



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

OFFICE OF THE SUPERINTENDENT

July 19, 2016

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

FROM: 
Kathryn S. Matayoshi
Superintendent

SUBJECT: **Committee Action on Restrictions by the Executive Branch on the
Department of Education's 2016-2017 Fiscal Year Budget Appropriation**

1. RECOMMENDATION

It is recommended the Board of Education (Board) adopt the Department's recommendation for Fiscal Year (FY) 2016-17 general fund restriction plan (See Attachment A and B.)

2. RECOMMENDED EFFECTIVE DATE

Upon approval.

3. RECOMMENDED COMPLIANCE DATE (if different from the effective date)

Same as effective date.

4. DISCUSSION (if different from the effective date)

a. Conditions leading to the recommendation

On June 24, 2016, the Department was notified via Executive Memorandum (E.M.) 16-02 that it would be restricted a total of \$5,826,264, which is a combination of a 5% contingency restriction of \$4,746,080, and an allocation adjustment of \$1,080,184 (See Attachment C).

E.M. 16-02 provides the background that leads to the imposition of the restriction:

- The June 1, 2016 Council on Revenues (COR) projection was lowered from 6.7% to 6.1%.

- Using the COR 6.1% projection it is estimated that the “FY16 general fund will be about \$890 million.”
- Preliminary actual general fund tax collections for the first 11 months of the year up 7.1% compared to the previous year.
- The State’s major economic drivers continue to show strength.
- “Although the State’s economy appears to be doing well...it can change suddenly and dramatically as it did only a few years ago.”
- “...the State must meet significant financial commitments to address our unfunded liabilities...”
- “The State will soon be undertaking collective bargaining (CB) negotiations for all the bargaining units (BU) for FB 2017-19.”

b. Previous action of the Board on the same or similar matter

October 20, 2015 Committee Action on recommendation concerning Department of Education’s supplemental operating budget and capital improvement request for Fiscal Year 2016-2017.

October 21, 2014 Presentation/Discussion/Committee Action on the Department of Education’s (Department) recommendation on the fiscal biennium operating budget for 2015-17.

October 20, 2015 Committee Action on recommendation concerning Department of Education’s operating budget: budget restriction implementation for Fiscal Year 2015-2016.

c. Other policies affected

1200-1.5 Board of Education Roles and Responsibilities: 4. Review and approve the Board/Department/Public Library budgets; ensure congruence of spending priorities with the Board’s goals and objectives. Establish policies to guide restrictions and expenditures.

1200-1.11 Budget Restrictions and Reductions: If budget restrictions are imposed by the Governor, the Superintendent shall notify the Board and provide it with comprehensive lists of recommended restrictions or reductions by program, function and cost, which shall be approved by the Board before they are forwarded to the Governor.

d. Arguments in support of the recommendation

The recommendation will enable the Department to move forward in determining how best to meet the Governor’s restriction while prioritizing and balancing the

needs of schools and while providing the necessary State and Complex Area supports for the schools.

In order to minimize severely impacting any one program or specific office, the restriction plan spreads out the cuts through EDN200 Instructional Support and EDN300 State Administration, and also relies on using federal reimbursements.

e. Arguments against the recommendation

The restriction amount must be achieved due to E.M. 16-02. However, the amounts and way in which the restriction implemented could be altered.

f. Educational implications

As programs will need to look to scale back and/or defer expenses until at least the second half of the fiscal year, the restriction could impact the quality, speed, and amount of support services the Department will be able to provide to all schools in the short and longer term. This could affect the customer services provided to schools to meet their ability of students to meet the Common Core Standards and Hawaii Content and Performance Standards.

g. Personnel implications

None at this time.

5. OTHER SUPPLEMENTARY RECOMMENDATIONS

The Department will be monitoring the impact of the restriction on the Department's ability to provide high quality support services to all schools as well as exceptional educational opportunities to all students.

E.M. 16-02 indicates that, "The 5% contingency restriction is intended as a contingency reserve for FY 17 and may be adjusted during the second half of the fiscal year based on actual tax collection trends and the COR's updated forecasts later in the fiscal year." If these factors or the actual ending cash balance from FY 16 compel the Administration to release the contingency restriction, the Department will look to restore funds to the programs for which the funds were appropriated or other shortfall areas.

