services and programs. While we were hopeful that federal funds would be made available to states shortly thereafter, it was still uncertain.

While there have been many budgetary reductions and impacts, our efforts worked toward preserving the State's most important and critical functions, including those that pertain to education and Hawai'i's safety net. Additionally, and importantly, we balanced the budget without implementing any significant tax increases on our residents or businesses. This was due in no small part to our efforts to strengthen our State finances which helped enable us to weather the worst of the general fund revenue projections without resorting to less desirable measures.

As FY 21 progressed and the economy improved, general fund tax revenue collections increased. After much negotiation, Congress finally passed the ARP Act, which provided a very substantial infusion of funding that we have used for the repayment of the Unemployment Insurance loan and will be used for other eligible State costs.

Ultimately, FY 21 showed positive general fund tax revenue growth and ended with a general fund balance of approximately \$1.25 billion. Current general fund tax revenue growth through the first five months of FY 22 has been an astounding 27.3%.

Given the improvement to the State's fiscal position, we must replenish resources for programs providing critical State services that were decimated by budget reductions. Essential positions and funding must be restored, in addition to providing

sufficient funding for increases in essential operating costs, such as utilities and insurance.

FEDERAL FUNDS

Extraordinary amounts of federal funds have been provided to states to assist with costs associated with their pandemic response and to support economic recovery. In addition to grants awarded to specific programs, the State of Hawai'i received \$862.8 million through the Coronavirus Aid, Relief, and Economic Security Act, which included subawards for the counties of Kaua'i, Hawai'i and Maui, in April 2020. In addition, in March 2021, the ARP Act appropriated:

- \$219.8 billion for the Coronavirus State Fiscal Recovery Fund of which the State of Hawai'i has received \$1.6 billion.
- \$122.8 billion for the third round of the Elementary and Secondary School Emergency Relief Fund (ARP ESSER) which will provide \$412.3 million to Hawai'i's Department of Education (DOE), and \$39.6 billion for the Higher Education Emergency Relief Fund (HEERF III), of which the University of Hawai'i (UH) has been awarded \$40.7 million for student aid and \$76.7 million for institutional support.
- \$10 billion for the Coronavirus Capital Projects Fund, of which Hawai'i's allocation is \$115.5 million to provide funding to carry out critical capital projects directly enabling work, education, and health monitoring in response to the COVID-19 public health emergency.

The ARP ESSER imposes a maintenance of effort (MOE) requirement that requires the state to maintain proportional levels of state support for education relative to the state's overall spending over a specified period. Supplemental budget general

fund increases for departments other than DOE and UH will trigger budget adjustments of over 40% for DOE and UH combined.

The Infrastructure Investment and Jobs Act (IIJA) was also enacted on November 14, 2021 and is intended to make a significant investment in the nation's infrastructure to support broadband equity, access, and deployment; cybersecurity; transportation; clean water; and drinking water. More specifics on the authorized use of the IIJA funds will be available after federal guidance has been received.

BUDGET AND FISCAL CONSIDERATIONS

In developing the Executive Supplemental Budget, we considered the State's current and anticipated fiscal health and the potential impact of all proposed budget requests. To the extent possible, we considered potential stressors to the State's economy which could impact the State's revenues and fiscal well-being.

The Ige Administration has continuously strived to improve the State's fiscal stability. Since taking office in December 2014, this conservative and consistent approach to the budget enabled us to improve and maintain the State's fiscal position every year until the start of the pandemic.

The balance of the EBRF was built up to \$378.2 million in FY 20. The FY 20 balance was increased due to transfers authorized by the Legislature and other revenue, allowing \$648 million to be transferred to the general fund and leaving a balance of \$58.9 million at the end of FY 20. To replenish the fund, \$250 million was deposited in FY 21.

As we have seen in the recent past, however, these are turbulent times, and we must be prepared to weather the worst on our own because the federal government may not be able to assist as generously in the future. Thus, we will be proposing,

through separate legislation, to deposit \$1 billion into the EBRF in FY 22. This deposit will bring the EBRF balance to approximately 14.7% of prior year general fund revenues which will provide a strong reserve in the future.

With the support of the Legislature, we have made substantial progress addressing our unfunded liabilities. Even in FY 21, we were able to honor our commitment by paying \$826.7 million towards our other post-employment benefits (OPEB) unfunded liability, of which \$390 million was for FY 22.

