




**STATE OF HAWAII**  
**DEPARTMENT OF EDUCATION**  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

August 18, 2015

TO: The Honorable Grant Chun  
Chairperson, Committee on Finance and Infrastructure

FROM:   
Kathryn S. Matayoshi  
Superintendent

SUBJECT: **Update on Restrictions by the Executive Branch on the Department of Education's Fiscal Year 2015-2016 Budget Appropriation**

1. DESCRIPTION

The Fiscal Year (FY) 2015-16 allocation to the Department is currently only 25% of the Legislative appropriation, less 10% of general fund programs determined by the Executive Branch to be "discretionary."

The Department will submit a proposal to the Finance and Instructure Committee on how to reduce program allocations once the annual FY 2015-16 Budget Execution Policies and Instructions are issued by the Governor.

2. UPDATE OR PRESENTATION

Background:

- a) On June 22, 2015, the Governor issued Executive Memorandum (EM) 15-01, "Interim Budget Execution Policies and Instructions for FY16" (Attachment A). EM 15-01 states:
- i. "...there is now uncertainty regarding year-end general fund revenue collections meeting the COR's FY 15 projection."
  - ii. "...departments will receive their respective budget allocations for the first quarter only."

- iii. "General funds: One-fourth of FY 16 discretionary operating program appropriation less a 10% restriction and/or one-fourth of the FY 16 non-discretionary operating program appropriation from Act 119, SLH 2015, as applicable."
- iv. "Non-general funds: One-fourth of the FY16 operating program appropriation from Act 119, SLH 2015."
- v. "Allocations for subsequent quarters will be made upon further consideration of revenue and expenditure requirements."

The definition of what Department programs are classified as "discretionary" used by the Department of Budget and Finance was all programs in EDN 200-700, except school food service and centralized custodial services. The general fund appropriation for these programs is \$269,162,699. If this amount is used for an annual allocation, the annual restriction would be -\$26,916,270. The first quarter (25%) restriction is calculated at -\$6,729,068.

- b) On July 2, 2015, a request to the Governor was transmitted through the Department of Budget and Finance (Attachment B) seeking the reclassification of several Department's programs classified as "discretionary" to "non-discretionary." While all general funded programs support schools, the specific programs identified included those that have in recent years experienced funding shortfalls, impact health and safety directly, are required to meet federal regulations, or provide direct instructional services.
- c) On July 30, 2015 the request was returned without action (Attachment C). The explanation provided was, "...although the State's economy continues to strengthen, we remain vulnerable to uncertainties at the national and worldwide level. The State must continue to be prudent with expenditures in order to preserve its resources for anticipated demands during the current year."

The Department continues to await formal notification of the annual allocation and restriction, and will follow up with the Finance and Infrastructure Committee when this information becomes available. The next Council on Revenues meets in September.

KSM:BH:ks  
Attachments

c: Amy S. Kunz, Senior Assistant Superintendent and CFO  
Budget Branch

**EXECUTIVE CHAMBERS**

HONOLULU

DAVID Y. IGE  
GOVERNOR

June 22, 2015

**EXECUTIVE MEMORANDUM**

MEMO NO. 15-01

**TO:** All Department Heads**SUBJECT:** Interim Budget Execution Policies and Instructions for FY 16

In its most recent report of June 1, 2015, the Council on Revenues (COR) raised its projected FY 15 general fund tax revenue growth rate from 5.5% to 7.5%. The increase in the growth rate was based primarily on the expected reduction in tax revenue payments resulting from the slower processing of individual tax returns due to additional screening being done by the Department of Taxation to prevent the payment of fraudulent refund claims, as evidenced by the preliminary FY 15 actual general fund tax collections through April 2015, which increased 9.5% compared to the same period last year.

However, even with the delay in tax refund processing, tax revenue collections through May were only up 6.3%. Thus, in order to meet the COR's projected growth rate of 7.5%, general fund revenues for June must reach about \$522 million. For comparison purposes, June 2014 general fund revenues were about \$430 million and, historically, revenue collections for the month of June have not surpassed \$490 million.

Thus, revenue collections for June 2015 must be historically high to reach the COR's projected growth rate. Consequently, although FY 15 general fund tax revenues have shown positive growth for most of the fiscal year, there is now uncertainty regarding year-end general fund revenue collections meeting the COR's FY 15 projection. If actual tax collections fall short, this will have a ripple effect that will negatively impact tax revenue projections in all subsequent fiscal years.

At this point, we must be prudent and prepared, as it is our responsibility to ensure that the State's fiscal health is maintained through FY 16 and beyond. It is crucial to recognize that State expenditures have been outpacing revenues; therefore, we must be certain that our expenditures are necessary and justifiable.

