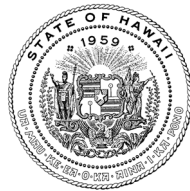


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ADMINISTRATIVE AND RESEARCH OFFICE
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TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS

January 20, 2023

Chair Dela Cruz and Members of the Committee:

Thank you for the opportunity to present an overview of the Administration's
FB 2023-25 Executive Biennium Budget and Multi-Year General Fund Financial Plan.

My presentation will cover the following:

- The Administration's approach to the FB 2023-25 Executive Biennium Budget;
- Budget and fiscal considerations;
- Constitutional and statutory requirements;
- Budget transparency;
- A synopsis of the FB 2023-25 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 6, 2022 revenue projections with an update to reflect its January 5, 2023 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; and

- Federal Elementary and Secondary School Emergency Relief (ESSER) funds maintenance of effort (MOE) compliance.

THE ADMINISTRATION'S APPROACH TO THE FB 2023-25 EXECUTIVE BIENNIUM BUDGET

Due to the amount of time needed to prepare, review, and compile the Executive Biennium Budget to meet the statutory deadline to submit the budget to the Legislature, this budget was started by the previous Administration as a transitional "Steady State" budget to ensure the continuation of current services.

Thus, while we have included a few high priority requests, other requests are still undergoing thorough review by our Administration. Our department directors will be reviewing the operating and CIP budget requests that were submitted by the previous Administration to determine which requests are in line with the Administration's priorities. Requests that are selected to be funded will be submitted to the Legislature by Governor's budget messages in the coming weeks.

BUDGET AND FISCAL CONSIDERATIONS

To ensure the State's fiscal health, the development of the Executive Budget requires that the Administration understand the State's current fiscal position and the potential fiscal challenges, to the extent possible, through the upcoming biennium and beyond.

The State was fortunate to receive widespread direct and indirect support from the federal government to address and offset the impact of the pandemic. The significant infusion of federal funds into the State's economy played a large part in the State's ability to weather the worst of the pandemic and continues to support our ongoing recovery.

The State has been tested and now, we know we must be better prepared. In addition, Administrative Directive No. 22-01, State Reserve Policy, 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% EBRF; and
3. 25% combined State reserves or 20% combined State reserves, if the EBRF fund balance objective has been met.

Right now, we have the resources available to further build up the State's EBRF to meet the objectives of the State Reserve Policy and ensure that the State is in a better position during an economic downturn. As such, the Executive Budget includes a request for \$500 million for deposit to the EBRF.

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 awards.

The recent changes in Congress could create instability that might impair the federal budget process and the timely distribution of federal funds to states for critical programs. It could also impact funding levels for federal programs, which may require the State to provide funding for the continuation of federal programs that are considered vital.

Through separate legislation, the Administration will be requesting cost neutral emergency appropriations for the third and fourth quarters of FY 23 that are necessary due to the repeal of Section 72 of Act 88, SLH 2021, as amended by Act 248,

SLH 2022. Section 72 allowed the Governor to authorize the transfer of operating funds between appropriations of the same fund, within an expending agency, for operating purposes.

Operationally, it is not possible to consistently predict the service level requirements for certain programs. Therefore, this transfer provision provided the flexibility necessary to continue to provide services within the current operating budget, without additional funding. As such, we will be requesting the restoration of Section 72.

We will also be requesting the restoration of other repealed provisions that would allow the Administration to respond quickly to emergency situations. These provisions were Section 61, which allowed the Governor to authorize the transfer of savings or unrequired balances to cope with the effects of natural disasters or other unforeseen emergencies, and Section 87, which allowed the Governor to transfer savings or unrequired balances of general funds from any program to the Department of Land and Natural Resources' fire fighter's contingency fund, from Act 88, SLH 2021, as amended by Act 248, SLH 2022.

CONSTITUTIONAL AND STATUTORY REQUIREMENTS

The FB 2023-25 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, 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 23 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 2023-25 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.

SYNOPSIS OF THE EXECUTIVE BIENNIUM BUDGET REQUEST FOR FB 2023-25

The Operating Budget

The development of the Executive Budget for FB 2023-25 began with an operating current services budget base that:

- Reflects FY 23 appropriations from Act 88, SLH 2021, as amended by Act 248, SLH 2022, and Act 6, SpSLH 2021; and
- Includes appropriation and position ceiling transfers between departments, collective bargaining (CB) (except federal funds, other federal funds, and American Rescue Plan (ARP) funds) and specific recurring costs, less non-recurring expense

adjustments, less appropriations treated as specific appropriations, less grants, and less capital improvement funds included in the operating budget.

Attachment 1 displays in summary format, by adjustment category and by means of financing (MOF), the adjustments that were made from FY 23 appropriations to derive the current services budget base for FY 24 and FY 25. Generally, CB allocations and the significant amounts of the reductions (non-recurring costs, appropriations treated as specific appropriations, grants, and capital improvement funds included in the operating budget) account for the large differences between the FY 23 operating budget appropriations and the FY 24 and FY 25 operating current services budget bases.

These current services budget base amounts have been adjusted by 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;
- Health and safety requirements;
- Full-year funding for half-year funded positions;
- Funding for programs currently funded by specific appropriations, or necessary due to statutory changes or critical program needs; and
- Fringe benefit adjustments for special, revolving, and trust funded programs.