Prior to the pandemic, the State's collective credit rating for G.O. bonds from all three rating agencies was the highest it had ever been. Concerns regarding the State's economy due to the pandemic negatively impacted those ratings. However, prior to our recent \$1.9 billion G.O. bond sale this past September, two of the rating agencies improved the State's ratings, or outlooks, currently "AA" (stable) by Fitch Ratings, "Aa2" (positive) by Moody's Investors Service, and "AA+" (stable) by S&P Global Ratings, because of, among other things, the State's strong budget and fiscal policies. Improved credit ratings mean lower borrowing costs for the State.

General fund tax revenue growth for the current fiscal year has been strong and consistently positive (the July 2021 growth rate was negative due to the deferment of the 2019 income tax payment deadline to July 2020 and would otherwise have been positive). The cumulative November 2021 general fund tax revenue growth rate is 27.3% and it is anticipated that the COR may increase its FY 22 general fund tax revenue growth projection from 6.3% at its January 2022 meeting.

The State's fiscal situation is now positive in light of general fund revenue growth thus far and the substantial general fund balance of \$1.25 billion from FY 21. Given that changes in revenue growth can be unpredictable over a 12-month period, especially

during a pandemic, we are cautiously optimistic but remain prepared to handle unforeseen events.

The State's recent revenue growth has been robust, but as always, we remain concerned about sustainability. The State must further increase the EBRF and has a significant funding commitment towards the State's unfunded pension and OPEB liabilities. We must ensure that adequate resources are available to meet these substantial demands.

We will be submitting several other emergency appropriation bills for FY 22 which total over \$28.4 million (\$1.4 million in general funds and \$27 million in G.O. bond funds) for DOE. These appropriations are necessary to provide critical support and facilities for the respective programs in FY 22. Such requests include \$1.4 million in general funds and \$6 million in G.O. bond funds for distance learning; \$15 million in G.O. bond funds for acquisition of a warehouse for DOE's Facilities Maintenance Branch; and \$6 million in G.O. bond funds for an agriculture innovation center on Kaua'i.

In addition, the State has gradually assumed more costs for federal programs for which federal grant funds were insufficient over the past few years. We expect this trend to continue; thus, the State must be prepared to fund federal programs for services which the State deems critical. The impact of significant federal fund reductions may be twofold, as the State will bear the economic impact of the reduced funding while providing additional funds for federal programs.

There are many pressing and competing demands for State resources. Basic and critical needs for education, housing, and health and human services must always be our highest priority. Programs that strengthen our communities and enhance our

quality of life also deserve support. Now, we must also position ourselves to support the State as it moves past the pandemic.

We have proposed appropriate general fund appropriations in the Executive Supplemental Budget and will continue to work to align our current resources to solve our most critical problems and better serve the people of Hawai'i.

BUDGET TRANSPARENCY

To increase budget transparency, departments were instructed to review their FB 2021-23 operating budget details for items which did not align with anticipated expenditures and could be addressed immediately. Requests are included to correct the following:

- Negative adjustments;
- Underfunded, unfunded or unbudgeted positions; and
- Specific budget line items which do not align with anticipated expenditures.

Section 37-74(f), HRS, prohibits funds to be 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 with specified exceptions. "Position ceiling" is defined as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program.

As such, all departments were instructed to specifically review their unbudgeted positions to determine which were critical and should continue as budgeted positions. Because the unbudgeted positions are currently funded, only cost neutral requests (i.e., trade-off/transfer requests with related increases in permanent or temporary position counts) were allowed.

Hence, the Executive Supplemental Budget includes requests to convert such unbudgeted positions to budgeted positions. Many other unbudgeted positions are still under review by their respective departments and may take longer to convert depending upon the types of positions.

CONSTITUTIONAL AND STATUTORY REQUIREMENTS

In preparing the Executive Supplemental Budget, the Executive Branch is bound by constitutional and statutory requirements, which include, but are not limited to, the following:

- Article VII, Section 9, of the Hawai'i State Constitution provides that “. . . in each regular session in an even-numbered year, at such time as may be provided by law, the governor may submit to the legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill, and bills to amend any appropriations for capital expenditures of the current fiscal biennium”
- Section 37-72, Supplemental Budget, HRS, states that the Governor may submit to the Legislature a supplemental budget to amend any appropriation for the current fiscal biennium. The supplemental budget shall reflect the changes being proposed in the State's program and financial plan and shall be submitted, as applicable, in the manner provided in Section 37-71, The Budget, HRS.
- 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.

Thus, we have prepared a comprehensive Executive Supplemental Budget that includes all program costs. Selected appropriations from Act 1 and Act 6, SpSLH 2021, deemed necessary to support core State operations, were transferred to Act 88, SLH 2021, the General Appropriations Act, and have been included in the Department of Business, Economic Development and Tourism and Department of Budget and Finance’s (B&F) respective operating budget ceilings. These transfers were necessary to minimize workload, improve fiscal controls, and allow each program’s expenditures to be made through a single appropriation account, instead of separate accounts.