We must also position the State to meet growing commitments to address our unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund. Uncertainties on the national and worldwide level, including federal cutbacks, continued economic volatility in Europe, slowdowns in Asia and unrest in the Middle East give us added reasons to keep a watchful eye on our finances.

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As such, to ensure that our fiscal actions are appropriate given the uncertainty regarding general fund revenues, the issuance of full-year budget execution policies for FY 16 is being delayed.

During the interim, the following actions are hereby authorized:

1. On July 1, 2015, departments will receive their respective budget allocations for the first quarter only.

The attached Exhibit 1 contains your department's First Quarter allocation, which is:

- General funds: One-fourth of FY 16 discretionary operating program appropriation less a 10% restriction and/or one-fourth of the FY 16 non-discretionary operating program appropriation from Act 119, SLH 2015, as applicable.
  - Non-general funds: One-fourth of the FY 16 operating program appropriation from Act 119, SLH 2015.
2. Departments should exercise caution with expenditures, especially when initiating new initiatives, as final allocations have not been established. Allocations for subsequent quarters will be made upon further consideration of revenue and expenditure requirements.
  3. Release of general fund specific appropriations and grants authorized for expenditure in FY 16 by the 2015 Legislature or other legislative sessions will be considered after full-year allocations have been made and shall be subject to a 5% restriction and a 5% contingency restriction. However, departments may submit requests for release of non-general fund specific appropriations and grants, including those for capital improvements, which will be reviewed on a case-by-case basis.
  4. Except for allocation amounts, all other current budget execution policies as contained in Executive Memorandum (E.M.) No. 14-06, *FY 15 Budget Execution Policies and Instructions* (dated September 2, 2014), remain in effect.
  5. Capital Improvement Program policies and procedures as contained in E.M. No. 97-07, *Procedures for Requesting the Implementation of Capital Improvement Projects* (dated June 19, 1997), shall continue to be followed.

Your appropriate attention to this matter is appreciated. Questions on the specific policies and procedures should be directed to the Department of Budget and Finance analyst assigned to your department or the appropriate agency referenced.

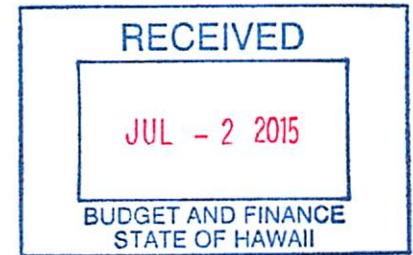
  
DAVID Y. IGE  
Governor, State of Hawaii

FY 2016 ALLOCATION  
DEPARTMENT OF EDUCATION  
(Interim June 2015)

	General Fund	Special Funds	Federal Funds (N)	Other Federal Funds (P)	Private Contrib.	County Funds	Trust Funds	Inter-dept'l Transfers	Federal Stimulus	Revolving Funds	Other Funds	Total Allocation	GO Bond Funds (CB)*
Appropriation	19,313.25 1,530,655,758	737.50 56,159,324	5.00 250,220,049	- 7,792,000	- -	- -	- 17,640,000	- 7,761,985	- -	8.00 32,834,438	- -	20,063.75 1,903,063,554	
1st Quarter Allocation	19,313.25 375,934,872	737.50 14,039,831	5.00 62,555,012	- 1,948,000	- -	- -	- 4,410,000	- 1,940,496	- -	8.00 8,208,610	- -	20,063.75 469,036,821	
Restrictions	RESTRICTIONS - TO BE DETERMINED												



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2360  
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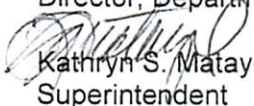


OFFICE OF THE SUPERINTENDENT

July 2, 2015

TO: The Honorable David Y. Ige  
Governor, State of Hawaii

THROUGH: The Honorable Wesley K. Machida  
Director, Department of Budget and Finance

FROM:   
Kathryn S. Matayoshi  
Superintendent

SUBJECT: Request for Revision of Education Programs Classified as Non-Discretionary

**Background:**

On June 22, 2015, Executive Memorandum 15-01, Interim Budget Execution Policies and Instructions for FY 16 was issued. Included in this memorandum was notification that the Department of Education's (Department) first quarter allocation of general funds would be "one-fourth of FY 16 discretionary operating program appropriation less a 10% restriction and/or one-fourth of the FY 16 non-discretionary operating program appropriation from Act 119, SLH 2015, as applicable."