For FB 2023-25, the budget includes \$18.023 billion in FY 24 and \$17.862 billion in FY 25 from all MOF for operating costs. This represents net increases of \$2.040 billion (13%) and \$1.821 billion (11%), respectively, compared to the appropriate

operating current services budget bases. Of these amounts, the request for general funds is \$9.850 billion in FY 24 and \$9.657 billion in FY 25, resulting in increases of \$1.118 billion (13%) and \$846.3 million (10%), respectively. Attachment 2 presents the requested increases from the FY 24 and FY 25 current services budget bases and the total requests by MOF.

For the FB 2023-25 Executive Budget, the increases are primarily due to general fund requests for the deposit to the EBRF, escalating other non-discretionary costs (general funds for debt service; health premium payments; and federal and general funds for Medicaid) and the restoration of general fund support for programs that were funded by the federal ARP funds in FY 23.

A department-by-department summary and highlights of what is contained in the FB 2023-25 Executive Biennium operating budget can be found in “The FB 2023-25 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

The FB 2023-25 Executive Budget includes “Steady State” requests for the following types of projects:

- Major repair and maintenance (R&M) for a public or educational facility;
- Completion of later phases of an ongoing CIP project;
- Public health and safety; and
- Improvements for energy efficiency or conservation.

For the CIP budget, a total of \$2.107 billion in FY 24 and \$1.460 billion in FY 25 has been requested. Of these amounts, the requests for general obligation (G.O.) bond funds total \$462.2 million and \$358.6 million, respectively. The CIP budget also

includes requests for general funds totaling \$324.9 million in FY 24 and \$295.4 million in FY 25 for selected R&M type projects. The following is a breakdown of the CIP budget by MOF:

<u>MOF</u>	<u>FY 24 Request (\$million)</u>	<u>FY 25 Request (\$million)</u>
General Funds	32.49	295.4
Special Funds	13.5	7.0
G.O. Bonds	462.2	358.6
G.O. Reimbursable	-	-
Revenue Bonds	852.4	248.7
Federal Funds	312.1	217.2
Other Federal Funds	96.4	332.8
Private Contributions	-	-
County Funds	-	-
Trust Funds	-	-
Interdept. Transfers	-	-
Revolving Funds	-	-
Other Funds	<u>45.2</u>	<u>0.2</u>
Total	2,106.8*	1,459.9

* - Total differs due to rounding.

A department-by-department summary and highlights of what is contained in the FB 2023-25 Executive Biennium CIP budget can be found in “The FB 2023-25 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 3 is the Multi-Year General Fund Financial Plan that reflects the FB 2023-25 Executive Biennium Budget submitted to the Legislature on December 19, 2022, and the COR’s September 9, 2022 (forecast transmittal letter date for the COR’s September 6, 2022 meeting) general fund tax and non-tax revenue projections updated to reflect the COR’s January 5, 2023 projections.

It should be noted that the financial plan does not include the revenue and expenditure impacts of other potential emergency appropriations, specific appropriations and revenue measures that may be proposed by the Administration in the coming weeks.

Additionally, it should be noted that, 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 and revenues in the fiscal year for which they were authorized.

Revenues

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

The "Executive Branch: Tax revenues" row reflects the COR's tax revenue projections which provide for a 6.5% growth rate for FY 23 over FY 22, a 4.0% growth rate for FY 24, and a 3.5% growth rate annually for FY 25 through FY 29. In its forecast transmittal letter, the COR attributed the 1.5% increase for FY 23 to strong economic and tax collection data thus far for FY 23 and noted that the rapid recovery of tourist arrivals, renewed consumer spending, and additional tax collections due to inflation have contributed to robust year-to-date collections. In addition, the federal government has begun significant construction and infrastructure projects that are expected to make a positive impact on Hawai'i's economy.

The COR noted many downside risks that could inhibit Hawai'i's economic recovery including new variants of COVID-19, an aggressive monetary policy response from the Federal Reserve to combat inflation, high oil and commodity prices, the potential for stagflation, geopolitical events including economic disruptions associated

with the war in Ukraine, supply chain disruptions, labor shortages, sustained travel restrictions in Asian markets due to the pandemic, burdensome regulations imposed on businesses for public health and other reasons, and the reduction in federal stimulus spending.

In addition, the COR was concerned that due to the strength of the U.S. dollar compared to foreign currencies, Hawai'i would face strong competition from international travel destinations, such as Europe. Tourists from Japan may be less likely to travel to Hawai'i due to unfavorable foreign currency exchange rates. However, the COR expects that visitor arrivals will recover through the end of the calendar year as countries wind down COVID-19 restrictions, with domestic travel returning more quickly than foreign travel.

Following the COR's September 6, 2022 meeting, however, the Department of Taxation indicated that the impact of the constitutional income tax refunds pursuant to Act 115, SLH 2022, was not included in the FY 23 revenue projection. Thus, it was expected that the COR would make a downward adjustment for FY 23 at its January meeting to account for the constitutional income tax refunds. However, for the FB 2023-25 Executive Budget, the General Fund Financial Plan reflected a revenue loss adjustment of \$308.9 million in FY 23 for the constitutional income tax refunds but there was no adjustment to the COR's FY 23 projection.

The COR met on January 5, 2023 and revised its projections. The impact of these revised projections on the December 19, 2022 general fund financial plan will be discussed on page 14.

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 in FY 23 the estimated revenue losses from the constitutional income tax refunds and Renewable Energy Technology Income Tax Credit, and estimated Federal Emergency Management Agency COVID-19 reimbursements.