To meet the requirements of Section 37-71, HRS, we have also designated the funding for CIP projects included in the FY 23 Executive Supplemental Budget by cost element (i.e., plan, land acquisition, design, construction, and equipment). This includes providing cost element breakdowns for CIP projects that were originally appropriated in Act 88, SLH 2021.

THE FY 23 EXECUTIVE SUPPLEMENTAL BUDGET

After two years of budgetary cuts to State programs, there are many needs to be met. Fulfilling these requirements must be done sustainably and must be weighed against the Administration’s concurrent efforts to strengthen the State’s fiscal position.

The Executive Supplemental Budget will continue the Administration’s proactive approach to strengthen the State’s fiscal stability by:

- Increasing budget reserves by depositing \$1 billion into the EBRF in FY 22. (A separate legislative proposal will be submitted by the Administration.)
- Strategically planning expenditures and providing for limited expansion of annual recurrent spending to ensure fiscal sustainability.
- Aggressively addressing pension and OPEB unfunded liabilities while the resources are available.

To ensure that we can continue to provide critical State services, we have requested to replenish resources for programs that were severely impacted by budget reductions, including building back the State's workforce by restoring position counts and funds for deleted positions and funding for defunded and underfunded positions. We have also proposed funding for increases in essential operating costs, such as utilities and insurance.

With an ongoing pandemic, we must be prepared. As such, the requested FY 23 contingency funding to maintain statewide COVID-19 preparedness for the Department of Defense will be a critical resource.

The highest priority of the Ige Administration has always been education. Last year, it was extremely difficult to consider reductions that would have impacted students and teachers. Unfortunately, both DOE and UH suffered significant budget reductions.

We are grateful that the State's current fiscal situation allows us to support funding for primary and secondary education again by restoring resources and providing for ESSER MOE requirements. The Executive Supplemental Budget adds substantial funding for DOE to restore general fund reductions, provide extra compensation for classroom teacher shortage differentials, and for improvements to schools to ensure healthy and safe learning environments.

We have been given the unique opportunity to pivot the State, post-pandemic, to provide opportunities for growth where we most need them. UH will be the key stakeholder to advance these programs which will benefit our communities.

We have requested funds for clinical nursing instructors and a Just in Time training program to support professional competency development related to teaching competencies for nurses newly recruited into the clinical instruction roles. Further, to address the State's doctor shortage, we have requested to expand the residency program for the John A. Burns School of Medicine to the neighbor islands, where doctors are especially needed. About 80% of graduates who perform their residency in Hawai'i, stay in Hawai'i to practice and this program would provide a pipeline for doctors to work on the neighbor islands.

Our reliance on information technology (IT), the internet and online systems came to the forefront during the pandemic. It has emphasized the need to develop our innovation economy here in Hawai'i. UH's IT and Cyber Leap-Start Experience Excelsior program is designed to provide significant workforce experience for IT and cybersecurity program students approaching graduation and students who recently graduated but need substantive work experience.

The demand for affordable housing, including rentals, has reached critical proportions. The recent sales activity in the housing industry, spurred by low interest rates and mainland investors, has resulted in the increase in the median sale price of single-family homes to over \$1 million, a price that is out of reach for many of Hawai'i's families.

The situation is exacerbated by the increase in rental costs while some may be struggling with payments of back rent. The proposed infrastructure development in West O'ahu will support the future development of affordable rentals along the rail line.

Hawai'i's natural resources are unique and vital. They play an essential part in our culture and way of life. As stewards of these islands, we recognize that we must do our part to maintain these resources for future generations. As such, we have asked to restore funding for many programs for the Department of Land and Natural Resources.

Hawai'i's agricultural industry is looking towards developing plantation lands for diversified agriculture, combining traditional farming with new technology for higher yields, and considering what can be grown for local consumption. We propose to move forward with the development of the Royal Kunia Agricultural Park to support the agricultural industry's expansion.

When we look at sustainability, we must also look at sustainable growth, including the infrastructure that forms the foundation for it. Great strides have been made in maintaining and improving our airports, harbors, and highways and those efforts must be continued.

Our modernization projects to increase government efficiency and responsiveness are also ongoing. As such, we have requested funding to support the State's Enterprise Financial System project, which is in its beginning phases.