It appears the same general fund programs classified as discretionary in FY 15 by the previous Administration were assessed a 10% restriction, which when annualized is -\$26.9 million. The following general fund programs and appropriations make up the basis against which the restriction amount was calculated:

EDN	Description	Act 119, SLH 2015 Appropriation Subject to Restriction
200	Instructional Support	50,586,338
300	State Administration	46,984,179
400	School Support (less Food Svc. & School Custodial Svc.)	164,953,777
500	School Community Services	2,992,223
700	Early Learning	3,076,182
	Total Subject to Restriction	269,162,699
	Total Subject to Restriction * -10% =	<u>-\$26,916,270</u>

The Honorable David Y. Ige  
July 2, 2015  
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**Current Context:**

The Department is extremely appreciative that the 2015 Legislature was able to place a priority on the budgetary needs of the public school system for FY 16. For the previous eight years, the Legislature's general fund appropriations to the Department had remained flat, with the Executive Budget general fund appropriation in FY 08 of \$1.402 billion and in FY 15 of \$1.403 billion. For FY 16, the increases of \$100 million to meet contractual employee pay increases and \$28 million to address shortfalls in basic operations and make select strategic investments brings the FY 16 appropriation (including EDN700) to \$1.531 billion.

A restriction of \$26.9 million would nearly negate the non-collective bargaining additional fiscal support from the Legislature. The prospect of continuing to operate the schools with essentially a flat budget for a ninth year is daunting.

By Board of Education (Board) policy, restrictions must be approved by the Board by program and amount. Implementing a restriction of this magnitude will negatively impact educational services the Department would otherwise be able to provide. In the coming weeks, the Department will be reviewing its programs and operations, looking for ways to impose the restriction while ensuring that 1) all students continue to receive equal educational opportunities; 2) the well-being of students are protected; and 3) all legally mandated programs and services are preserved.

All the while, the Department will attempt to continue moving forward with reform initiatives aligned with the Department's and Board's Strategic Plan 2011-2018 (2012 update), including supporting continued advances in student achievement and efficiency improvements with implementing a new system of accountability pursuant to the recently approved Elementary and Secondary Education Act Flexibility (ESEA Flex) waiver, an enhanced Internal Audit program, sabbatical leaves to support professional development, and an expanded communications program.

**Request:**

To help minimize negative impacts to both basic operations and sustained progress with transformational reform efforts, I respectfully request consideration for expanding the Administration's definition of "non-discretionary" to several programs that have direct impact on school operations. These programs include the balance of School Support programs in EDN400 and several additional programs (see attached). These additional programs include:

- EDN200: complex area administration activities to support schools, nationally board certified teacher incentives, and homeless concerns programs;
- EDN300: the blood pathogen control, military interstate compact, and the criminal history check programs;
- EDN400: student transportation, school utilities (sewer, gas, electricity budget), safety and security, maintenance of effort requirement for the office of child nutrition, and environmental services programs;
- EDN500: adult education program, which is preparing for a third year of operating with approximately one-half of the general fund support it previously enjoyed; and
- EDN700: preschool classrooms in public schools.

The Honorable David Y. Ige  
 July 2, 2015  
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If approved the following would be the level of restriction by EDN:

EDN	Program Description	E.M. 15-01 Basis for Restriction	Basis to Restrict per Request	Proposed Revised Restriction
100	School Based Budgeting	570,000	570,000	(57,000)
200	Instructional Support	50,586,338	28,846,903	(2,884,690)
300	State Administration	46,984,179	45,800,483	(4,580,048)
400	School Support	164,953,777	0	(0)
500	School Community	2,992,223	200,000	(20,000)
700	Early Learning	3,076,182	312,182	(31,218)
		<u>269,162,699</u>	<u>75,729,568</u>	<u>(7,572,956)</u>

If there are any questions regarding this request, please contact Amy S. Kunz, Senior Assistant Superintendent and Chief Financial Officer, at 586-3737. Thank you in advance for your consideration of this request.

RECOMMEND:

☐ APPROVAL

☐ DISAPPROVAL

\_\_\_\_\_  
 WESLEY K. MACHIDA  
 Director of Finance

\_\_\_\_\_  
 DATE

☐ APPROVED

☐ DISAPPROVED

\_\_\_\_\_  
 DAVID Y. IGE  
 Governor, State of Hawaii

\_\_\_\_\_  
 DATE

KSM:ks

Attachment

c: Members of the Board of Education  
 Deputy Superintendent  
 Executive Assistant to the Superintendent  
 Assistant Superintendents



Department of Education  
Request for Revision of Education Programs Classified as Non-Discretionary