Expenditures

The “EXPENDITURES” section incorporates the FB 2023-25 Executive Biennium Budget, Judiciary’s FB 2023-25 Biennium Budget, updated funding levels for the Office of Hawaiian Affairs, continuation of funding levels for the Legislature, specific appropriations/CB authorized during the various 2021 and 2022 Legislative Sessions, and other expenditures/adjustments not accounted for in the Executive Budget or specific appropriations.

The “Executive Branch: Operating” row reflects the FB 2023-25 Executive Biennium Budget for FY 24 and FY 25 and projected out-year requirements based on carryover of FY 25 non-fixed costs through FY 29 and projected increases for fixed costs (debt service, fringe benefits, Medicaid, etc.) through FY 29. The Executive Biennium Budget also incorporates: CB increases from the current CB contracts for FY 24 and FY 25 for all bargaining units with the exception of Unit 5, Teachers; and costs to fold in recurring funding requirements for programs and services that were established through specific legislation during the various 2021 and 2022 Legislative Sessions.

The “Executive Branch: Specific appropriations/CB” row reflects the specific appropriations for FY 22 and FY 23 including the FY 22 and FY 23 costs for CB for all bargaining units with the exception of Unit 5, Teachers. The amounts are large

because they include appropriations for the Kalima settlement, Department of Hawaiian Home Lands homestead development, Rental Housing Revolving Fund cash infusion, EBRF deposit, pre-K classrooms, etc.

The “Executive Branch: Other expenditures/adjustments” row reflects the \$5.0 million per year set aside for claims against the State in FY 23 through FY 29.

Ending Balances

For FY 22, total revenues were \$10,211.5 million and total expenditures were \$8,842.4 million, resulting in revenues over expenditures of \$1,369.1 million for the fiscal year. This amount added to the beginning balance of \$1,249.9 million resulted in an unaudited ending balance of \$2,619.0 million for FY 22. For FY 23, estimated total revenues are \$10,413.1 million and estimated total expenditures are \$11,098.5 million, resulting in revenues under expenditures of -\$685.5 million for the fiscal year. This amount added to the FY 23 beginning balance of \$2,619.0 million results in an estimated ending balance of \$1,933.5 million for FY 23.

For FY 24, estimated total revenues are \$11,208.6 million and estimated total expenditures are \$10,332.8 million, resulting in revenues over expenditures of \$875.8 million and an estimated ending balance of \$2,809.3 million. For FY 25, estimated total revenues are \$11,518.4 million and estimated total expenditures are \$10,114.2 million, resulting in revenues over expenditures of \$1,404.3 million and an estimated ending balance of \$4,213.6 million.

Revenues are estimated to exceed expenditures for FY 26, FY 27, FY 28 and FY 29, resulting in estimated balances of \$5,870.1 million; \$7,868.7 million; \$10,097.3 million; and \$12,628.4 million, respectively.

Impact of COR's January 5, 2023 Projections on Financial Plan

On January 5th, the COR lowered its forecast to 5.5% from 6.5% for FY 23, increased its forecast to 5.0% from 4.0% for FY 24, and maintained its forecast for FY 25 through FY 29 at 3.5%. In its forecast transmittal letter, the COR explained that the 1.0% reduction is due to the revenue loss from the constitutional tax refund, which it did not consider in its September 2022 meeting, mitigated by strong tax collections in the first half of the year.

The COR notes that tax collections remain robust due to the recovery of tourist arrivals, renewed consumer spending, and additional tax collections due to inflation. The COR points out that risks that may inhibit the economic recovery include new variants of the COVID-19 virus, inflation and an aggressive monetary policy response from the Federal Reserve, high oil and commodity prices, geopolitical events including economic disruptions associated with the war in Ukraine, severe labor shortages, supply chain disruptions, sustained travel hesitancy from Asian markets due to the pandemic, and the reduction in federal stimulus spending.

The COR expects visitor spending will plateau in the coming months with an increase in foreign visitors making up for a slight shortfall in domestic visitors. The COR highlights that given the prominent role of tourism in Hawai'i's economy, the number of visitors to the State will have major impacts on the economy and tax collections.

Attachment 4 compares the COR's January 5th tax and non-tax revenue projections with the COR's September 9, 2022 tax and non-tax projections. It also adjusts out certain financial plan adjustments that were included in the December 19th financial plan as non-COR adjustments but are now accounted for in the COR's January 5th projections.

The top rows of the attachment compare the COR's September 2022 and January 2023 tax revenue projections. As can be seen, tax revenues decrease by -\$93.6 million in FY 23 and increase by \$1.4 to \$1.7 million per year for FY 24 through FY 29. The middle rows compare the COR's September 2022 and January 2023 Executive Branch and Judiciary non-tax revenue projections. As can be seen, total non-tax revenues increase by \$6.7 million in FY 23 and increase by \$1.4 to \$0.3 million per year for FY 24 through FY 27 and decrease by -\$1.0 to -\$1.1 million per year for FY 28 and FY 29. The lower-third rows compare total tax and non-tax revenue projections and as can be seen, total revenues decrease by -\$86.9 million in FY 23 and increase by \$2.9 million to \$0.6 million per year for FY 24 through FY 29.

The rows near the bottom of the attachment show the non-COR tax and non-tax revenue adjustments there that were included in the December 19th financial plan as non-COR adjustments but are being adjusted out of the financial plan because these adjustments are now accounted for in the COR's January 5th projections. The major adjustment being adjusted out is the projected revenue loss of -\$308.9 million in FY 23 due to the Act 115, SLH 2022, constitutional tax refund.