The Administration remains committed to being fiscally responsible. We will continue to look for thoughtful and innovative ways to improve our operations and services to the public while making the best use of our resources. We have approached the Executive Supplemental Budget, which is aligned with the Administration's strategic priorities, in that manner.

The Operating Budget

General Funds

For FY 22, there were no proposed general fund adjustments to the operating budget. The current appropriation level and recommended general fund amount for FY 22 is \$7.664 billion.

For FY 23, total proposed general fund adjustments to the operating budget amount to a net increase of \$942.3 million, or 12.2% more than the current appropriation level of \$7.759 billion. The recommended general fund amount for FY 23 is \$8.701 billion.

All Means of Financing

For FY 22, total proposed adjustments to the operating budget for all means of financing (MOF) amount to a net decrease of \$22.5 million, or 0.1% less than the current appropriation level of \$16.040 billion for all MOF. The recommended amount for all MOF for FY 22 is \$16.017 billion.

For FY 23, total proposed adjustments to the operating budget for all MOF amount to a net increase of \$1.562 billion, or 10.2% more than the current appropriation level of \$15.364 billion for all MOF. The recommended amount for all MOF for FY 23 is \$16.926 billion.

Breakdowns by MOF are as follows:

<u>Means of Financing</u>	<u>FY 22 Act 88/2021* Appropriation</u> (\$)	<u>FY 22 Proposed Adjustment</u> (\$)	<u>FY 22 Recommended Appropriation</u> (\$)
General Funds	7,663,861,874	.....	7,663,861,874
Special Funds	3,200,803,173	.....	3,200,803,173
Federal Funds	2,946,214,715	.....	2,946,214,715
Other Federal Funds	222,616,643	.....	222,616,643
Private Contributions	903,067	.....	903,067
County Funds	2,937,802	.....	2,937,802
Trust Funds	433,944,641	.....	433,944,641
Interdept. Transfers	79,165,797	.....	79,165,797
ARP Funds	958,870,133	(22,502,391)	936,367,742
Revolving Funds	511,441,034	.....	511,441,034
Other Funds	<u>18,954,519</u>	<u>.....</u>	<u>18,954,519</u>
Total	16,039,713,398	(22,502,391)	16,017,211,007

<u>Means of Financing</u>	<u>FY 23 Act 88/2021* Appropriation</u> (\$)	<u>FY 23 Proposed Adjustment</u> (\$)	<u>FY 23 Recommended Appropriation</u> (\$)
General Funds	7,758,639,688	942,312,514	8,700,952,202
Special Funds	3,286,403,848	114,661,966	3,401,065,814
Federal Funds	2,937,916,956	30,036,883	2,967,953,839
Other Federal Funds	201,608,370	30,942,429	232,550,799
Private Contributions	903,067	.....	903,067
County Funds	2,937,802	(2,000,000)	937,802
Trust Funds	433,944,641	328,412,322	762,356,963
Interdept. Transfers	79,165,797	3,097,010	82,262,807
ARP Funds	131,794,506	71,932,550	203,727,056
Revolving Funds	511,607,962	42,832,817	554,440,779
Other Funds	<u>19,018,519</u>	<u>238,292</u>	<u>19,256,811</u>
Total	15,363,941,156	1,562,466,783	16,926,407,939

* / Act 88, SLH 2021, including transfers.

A department-by-department summary and highlights of what is contained in the Executive Supplemental operating budget can be found in “The FY 23 Executive Supplemental Budget - Budget in Brief” that is available on B&F’s website at <https://budget.hawaii.gov/budget/>.

The Capital Improvement Program Budget

General Obligation Bond Funds

For FY 22, total proposed CIP adjustments for G.O. bond funds amount to a net decrease of \$2.0 million, or 0.2% less than the total of the current G.O. bond fund and G.O. reimbursable (G.O.R.) bond fund appropriation levels of \$984.8 million and \$7.3 million, respectively.

For FY 23, total proposed CIP adjustments for G.O. bond funds amount to a net increase of \$827.4 million, or 279.0% more than the total of the current G.O. bond fund and G.O.R. bond fund appropriation levels of \$294.1 million and \$2.5 million, respectively. The recommended G.O. bond fund and G.O.R. bond fund amounts for FY 23 are \$1.121 billion and \$2.5 million, respectively.

All Means of Financing

For FY 22, total proposed CIP adjustments for all MOF amount to a net decrease of \$112.1 million, or 6.4% less than the total of the current appropriation level for all MOF of \$1.759 billion.

For FY 23, total proposed CIP adjustments for all MOF amount to a net increase of \$1.788 billion, or 192% of the current level for all MOF of \$929.2 million. The recommended amount for all MOF for FY 23 is \$2.718 billion.