EDN	SUBORG	SUBORG TITLE	E.M. 15-01 Discretionary Basis	Proposed Difference	Proposed Discretionary Program Balance	COMMENTS
EDN100	CT	CHAPTER 42F, HRS GRANTS	570,000	-	570,000	
EDN200	CT	CHAPTER 42F, HRS GRANTS	250,000	-	250,000	
EDN200	GB	INSTRUCTIONAL DEVLPMT-ADM SVCS	363,830	-	363,830	
EDN200	GC	CURRICULUM & INSTRUCTION BRANC	1,636,669	-	1,636,669	
EDN200	GD	SCH LEADERSHIP & IMPROVEMENT	7,540,513	-	7,540,513	
EDN200	GG	ADVANCED TECHNOLOGY RESEARCH	1,574,464	-	1,574,464	
EDN200	GH	TEACHER IMPROVEMENT SERVICES	2,931,523	(2,911,525)	19,998	Exclude national board certified teacher bonuses and teacher sabbaticals
EDN200	GJ	LEADERSHIP DEVELOPMENT	3,836,947	-	3,836,947	
EDN200	GM	TECHNOLOGY EDUCATION	897,235	-	897,235	
EDN200	GN	SCHOOL COMPLEX RESOURCE SVCS	19,271,823	(18,251,641)	1,020,182	Exclude complex area support for schools
EDN200	GP	SYSTEMS ACCOUNTABILITY	11,707,065	-	11,707,065	
EDN200	GQ	HOMELESS CONCERNS	576,269	(576,269)		
EDN300	KC	BOARD OF EDUCATION	203,165	-	203,165	
EDN300	KD	OFFICE OF THE SUPERINTENDENT	4,000,363	(25,000)	3,975,363	Exclude military compact dues
EDN300	KF	FISCAL SERVICES	5,893,147	-	5,893,147	
EDN300	KH	CIVIL RIGHTS COMPLIANCE OFFICE	488,237	(488,237)	-	
EDN300	KO	PERSONNEL SERVICES	13,628,284	(670,459)	12,957,825	Exclude criminal history background check and blood borne pathogen control
EDN300	UA	INFORMATION & TECHNOLOGY SVCS	22,770,983	-	22,770,983	
EDN400	MB	FOOD SERVICE ADMINISTRATION	460,416	(460,416)	-	
EDN400	MC	OFFICE/HAW CHILD NUTRITION PRG	185,843	(185,843)	-	Exclude maintenance of effort requirement for USDA nutrition program
EDN400	OB	SCH FACILITIES/SUPPORT SERVICES	1,308,877	(1,308,877)	-	Exclude repographics and executive leadership for facilities and school support
EDN400	OC	FACILITIES SERVICES	36,816,570	(36,816,570)	-	Exclude school repair and maintenance and auxiliary services
EDN400	OE	UTILITIES	63,897,951	(63,897,951)	-	
EDN400	OJ	ENVIRONMENTAL SERVICES	620,042	(620,042)	-	
EDN400	YA	STUDENT TRANSPORTATION	61,664,078	(61,664,078)	-	
EDN500	CT	CHAPTER 42F, HRS GRANTS	200,000	-	200,000	
EDN500	PC	ADULT ED PER PUPIL ALLOCATION	2,792,223	(2,792,223)	-	Exclude adult and community school operations
EDN700	CT	CHAPTER 42F, HRS GRANTS	200,000	-	200,000	
EDN700	PK	EARLY LEARNING	2,876,182	(2,764,000)	112,182	Exclude preschool in public schools
Grand Total			269,162,699	(193,433,131)	75,729,568	

DAVID Y. IGE  
GOVERNOR



WESLEY K. MACHIDA  
DIRECTOR

RODERICK K. BECKER  
DEPUTY DIRECTOR

DEPT OF EDUCATION  
SUPT'S OFFICE

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

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

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

July 30, 2015

TO: The Honorable Kathryn S. Matayoshi, Superintendent  
Department of Education

FROM: Wesley K. Machida, Director *Wesley K. Machida*  
Department of Budget and Finance

SUBJECT: Request for Revision of Education Programs Classified as  
Non-Discretionary

Your memorandum dated July 2, 2015, requesting revision of Education Programs Classified as "Discretionary" to "Non-Discretionary," has been reviewed.

I recognize the importance of the programs and services that the Department of Education provides to the students of Hawaii. However, although the State's economy continues to strengthen, we remain vulnerable to uncertainties at the national and worldwide level. The State must continue to be prudent with expenditures in order to preserve its resources for anticipated demands during the current year. Thus, I am hereby returning your request without action at this time.

Be apprised that allocations for subsequent quarters will be provided upon further considerations of revenues and expenditure requirements.

Your understanding in this matter is appreciated.

Attachment