The last row of the attachment shows the net impact of the COR's January 2023 projections on the general fund financial plan. As can be seen, there is a net gain of \$222.0 million in FY 23 and net gains of \$7.1 million to \$6.1 million per year for FY 24 through FY 29. In total, the net gain for the fiscal biennium and planning period is \$261.0 million.

Turning back to the bottom of Attachment 3, one can see the changes to revenues over (under) expenditures and the ending fund balances resulting from the COR's updated forecast. For FY 23, revenues under expenditures decrease

from -\$685.5 million to -\$463.5 million and the ending balance increases from \$1,933.5 million to \$2,155.5 million. Ending balances for FY 24 increase to \$3,037.4 million; for FY 25 to \$4,448.7 million; for FY 26 to \$6,111.6 million; for FY 27 to \$8,117.3 million; for FY 28 to \$10,352.0 million; and for FY 29 to \$12,889.4 million.

EBRF Balances

At the bottom of Attachment 3 (below the dashed line), we reflect the actual and estimated balances of the EBRF and the percentages of the EBRF fund balance of prior year revenues. For FY 22, the EBRF balance was \$325.8 million, which represents 3.62% of FY 21 revenues. For FY 23, the estimated EBRF balance is \$972.8 million, which represents 9.53% of FY 22 revenues. The FY 23 EBRF balance includes the \$500 million transfer from the general fund pursuant to Act 115, SLH 2022, and the \$131.0 million transfer from the general fund pursuant to Section 328L-3, HRS.

For FY 24, the estimated EBRF balance is \$1,502.2 million, which represents 14.43% of FY 23 estimated revenues. The FY 24 EBRF balance includes the proposed transfer of an additional \$500 million of general funds to the EBRF in the FB 2023-25 Executive Biennium Budget. For FY 25 through FY 29, the EBRF percentages are around 13.9% 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 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 exceeded the FY 23 expenditure ceiling but are within the expenditure ceilings for FY 24 and FY 25.

For the Executive Branch, the total proposed appropriations from the general fund (which includes a \$5.0 million placeholder for a FY 23 emergency appropriation for claims against the State and the Executive Biennium Budget for FB 2023-25 but does not include other specific appropriation measures) exceed the appropriation ceiling by \$1.79 billion (or 19.5%) in FY 23 but are within the expenditure ceilings for FY 24 and FY 25. In FY 23, the excess is primarily due to the costs to support education, the development of rental housing, deposits to the EBRF and Pension Accumulation Fund, and other critical operational needs.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included as Attachment 5.

LEGISLATIVE AUTHORIZATION OF TAX REFUND OR CREDIT, DEPOSIT TO THE EMERGENCY AND BUDGET RESERVE FUND, 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 21 and FY 22 general fund balances were greater than 5% of FY 20 and FY 21 (the prior fiscal years, respectively) general fund revenues. Since two successive fiscal years' balances exceed 5% of revenues, the 2023 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.

ACTIVATION OF REQUIRED DEPOSIT TO THE EMERGENCY AND BUDGET

RESERVE FUND

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 21 and FY 22, general fund revenues increased by 8.7% from FY 20 to FY 21 and 13.4% from FY 21 to FY 22, exceeding the 5% threshold for both years. Additionally, the EBRF balance as of June 30, 2022, represented 3.6% of FY 21 revenues, which is less than the 10% threshold. Since the two criteria were met, the Director of Finance transferred 5% of the FY 22 general fund ending balance, or \$131.0 million, to the EBRF in November 2022.

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 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 6.

FEDERAL ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUNDS MAINTENANCE OF EFFORT COMPLIANCE

Before closing, it is important to note that the State is still subject to the ESSER proportional spending MOE requirement for FY 23. As you may recall, the ARP Act of 2021 required that states receiving ESSER program funds maintain state funding support for public elementary and secondary schools and for public universities (calculated separately) at least at the proportional level of the state's support for elementary and secondary education and for public universities relative to the state's overall spending averaged over FY 17, FY 18 and FY 19. If the State fails to meet the ESSER proportional spending MOE requirement, the United States Department of Education has the authority to impose a range of enforcement options, including seeking recovery of the approximately \$412,300,000 in ESSER program funds awarded to the Department of Education.

As the State's economy has improved and general fund revenues have rebounded, the ESSER proportional spending MOE obligation has become increasingly difficult to manage, in part due to certain large general fund appropriations made in FY 22 and FY 23 for non-educational purposes. These appropriations were made for worthy purposes but have the impact of increasing the denominator for the ESSER proportional spending MOE calculations if expended in FY 23. Without mitigating action, we do not believe that the State can meet the proportional spending requirement (or come close enough to be able to obtain a waiver). To address this situation, the

Administration will be proposing legislation to delay certain big-ticket, non-educational expenditures to FY 24 so these expenditures no longer impact the FY 23 proportional spending MOE calculations.

In summary, the FB 2023-25 Executive Biennium Budget and Multi-Year General Fund Financial Plan reflect our 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 2023-25 Executive Biennium Budget requests and forthcoming Governor's budget messages in the coming weeks. The Green Administration will work with you on a continual basis during the 2023 Session deliberations on the FB 2023-25 Executive Biennium Budget and the Multi-Year General Fund Financial Plan.

Thank you again for the opportunity to make this presentation.