Breakdowns by MOF are as follows:

<u>Means of Financing</u>	<u>FY 22 Act 88/2021 Appropriation (\$)</u>	<u>FY 22 Proposed Adjustment (\$)</u>	<u>FY 22 Recommended Appropriation (\$)</u>
General Funds	.....	.....	.....
Special Funds	20,960,000	.....	20,960,000
G.O. Bonds	984,796,000	(1,972,000)	982,824,000
G.O.R. Bonds	7,300,000	.....	7,300,000
Revenue Bonds	346,272,000	.....	346,272,000
Federal Funds	208,257,000	.....	208,257,000
Other Federal Funds	1,200,000	.....	1,200,000
Private Contributions	32,000	.....	32,000
County Funds	21,250,000	.....	21,250,000
Trust Funds	.....	.....	.....
Interdept. Transfers	.....	.....	.....
ARP Funds	110,109,000	(110,109,000)	.....
Revolving Funds	.....	.....	.....
Other Funds	<u>58,577,000</u>	<u>.....</u>	<u>58,577,000</u>
Total	1,758,753,000	(112,081,000)	1,646,672,000

<u>Means of Financing</u>	<u>FY 23 Act 88/2021 Appropriation (\$)</u>	<u>FY 23 Proposed Adjustment (\$)</u>	<u>FY 23 Recommended Appropriation (\$)</u>
General Funds	.....	.....	.....
Special Funds	6,960,000	13,300,000	20,260,000
G.O. Bonds	294,105,000	827,384,000	1,121,489,000
G.O.R. Bonds	2,500,000	.....	2,500,000
Revenue Bonds	430,211,000	513,410,000	943,621,000
Federal Funds	167,056,000	306,352,000	473,408,000
Other Federal Funds	3,210,000	6,000,000	9,210,000
Private Contributions	5,032,000	3,000,000	8,032,000
County Funds	20,000,000	.....	20,000,000
Trust Funds	.....	3,500,000	3,500,000
Interdept. Transfers	.....	.....	.....
ARP Funds	.....	115,328,000	115,328,000
Revolving Funds	.....	.....	.....
Other Funds	<u>157,000</u>	<u>.....</u>	<u>157,000</u>
Total	929,231,000	1,788,274,000	2,717,505,000

A department-by-department summary and highlights of what is contained in the Executive Supplemental CIP budget can be found in "The FY 23 Executive

Supplemental Budget - Budget in Brief” that is available on B&F’s website at

<https://budget.hawaii.gov/budget/>.

THE MULTI-YEAR GENERAL FUND FINANCIAL PLAN

Attachment 1 is the Multi-Year General Fund Financial Plan that is based on the COR projections adopted at its September 7, 2021 meeting. The COR increased its FY 22 general fund tax revenue projection from 3% to 6.3%, while it maintained its projections for FYs 23-27 at 4% each year. The increase for FY 22 was due to healthy year-to-date general excise and income tax collections, the rapid recovery of visitor arrivals, and renewed consumer spending.

However, the COR noted risks that could inhibit the State’s economic recovery including new variants, vaccine reluctance, sustained travel restrictions, burdensome regulations imposed on businesses for public health reasons, and significant supply chain disruptions. The COR also expects the decrease in federal stimulus spending compared to last year to impact Hawai’i’s economy.

Also included in the revenue section are other non-tax revenues not reflected in the COR’s non-tax revenue projection and estimated revenue impacts from various Administration measures that we will be submitting.

In the expenditure section, the financial plan reflects expenditures based on the FY 23 Executive Supplemental Budget, Judiciary’s Supplemental Budget, slightly increased funding levels for the Office of Hawaiian Affairs from FY 24 on, and continuation of FY 23 funding levels for the Legislature. Additionally, the expenditure section reflects various emergency and specific appropriation (including the \$1.0 billion general fund appropriation in FY 22 for deposit into the EBRF) measures that the Administration will be submitting. It should be noted that no set-asides are included in

the financial plan for future collective bargaining requirements (including FY 23 re-openers) beyond the current FB 2021-23 contracts.

For FY 21, total revenues were \$9,003.0 million and total expenditures were \$8,755.8 million, resulting in revenues over expenditures of \$247.2 million and an ending balance of \$1,249.9 million. For FY 22, estimated total revenues are \$8,406.2 million and estimated total expenditures are \$8,809.2 million, resulting in revenues under expenditures of -\$403.0 million and an estimated ending balance of \$846.9 million. For FY 23, estimated total revenues are \$8,657.9 million and estimated total expenditures are \$8,900.2 million, resulting in revenues under expenditures of -\$242.3 million and an estimated ending balance of \$604.6 million.