KSM:KK:lg
Attachments

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

Department of Education
FY17 Restriction Plan - SUMMARY

E.M. 16-02: Announced Governor's FY17 Restriction

"5% Contingency"	4,746,080
"Other Allocation Adjustment"	1,080,184
Governor's Restriction Total	5,826,264

DOE's FY17 Restriction Plan

EDN 200: Haw Content/Perform Stand-Assessment	(1,100,000)
EDN 300: Offset using Federal Reimbursement	(1,276,000)
EDN 100: (GIA) After-School All Stars Hawaii - 5%	(10,000)
EDN 200: (GIA) - Read To Me International Foundation - 5%	(5,000)
EDN 200: (GIA) - Read Aloud America - 5%	(5,000)
EDN 200: across the board - 4.19% (excluding GIAs and ICAA)	(1,393,162)
EDN 300: across the board - 4.19%	(2,037,102)
DOE's Restriction of Appropriations	(5,826,264)

**Department of Education
FY17 Restriction Plan - DETAILS**

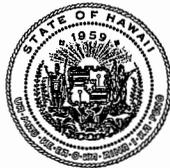
Target Restriction & Offset				FISCAL YEAR 2016 - 2017		Offset					
EDN	Prog ID	Prog ID Description	Budget	TARGETED	A	A1	B	C	M	Total	
200	15654	Haw Content/Perform Stand-Assessment	9,188,352	1,100,000		-	1,100,000	-	-	1,100,000	
300	OITS	Various: including 33021, 33084, & 33089		1,276,000		-	1,276,000	-	-	1,276,000	

Grant in Aids				FISCAL YEAR 2016 - 2017		5% Restriction by Character					
EDN	Prog ID	Prog ID Description	Budget	5%	A	A1	B	C	M	Total	
100	27483	GIA-After-School All Stars Hawaii	200,000	10,000			10,000			10,000	
200	18575	GIA-Read Aloud America	100,000	5,000	-	-	5,000	-	-	5,000	
200	18574	GIA-Read to Me International	100,000	5,000	-	-	5,000	-	-	5,000	

Across the Board Restriction				FISCAL YEAR 2016 - 2017		4.19% Restriction by Character					
EDN	Prog ID	Prog ID Description	Budget	4.1915873%	A	A1	B	C	M	Total	
200	25023	Instructional Development-Admin Svcs	369,753	15,498	13,885	-	1,551	62	-	15,498	
200	25024	Instructional Services Branch	1,698,525	71,195	69,043	168	1,565	419	-	71,195	
200	25233	Sch Improvement/Comm Leadership Grp-Adm	107,452	4,504	4,211	293	-	-	-	4,504	
200	15497	Athletics Administration	534,027	22,384	22,090	-	294	-	-	22,384	
200	25045	Student Support Services Group-Admin	209,453	8,780	6,310	-	2,470	-	-	8,780	
200	25237	Student Support Section	1,016,734	42,617	35,226	84	6,888	419	-	42,617	
200	28177	CSSS Support System	109,227	4,578	3,715	-	863	-	-	4,578	
200	25218	Educator Effectiveness System	600,000	25,150	-	-	25,150	-	-	25,150	
200	25219	Coordinated Support	262,778	11,014	5,733	-	5,281	-	-	11,014	
200	25220	School Transformation	4,843,578	203,022	76,560	-	126,462	-	-	203,022	
200	25221	Declining Balance Debit Card Pilot Proj	500,000	20,958	-	-	20,958	-	-	20,958	
200	25912	Advance Tech Research Branch-Admin	293,906	12,320	1,467	-	10,853	-	-	12,320	
200	25048	Hawaii Virtual Learning Network	1,296,195	54,331	16,753	21,264	16,314	-	-	54,331	
200	25115	Sabbatical Leave-Teachers	592,000	24,814	-	24,814	-	-	-	24,814	
200	25020	Employee Performance Management	19,998	839	-	-	646	193	-	839	
200	25758	Nationally Board Certified Teachers	2,319,525	97,225	-	97,225	-	-	-	97,225	
200	25234	Leadership Development	3,998,324	167,594	153,690	3,144	10,257	503	-	167,594	
200	16772	Teleschool	920,939	38,602	28,201	-	6,838	3,563	-	38,602	
200	25240	ICAA CI-Quality And Performance	15,055,424	Excluded							
200	25241	ICAA CI-System Quality	3,709,644	Excluded							
200	25242	Complex Area SBBH Services	1,051,105	44,058	44,058	-	-	-	-	44,058	
200	25035	Cmplx Based STEM Wrkforce Dev Pilot Proj	129,710	5,437	5,437	-	-	-	-	5,437	
200	33004	Systems Accountability Office	1,495,139	62,671	54,725	-	6,269	1,677	-	62,671	
200	15654	Haw Content/Perform Stand-Assessment	9,188,352	385,138	20,009	-	365,129	-	-	385,138	
200	15655	Haw Content & Perform Stand-Training	245,700	10,299	-	2,096	7,155	1,048	-	10,299	
200	25230	ELP Standards/Assessments Implementation	855,514	35,859	-	1,257	34,602	-	-	35,859	