Attachments

FB 23-25 BUDGET
CURRENT SERVICES OPERATING BUDGET CEILINGS
STATEWIDE TOTAL
10/10/2022

Means of Financing	Item	FY 2023 Appn (Act 248/2022 + Act 6/SpSLH 21)	Adjustments:			Budget Base FY 24	Adjustments:			Budget Base FY 25
			FY 24 CB	FY 24 Adjustments	FY 24 Non-recurring		FY 25 CB	FY 25 Adjustments	FY 25 Non-recurring	
General Fund	Perm	35,815.59	-	332.00	-	36,147.59	-	-	-	35,815.59
	Temp	2,647.55	-	3.50	-	2,651.05	-	-	-	2,647.55
	\$	9,184,277,906	131,288,342	-	(583,136,161)	8,732,430,087	211,237,107	-	(584,946,161)	8,810,568,852
Special Funds	Perm	7,272.83	-	22.00	-	7,294.83	-	-	-	7,272.83
	Temp	90.25	-	-	-	90.25	-	-	-	90.25
	\$	3,402,701,495	49,577,948	-	(495,497,865)	2,956,781,578	79,451,477	-	(495,497,865)	2,986,655,107
Federal Funds	Perm	2,430.66	-	3.00	-	2,433.66	-	-	-	2,430.66
	Temp	366.35	-	4.00	-	370.35	-	-	-	366.35
	\$	3,022,315,356	-	-	(59,471,420)	2,962,843,936	-	-	(59,471,420)	2,962,843,936
Other Fed Funds	Perm	416.20	-	0.40	-	416.60	-	-	-	416.20
	Temp	278.80	-	1.50	-	280.30	-	-	-	278.80
	\$	236,889,639	-	-	(25,175,000)	211,714,639	-	-	(28,640,000)	208,249,639
Private Contrib.	Perm	-	-	-	-	-	-	-	-	-
	Temp	-	-	-	-	-	-	-	-	-
	\$	903,067	-	-	-	903,067	-	-	-	903,067
County Funds	Perm	-	-	-	-	-	-	-	-	-
	Temp	3.00	-	-	-	3.00	-	-	-	3.00
	\$	937,802	-	-	(728,081)	209,721	-	-	(728,081)	209,721
Trust Funds	Perm	90.00	-	-	-	90.00	-	-	-	90.00
	Temp	10.00	-	-	-	10.00	-	-	-	10.00
	\$	762,356,963	540,732	-	(288,202,400)	474,695,295	864,246	-	(338,302,400)	424,918,809
Interdept'l Trsf	Perm	256.20	-	84.60	-	340.80	-	-	-	256.20
	Temp	41.60	-	10.50	-	52.10	-	-	-	41.60
	\$	82,443,488	1,569,920	-	(6,000)	84,007,408	2,452,492	-	(6,000)	84,889,980
American Rescue Pln	Perm	-	-	-	-	-	-	-	-	-
	Temp	1.00	-	(1.00)	-	-	-	(1.00)	-	-
	\$	-	-	-	-	-	-	-	-	-
Revolving Funds	Perm	384.60	-	8.00	-	392.60	-	-	-	384.60
	Temp	123.50	-	-	-	123.50	-	-	-	123.50
	\$	554,096,569	2,027,357	-	(17,551,300)	538,572,626	3,255,365	-	(17,551,300)	539,800,634
Other Funds	Perm	115.00	-	-	-	115.00	-	-	-	115.00
	Temp	2.00	-	(2.00)	-	-	-	(2.00)	-	-
	\$	20,102,490	823,602	-	(307,183)	20,618,909	1,302,915	-	(307,183)	21,098,222
Sub-total: Non-GF	Perm	10,965.49	-	118.00	-	11,083.49	-	-	-	10,965.49
	Temp	916.50	-	13.00	-	929.50	-	(3.00)	-	913.50
	\$	8,082,746,869	54,539,559	-	(886,939,249)	7,250,347,179	87,326,495	-	(940,504,249)	7,229,569,115
TOTAL	Perm	46,781.08	-	450.00	-	47,231.08	-	-	-	46,781.08
	Temp	3,564.05	-	16.50	-	3,580.55	-	(3.00)	-	3,561.05
	\$	17,267,024,775	185,827,901	-	(1,470,075,410)	15,982,777,266	298,563,602	-	(1,525,450,410)	16,040,137,967