For FY 24, expenditures are estimated to continue to exceed revenues, resulting in an estimated balance of \$578.8 million. For FY 25, revenues are expected to exceed expenditures, resulting in an estimated balance of \$742.7 million. Revenues are estimated to exceed expenditures for FY 26 and FY 27, resulting in estimated balances of \$1,076.8 million and \$1,788.8 million, respectively.

At the bottom of the page (below the dotted line), we reflect the actual and estimated balances of the EBRF and the percentages of the EBRF fund balances of prior year revenues. As can be seen, after the proposed infusion of \$1.0 billion into the EBRF, the percentages are between 13.0% to 15.0%, which exceeds the target EBRF reserve of 10.0%.

The COR will be meeting on January 6, 2022 to review and deliberate its projections.

THE GENERAL FUND EXPENDITURE CEILING

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Section 9 of Article VII 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 are within the expenditure ceilings for both FY 22 and FY 23.

For the Executive Branch, the total proposed appropriations from the general fund (which include the Executive Supplemental Budget for FB 2021-23 and other specific appropriation measures to be submitted) are also within the Executive Branch's appropriation ceilings for both FY 22 and FY 23.

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

TAX REFUND OR CREDIT AND DEPOSIT TO THE EMERGENCY AND BUDGET RESERVE FUND

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 exceeds 5% of general fund revenues for each of the two fiscal years, the Legislature must provide for a tax refund or tax credit to the taxpayers of the State or make a deposit into one or more emergency funds, as provided by law.

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%, 5% of the general fund balance shall be deposited into the EBRF.

For FY 20 and FY 21, general fund balances were greater than 5% of general fund revenues. However, it is important to note that the FY 20 general fund balance was adjusted to include certain transactions that were authorized for FY 20 but processed in FY 21. Due to a combination of timing issues with the enactment of the authorizing legislation and accounting system limitations, those transactions were processed in FY 21 but, for the purposes of the general fund financial plan, have been reflected as authorized in FY 20.

Although the general fund balance exceeded 5% of general fund revenues for FY 20 and FY 21, FY 20 and FY 21 total (tax and non-tax) general fund revenues did not exceed the respective previous year's revenues by 5% or more. Accordingly, the 2022 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.

THE DEBT LIMIT

Section 13 of Article VII 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 Supplemental 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 FY 23 Executive Supplemental Budget and Multi-Year General Fund Financial Plan reflect our continued commitment to manage the State's near- and long-term obligations, meet federal and State mandates, and improve operations to efficiently deliver much needed public services. You will be hearing from the respective departments on details of their FY 23 Supplemental Budget requests in the coming weeks. The Ige Administration will work with you on a continual basis during the 2022 Session deliberations on the Executive Supplemental Budget and the Multi-Year General Fund Financial Plan.

Thank you again for the opportunity to make this presentation.

Attachments

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 21 - 27
(in millions of dollars)

	Adj. Actual* <u>FY 21</u>	Estimated <u>FY 22</u>	Estimated <u>FY 23</u>	Estimated <u>FY 24</u>	Estimated <u>FY 25</u>	Estimated <u>FY 26</u>	Estimated <u>FY 27</u>
REVENUES:							
Executive Branch:	8.1%	6.3%	4.0%	4.0%	4.0%	4.0%	4.0%
Tax revenues	7,250.3	7,707.0	8,015.3	8,335.9	8,669.4	9,016.1	9,376.8
Nontax revenues	1,721.5	713.1	723.5	739.9	756.5	859.8	880.6
Judicial Branch revenues	31.1	31.6	32.1	32.6	33.3	33.9	34.4
Other revenues	0.2	(41.1)	(108.1)	(5.4)	(7.7)	(60.9)	(63.9)
TOTAL REVENUES	9,003.0	8,410.6	8,662.7	9,103.0	9,451.5	9,848.8	10,227.8
EXPENDITURES							
Executive Branch:							
Operating	8,047.9	7,663.9	8,701.0	8,920.7	9,078.3	9,304.9	9,305.5
CIP	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific appropriation/CB	828.1	10.7	41.4	42.0	42.1	42.1	42.1
Other expenditures/adjustments	1.3	1,006.4	27.9	28.4	28.4	28.4	28.4
Sub-total - Exec Branch	8,877.3	8,681.0	8,770.3	8,991.1	9,148.8	9,375.4	9,376.0
Legislative Branch	41.1	41.1	41.4	41.9	41.9	41.9	41.9
Judicial Branch	163.0	164.9	166.2	167.4	167.7	167.7	167.7
OHA	3.0	2.3	2.3	3.0	3.0	3.0	3.0
Counties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lapses	(328.5)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	8,755.8	8,809.2	8,900.2	9,123.4	9,281.5	9,508.1	9,508.7
REV. OVER (UNDER) EXPEND.	247.2	(398.6)	(237.4)	(20.4)	170.0	340.8	719.2
CARRY-OVER BALANCE (DEFICIT)							
Beginning	1,002.7	1,249.9	851.3	613.8	593.5	763.5	1,104.2
Ending	1,249.9	851.3	613.8	593.5	763.5	1,104.2	1,823.4
<hr style="border-top: 1px dashed black;"/>							
	319.5	1,324.7	1,332.5	1,339.9	1,347.0	1,354.0	1,361.0
<i>EBRF fund balance as % of prior yr revenues</i>	3.86%	14.71%	15.84%	15.47%	14.80%	14.33%	13.82%

* unaudited

Note: Due to rounding, details may not add to totals. The FY 21 general fund balance was adjusted to exclude certain transactions that were authorized for FY 20 but processed in FY 21. Due to a combination of timing issues with the enactment of the authorizing legislation and accounting system limitations, those transactions were processed in FY 21 but, for the purposes of the general fund financial plan, were reflected as authorized in FY 20.

**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 2017	74,457
Calendar Year 2018	76,184
Calendar Year 2019	78,516
Calendar Year 2020	82,527
Calendar Year 2021*	85,828

* As estimated by the Council on Revenues Nov. 2021

State Growth

Fiscal Year 2022	3.50%
Fiscal Year 2023	4.06%

B. All Branches of Government

General Fund Appropriations

Fiscal Year 2021 (incl proposed)	9,084,355,954
Fiscal Year 2022 (incl proposed)	8,889,191,162
Fiscal Year 2023 (incl proposed)	8,979,429,901

General Fund Expenditure Ceiling

Fiscal Year 2022	9,757,337,874
Fiscal Year 2023	10,153,145,251

C. Executive Branch

Recommended General Fund Appropriations

Fiscal Year 2022	8,680,980,991
Fiscal Year 2023	8,770,258,418

Actual and Proposed General Fund Appropriations

Fiscal Year 2021	8,877,290,099
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Fiscal Year 2022	7,674,577,074
Proposed addt'l appropriations	1,006,403,917
Total - FY 2022 apprns	<u>8,680,980,991</u>

Fiscal Year 2023	7,800,060,904
Proposed addt'l appropriations	970,197,514
Total - FY 2023 apprns	<u>8,770,258,418</u>

General Fund Appropriation Ceiling

Fiscal Year 2022	9,187,693,556
Fiscal Year 2023	9,033,125,845

CORRECTED

DECLARATION OF FINDINGS

Pursuant to Section 37-72 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 2022-2023 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 2019-2020 and estimated for each fiscal year from fiscal year 2022-2023 to 2024-2025, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2018-2019	7,910,649,595	
2019-2020	7,631,208,089	
2020-2021	8,249,554,335	
2021-2022	8,441,378,000	1,467,137,075
2022-2023	8,760,054,000	1,499,865,326
2023-2024	9,097,155,000	1,569,477,491
2024-2025	(not applicable)	1,621,746,198