**FB 23-25 Operating Budget
Statewide Totals by Means of Financing**

		Budget Base*		FY 24		Budget Base*		FY 25	
		FY 2024	Adjustment	FY 2024	FY 2025	Adjustment	FY 2025		
General Funds	perm	36,147.59	483.59	36,631.18	35,815.59	486.59	36,302.18		
	temp	2,651.05	42.99	2,694.04	2,647.55	42.99	2,690.54		
	\$	8,732,430,087	1,117,848,575	9,850,278,662	8,810,568,852	846,345,064	9,656,913,916		
Special Funds	perm	7,294.83	(14.00)	7,280.83	7,272.83	(14.00)	7,258.83		
	temp	90.25	(5.00)	85.25	90.25	(5.00)	85.25		
	\$	2,956,781,578	610,404,671	3,567,186,249	2,986,655,107	637,814,910	3,624,470,017		
Federal Funds	perm	2,433.66	(88.19)	2,345.47	2,430.66	(88.19)	2,342.47		
	temp	370.35	2.01	372.36	366.35	2.01	368.36		
	\$	2,962,843,936	203,933,978	3,166,777,914	2,962,843,936	232,160,707	3,195,004,643		
Other Federal Funds	perm	416.60	14.70	431.30	416.20	14.70	430.90		
	temp	280.30	(11.50)	268.80	278.80	(11.50)	267.30		
	\$	211,714,639	55,072,579	266,787,218	208,249,639	51,113,517	259,363,156		
Private Contributions	perm	-	-	-	-	-	-		
	temp	-	-	-	-	-	-		
	\$	903,067	-	903,067	903,067	-	903,067		
County Funds	perm	-	-	-	-	-	-		
	temp	3.00	-	3.00	3.00	-	3.00		
	\$	209,721	-	209,721	209,721	-	209,721		
Trust Funds	perm	90.00	-	90.00	90.00	-	90.00		
	temp	10.00	-	10.00	10.00	-	10.00		
	\$	474,695,295	(1,560,000)	473,135,295	424,918,809	(1,560,000)	423,358,809		
Interdepartmental Transfers	perm	340.80	18.40	359.20	256.20	18.40	274.60		
	temp	52.10	(4.50)	47.60	41.60	(4.50)	37.10		
	\$	84,007,408	771,553	84,778,961	84,889,980	1,809,386	86,699,366		
Revolving Funds	perm	392.60	10.00	402.60	384.60	10.00	394.60		
	temp	123.50	2.00	125.50	123.50	2.00	125.50		
	\$	538,572,626	53,959,022	592,531,648	539,800,634	53,682,022	593,482,656		
Other Funds	perm	115.00	-	115.00	115.00	-	115.00		
	temp	-	-	-	-	-	-		
	\$	20,618,909	-	20,618,909	21,098,222	-	21,098,222		
TOTAL REQUIREMENTS	perm	47,231.08	424.50	47,655.58	46,781.08	427.50	47,208.58		
	temp	3,580.55	26.00	3,606.55	3,561.05	26.00	3,587.05		
TOTAL REQUIREMENTS		\$ 15,982,777,266	2,040,430,378	18,023,207,644	16,040,137,967	1,821,365,606	17,861,503,573		

*The FYs 24 and 25 Budget Bases reflect FY 23 appropriations from Act 88, SLH 2021, as amended by Act 248, SLH 2022, and Act 6, SSLH 2021; and including appropriation and position ceiling transfers between departments, collective bargaining (except federal, other federal funds, and American Rescue Plan funds) and specific recurring costs, less non-recurring expense adjustments, less appropriations treated as specific appropriations, less grants, and less capital improvement funds included in operating.

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 22 - 29
(in millions of dollars)

	Adj.Act.* FY 22	Estimated FY 23	Estimated FY 24	Estimated FY 25	Estimated FY 26	Estimated FY 27	Estimated FY 28	Estimated FY 29
REVENUES:								
Executive Branch:	29.1%	6.5%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%
Tax revenues	9,358.8	9,967.2	10,365.9	10,728.7	11,104.2	11,492.8	11,895.1	12,311.4
Nontax revenues	823.4	727.9	742.4	760.5	776.3	790.8	792.8	792.7
Judicial Branch revenues	29.4	32.1	29.3	29.3	29.3	29.3	29.3	29.3
Other revenues	(0.1)	(314.1)	71.0	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUES	10,211.5	10,413.1	11,208.6	11,518.4	11,909.7	12,312.9	12,717.1	13,133.4
EXPENDITURES								
Executive Branch:								
Operating	7,665.8	9,184.3	9,850.3	9,656.9	9,795.9	9,857.0	10,031.3	10,145.0
CIP	0.0	0.5	324.9	295.4	295.4	295.4	295.4	295.4
Specific appropriation/CB	1,079.2	1,767.6	-	-	-	-	-	-
Other expenditures/adjustments	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Sub-total - Exec Branch	8,745.0	10,957.4	10,180.1	9,957.3	10,096.3	10,157.4	10,331.7	10,445.4
Legislative Branch	42.4	44.6	44.9	44.9	44.9	44.9	44.9	44.9
Judicial Branch	166.0	174.1	184.7	188.9	188.9	188.9	188.9	188.9
OHA	66.3	2.3	3.0	3.0	3.0	3.0	3.0	3.0
Counties	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Lapses	(177.2)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	8,842.4	11,098.5	10,332.8	10,114.2	10,253.2	10,314.3	10,488.6	10,602.2
REV. OVER (UNDER) EXPEND.	1,369.1	(685.5)	875.8	1,404.3	1,656.5	1,998.6	2,228.5	2,531.2
CARRY-OVER BALANCE (DEFICIT)								
Beginning	1,249.9	2,619.0	1,933.5	2,809.3	4,213.6	5,870.1	7,868.7	10,097.3
Ending	2,619.0	1,933.5	2,809.3	4,213.6	5,870.1	7,868.7	10,097.3	12,628.4
Net impact of COR changes, 1.5.23 meeting		222.0	6.1	7.0	6.4	7.1	6.2	6.2
REV. OVER (UNDER) EXPEND.	1,369.1	(463.5)	881.9	1,411.3	1,662.9	2,005.7	2,234.7	2,537.4
CARRY-OVER BALANCE (DEFICIT)								
Beginning	1,249.9	2,619.0	2,155.5	3,037.4	4,448.7	6,111.6	8,117.3	10,352.0
Ending	2,619.0	2,155.5	3,037.4	4,448.7	6,111.6	8,117.3	10,352.0	12,889.4
<i>EBRF (adds \$500M in FY23, Act 115/22; adds \$500M in FY24 as included in the FB 23-25 Executive Budget Request)</i>	325.8	972.8	1,502.2	1,552.2	1,602.4	1,654.2	1,707.4	1,762.2
<i>EBRF fund balance as % of prior yr revenues</i>	3.62%	9.53%	14.13%	13.84%	13.90%	13.88%	13.86%	13.85%

* unaudited

Notes:

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 basis 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.