For fiscal years, 2021-2022, 2022-2023, 2023-2024 and 2024-2025 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 2018-2019, 2019-2020 and 2020-2021 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, 2021, dated November 18, 2021. The net general fund revenues for fiscal years 2021-2022 to 2023-2024 are estimates, based on general fund revenue estimates made as of September 7, 2021, 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 2021-2022 to 2040-2041, the total amount 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
2022	661,755,000	297,425,988	959,180,988	4,222,554	1,688,753	5,911,307	657,532,446	295,737,235	953,269,681
2023	697,840,636	269,881,284	967,721,920	4,395,654	1,518,993	5,914,647	693,444,982	268,362,291	961,807,273
2024	702,564,123	250,623,798	953,187,921	4,570,218	1,341,728	5,911,946	697,993,905	249,282,070	947,275,975
2025	681,275,473	231,416,718	912,692,191	4,756,657	1,156,468	5,913,125	676,518,816	230,260,250	906,779,066
2026	705,300,747	210,961,993	916,262,740	4,949,940	962,877	5,912,817	700,350,807	209,999,116	910,349,923
2027	567,866,178	190,762,489	758,628,667	3,010,535	756,364	3,766,899	564,855,643	190,006,125	754,861,768
2028	561,564,107	170,407,775	731,971,882	2,823,484	647,663	3,471,147	558,740,623	169,760,112	728,500,735
2029	549,479,815	150,474,443	699,954,258	1,985,000	545,069	2,530,069	547,494,815	149,929,374	697,424,189
2030	521,692,126	131,614,931	653,307,057	2,050,000	484,544	2,534,544	519,642,126	131,130,387	650,772,513
2031	492,718,919	113,140,510	605,859,429	2,110,000	420,825	2,530,825	490,608,919	112,719,685	603,328,604
2032	509,392,152	96,388,505	605,780,657	2,180,000	352,431	2,532,431	507,212,152	96,036,074	603,248,226
2033	453,433,856	81,088,963	534,522,819	2,250,000	280,444	2,530,444	451,183,856	80,808,519	531,992,375
2034	427,444,932	67,330,677	494,775,609	2,325,000	206,100	2,531,100	425,119,932	67,124,577	492,244,509
2035	386,315,000	53,968,340	440,283,340	2,405,000	127,734	2,532,734	383,910,000	53,840,606	437,750,606
2036	345,275,000	41,924,700	387,199,700	2,490,000	43,575	2,533,575	342,785,000	41,881,125	384,666,125
2037	299,040,000	30,413,265	329,453,265	0	0	0	299,040,000	30,413,265	329,453,265
2038	231,290,000	20,832,557	252,122,557	0	0	0	231,290,000	20,832,557	252,122,557
2039	184,110,000	13,058,910	197,168,910	0	0	0	184,110,000	13,058,910	197,168,910
2040	152,060,000	7,579,713	159,639,713	0	0	0	152,060,000	7,579,713	159,639,713
2041	156,015,000	3,624,106	159,639,106	0	0	0	156,015,000	3,624,106	159,639,106
2042	56,135,000	805,537	56,940,537	0	0	0	56,135,000	805,537	56,940,537

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, 2021, adjusted for (a) appropriations made in Acts 88 and 127, Session Laws of Hawaii 2021, to be expended in fiscal year 2022-2023 (b) lapses proposed in THE EXECUTIVE BUDGET SUPPLEMENTAL [Budget Period: 2021-2023] (referred to as the "Budget") the total amount of authorized but unissued general obligation bonds amounts to \$3,752,814,619. The amount of general obligation bonds proposed in the Budget is \$1,000,000,000 (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 \$4,752,814,619.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2021-2022 to 2024-2025, the State proposed to issue \$685,000,000 in general obligation bonds during the remainder of fiscal year 2021-2022, \$685,000,000 in general obligation bonds during the first half of fiscal year 2022-2023, and \$685,000,000 in general obligation bonds during the second half of fiscal year 2022-2023, \$685,000,000 in general obligation bonds during the first half of fiscal year 2023-2024, and \$685,000,000 in general obligation bonds during the second half of fiscal year 2023-2024, \$685,000,000 in general obligation bonds during the first half of fiscal year 2024-2025 and \$685,000,000 in general obligation bonds during the second half of fiscal year 2024-2025. The State anticipates issuing a combination of twenty-year serial bonds with principal repayments beginning the third year and ten-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 2022-2023, 2023-2024, and 2024-2025, is \$4,795,000,000. The total amount of \$4,795,000,000 which is proposed to be issued through fiscal year 2024-2025 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 \$4,752,814,619 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, 2025, 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 0.56 percent for approximately ten years from fiscal year 2021-2022 to fiscal year 2030-2031. For the purpose of this declaration, the assumption is made that 0.50 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 2021-2022, 2022-2023, 2023-2024 and 2024-2025 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>
2021-2022	9,512,948,064
2022-2023	10,876,098,064
2023-2024	12,239,248,064
2024-2025	13,602,398,064

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 5.75 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>
2nd half FY 2021-2022 \$681,575,000	1,467,137,075	1,027,837,482 (2022-2023)
1st half FY 2022-2023 \$681,575,000	1,499,865,326	1,072,819,265 (2023-2024)
2nd half FY 2022-2023 \$681,575,000	1,499,865,326	1,136,200,503 (2025-2026)
1st half FY 2023-2024 \$681,575,000	1,569,477,491	1,195,681,640 (2025-2026)
2nd half FY 2023-2024 \$681,575,000	1,569,477,491	1,255,799,015 (2025-2026)
1st half FY 2024-2025 \$681,575,000	1,621,746,198	1,315,312,984 (2025-2026)
2nd half FY 2024-2025 \$681,575,000	1,621,746,198	1,375,428,546 (2025-2026)

(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.



Director of Finance
State of Hawaii