Following the COR's September 6, 2022 meeting, the Department of Taxation indicated that the effect of the constitutional income tax refunds pursuant to Act 115, SLH 2022, were not included in the FY 23 revenue projection. The COR did incorporate the tax refunds into their January projections for FY 23. Since the General Fund Financial Plan included a revenue adjustment of -\$308.9 million in FY 23, the net impact of the COR changes is 222.0 million.

Comparison Between Council on Revenues' January 5, 2022 Meeting and September 9, 2022 Report
 General Fund
 (in millions of dollars)

	<u>FY 22</u>	<u>FY 23</u>	<u>FY 24</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>	<u>FY 29</u>
Tax revenues								
	29.1%	5.5%	5.0%	3.5%	3.5%	3.5%	3.5%	3.5%
01-05-23	9,358.8	9,873.6	10,367.3	10,730.1	11,105.7	11,494.4	11,896.7	12,313.1
	29.1%	6.5%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%
09-09-22	9,358.8	9,967.2	10,365.9	10,728.7	11,104.2	11,492.8	11,895.1	12,311.4
Difference	0.0	(93.6)	1.4	1.5	1.5	1.6	1.6	1.7
Non-tax revenues								
Executive Branch:								
01-05-23	823.4	734.6	747.2	766.0	781.1	796.3	797.4	797.3
09-09-22	823.4	727.9	742.4	760.5	776.3	790.8	792.8	792.7
Difference	0.0	6.7	4.7	5.5	4.9	5.5	4.6	4.6
Judiciary:								
01-05-23	29.4	32.1	29.3	29.3	29.3	29.3	29.3	29.3
09-09-22	29.4	32.1	32.6	33.3	33.9	34.4	34.9	34.9
Difference	0.0	0.0	(3.3)	(4.1)	(4.6)	(5.1)	(5.6)	(5.6)
Total - Non-tax revenues								
01-05-23	852.8	766.6	776.4	795.3	810.4	825.6	826.7	826.6
09-09-22	852.8	760.0	775.0	793.8	810.1	825.2	827.7	827.6
Difference	0.0	6.7	1.4	1.4	0.3	0.4	(1.0)	(1.1)
TOTAL - TAX + NON-TAX								
01-05-23	10,211.6	10,640.2	11,143.7	11,525.4	11,916.1	12,320.0	12,723.3	13,139.6
09-09-22	10,211.6	10,727.1	11,140.9	11,522.5	11,914.3	12,318.0	12,722.7	13,139.0
DIFFERENCE	0.0	(86.9)	2.8	2.9	1.8	2.0	0.6	0.6
Adjustments already included in fin plan:								
Act 115-Statutorily req'd tax refund	0.0	(308.9)	0.0	0.0	0.0	0.0	0.0	0.0
JUD's revs fr. Nov 1st letter	0.0	0.0	(3.3)	(4.1)	(4.6)	(5.1)	(5.6)	(5.6)
	0.0	(308.9)	(3.3)	(4.1)	(4.6)	(5.1)	(5.6)	(5.6)
Net impact of COR changes on financial plan:	0.0	222.0	6.1	7.0	6.4	7.1	6.2	6.2

**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 2018	76,168
Calendar Year 2019	79,700
Calendar Year 2020	83,110
Calendar Year 2021	87,858
Calendar Year 2022*	87,858
Calendar Year 2023*	91,372

* As estimated by the Council on Revenues Nov. 2022

State Growth	
Fiscal Year 2023	4.88%
Fiscal Year 2024	3.33%
Fiscal Year 2025	3.24%

B. All Branches of Government

General Fund Appropriations	
Fiscal Year 2022 (incl proposed)	9,019,664,047
Fiscal Year 2023 (incl proposed)	11,178,515,694
Fiscal Year 2024 (incl proposed)	10,087,919,040
Fiscal Year 2025 (incl proposed)	9,898,754,692

General Fund Expenditure Ceiling	
Fiscal Year 2023	10,307,965,693
Fiscal Year 2024	10,651,282,797
Fiscal Year 2025	10,996,139,238

C. Executive Branch

Recommended General Fund Appropriations	
Fiscal Year 2024	9,855,278,662
Fiscal Year 2025	9,661,913,916

Actual General Fund Appropriations	
Fiscal Year 2022	8,744,986,608
Fiscal Year 2023	10,952,424,671
Proposed add'l appropriations	5,000,000
	10,957,424,671

General Fund Appropriation Ceiling	
Fiscal Year 2023	9,171,384,762
Fiscal Year 2024	11,322,372,655
Fiscal Year 2025	10,174,362,888

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 2023-2025 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 2022-2023 and estimated for each fiscal year from fiscal year 2023-2024 to 2026-2027, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2019-2020	7,631,208,089	
2020-2021	8,249,554,335	
2021-2022	10,205,616,785	
2022-2023	10,721,213,000	1,608,660,051
2023-2024	11,134,968,000	1,799,210,354
2024-2025	11,516,593,000	1,977,144,197
2025-2026	11,908,370,000	2,057,987,730
2026-2027	(not applicable)	2,131,195,745

For fiscal years 2022-2023, 2023-2024, 2024-2025, 2025-2026 and 2026-2027 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 2019-2020, 2020-2021 and 2021-2022 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, 2022, dated November 29, 2022. The net general fund revenues for fiscal years 2022-2023 to 2025-2026 are estimates, based on general fund revenue estimates made as of September 6, 2022, 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 2022-2023 to 2041-2042, 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
2023	757,840,636	288,325,114	1,046,165,750	4,395,654	1,518,993	5,914,647	753,444,982	286,806,121	1,040,251,103
2024	725,984,123	291,635,701	1,017,619,824	4,570,218	1,341,728	5,911,946	721,413,905	290,293,973	1,011,707,878
2025	705,830,473	271,295,070	977,125,543	4,756,657	1,156,468	5,913,125	701,073,816	270,138,602	971,212,418
2026	731,055,747	249,641,490	980,697,237	4,949,940	962,877	5,912,817	726,105,807	248,678,613	974,784,420
2027	594,886,178	228,175,402	823,061,580	3,010,535	756,364	3,766,899	591,875,643	227,419,038	819,294,681
2028	589,919,107	206,483,868	796,402,975	2,823,484	647,663	3,471,147	587,095,623	205,836,205	792,931,828
2029	579,254,815	185,131,419	764,386,234	1,985,000	545,069	2,530,069	577,269,815	184,586,350	761,856,165
2030	552,992,126	164,747,590	717,739,716	2,050,000	484,544	2,534,544	550,942,126	164,263,046	715,205,172
2031	525,653,919	144,637,114	670,291,033	2,110,000	420,825	2,530,825	523,543,919	144,216,289	667,760,208
2032	544,067,152	126,147,107	670,214,259	2,180,000	352,431	2,532,431	541,887,152	125,794,676	667,681,828
2033	489,948,856	109,004,938	598,953,794	2,250,000	280,444	2,530,444	487,698,856	108,724,494	596,423,350
2034	465,989,932	93,217,819	559,207,751	2,325,000	206,100	2,531,100	463,664,932	93,011,719	556,676,651
2035	427,115,000	77,603,223	504,718,223	2,405,000	127,734	2,532,734	424,710,000	77,475,489	502,185,489
2036	388,535,000	63,099,597	451,634,597	2,490,000	43,575	2,533,575	386,045,000	63,056,022	449,101,022
2037	344,975,000	48,911,644	393,886,644	0	0	0	344,975,000	48,911,644	393,886,644
2038	280,105,000	36,452,545	316,557,545	0	0	0	280,105,000	36,452,545	316,557,545
2039	236,010,000	25,594,115	261,604,115	0	0	0	236,010,000	25,594,115	261,604,115
2040	207,265,000	16,807,638	224,072,638	0	0	0	207,265,000	16,807,638	224,072,638
2041	214,755,000	9,319,736	224,074,736	0	0	0	214,755,000	9,319,736	224,074,736
2042	118,630,000	2,742,882	121,372,882	0	0	0	118,630,000	2,742,882	121,372,882

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, 2022, adjusted for the lapses proposed in THE MULTI-YEAR PROGRAM AND FINANCIAL PLAN AND EXECUTIVE BUDGET FOR THE PERIOD 2023-2029 [Budget Period: 2023-2025] (referred to as the "Budget"), the total amount of authorized and unissued general obligation bonds is \$4,196,915,037. The amount of general obligation bonds proposed in the Budget is \$1,200,000,000 (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 \$5,396,915,037.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2022-2023 to 2026-2027, the State proposed to issue \$775,000,000 in general obligation bonds during the second half of fiscal year 2022-2023, \$625,000,000 in general obligation bonds during the first half of fiscal year 2023-2024, and \$625,000,000 in general obligation bonds during the second half of fiscal year 2023-2024, \$575,000,000 in general obligation bonds during the first half of fiscal year 2024-2025, and \$575,000,000 in general obligation bonds during the second half of fiscal year 2024-2025, \$575,000,000 in general obligation bonds during the first half of fiscal year 2025-2026, and \$575,000,000 in general obligation bonds during the second half of fiscal year 2025-2026, and \$550,000,000 in general obligation bonds during the first half of fiscal year 2026-2027, and \$550,000,000 in general obligation bonds during the second half of fiscal year 2026-2027. 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 2023-2024, 2024-2025, 2025-2026, and 2026-2027, is \$5,425,000,000. The total amount of \$5,425,000,000, which is proposed to be issued through fiscal year 2026-2027 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 \$5,396,915,037, 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, 2027, 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 0.47 percent for approximately ten years from fiscal year 2022-2023 to fiscal year 2031-2032. 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 2022-2023, 2023-2024, 2024-2025, 2025-2026 and 2026-2027 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>
2022-2023	9,676,807,429
2023-2024	10,923,687,429
2024-2025	12,070,817,429
2025-2026	13,217,947,429
2026-2027	14,315,197,429

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 6.75 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 2022-2023 \$775,000,000	1,608,660,051	1,117,436,712 (2023-2024)
1st half FY 2023-2024 \$625,000,000	1,799,210,354	1,159,621,994 (2025-2026)
2nd half FY 2023-2024 \$625,000,000	1,799,210,354	1,240,116,181 (2025-2026)
1st half FY 2024-2025 \$575,000,000	1,977,144,197	1,312,988,756 (2025-2026)
2nd half FY 2024-2025 \$575,000,000	1,977,144,197	1,387,054,394 (2025-2026)
1st half FY 2025-2026 \$575,000,000	2,057,987,730	1,406,412,212 (2025-2026)
2nd half FY 2025-2026 \$575,000,000	2,057,987,730	1,406,412,212 (2025-2026)
1st half FY 2026-2027 \$550,000,000	2,131,195,745	1,418,917,324 (2027-2028)
2nd half FY 2026-2027 \$550,000,000	2,131,195,745	1,489,749,512 (2027-2028)

(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 black ink, appearing to read 'D. P. S.', with a long horizontal line extending to the right.

Director of Finance
State of Hawaii