**Department of Education
FY17 Restriction Plan - DETAILS**

Across the Board Restriction			FISCAL YEAR 2016 - 2017	Restriction	4.19% Restriction by Character					
EDN	Prog ID	Prog ID Description	Budget	4.1915873%	A	A1	B	C	M	Total
200	25759	Homeless Concerns	579,119	24,275	3,429	17,017	3,829	-	-	24,275
200 Total			52,002,121	1,393,162	564,542	167,362	653,374	7,884	-	1,393,162
300	33005	Board of Education Support Office	211,123	8,850	7,717	-	1,133	-	-	8,850
300	33007	Superintendent's Office	947,338	39,709	37,562	-	2,147	-	-	39,709
300	33033	Military Interstate Compact	25,000	1,048	-	-	1,048	-	-	1,048
300	33790	Protocol Fund	1,688	71	-	-	71	-	-	71
300	33027	Communications & Community Affairs Ofc	673,902	28,247	27,346	-	880	21	-	28,247
300	33016	Corporate & Community Partnerships Offic	192,183	8,055	5,570	-	2,458	27	-	8,055
300	33025	Federal Compliance & Mgt Office	143,923	6,033	5,661	-	372	-	-	6,033
300	33017	Standard Practices Office	175,950	7,375	7,062	-	313	-	-	7,375
300	33012	Data Governance Office	195,256	8,184	8,184	-	-	-	-	8,184
300	33656	Internal Audit	653,975	27,411	24,246	-	2,956	209	-	27,411
300	33072	Ofc Of Strategy, Innov & Performance	253,012	10,605	8,342	-	2,263	-	-	10,605
300	33079	Policy, Innovation, Planning & Eval	827,172	34,672	34,672	-	-	-	-	34,672
300	47213	Fiscal Services	478,656	20,064	19,383	-	555	126	-	20,064
300	33006	Budget	1,337,417	56,059	54,443	50	1,063	503	-	56,059
300	33010	Accounting Services	3,375,455	141,485	121,312	-	19,544	629	-	141,485
300	34001	Procurement Services	750,731	31,468	30,125	-	1,175	168	-	31,468
300	33001	Duplicating Services	108,225	4,536	-	-	4,536	-	-	4,536
300	33013	Civil Rights Compliance	507,675	21,280	19,482	-	1,798	-	-	21,280
300	33926	Office Of Human Resources	1,384,650	58,039	20,179	859	36,812	189	-	58,039
300	33719	Service And Merit Awards	1,643	69	-	-	69	-	-	69
300	33829	Criminal History Check	611,500	25,632	14,793	-	10,730	109	-	25,632
300	15125	Blood Pathogen Control	63,592	2,666	-	-	2,666	-	-	2,666
300	23052	Workers Compensation-Administration	828,202	34,715	34,053	-	662	-	-	34,715
300	33292	Personnel Development Branch	3,116,053	130,613	75,726	1,740	53,042	105	-	130,613
300	33034	Teacher Mentor Program	378,932	15,883	-	-	15,883	-	-	15,883
300	33122	Para Educator Training Program	43,787	1,835	-	-	1,835	-	-	1,835
300	15689	Recruitment And Retention Incentive	40,365	1,692	-	-	1,692	-	-	1,692
300	33721	Personnel Assistance Branch	1,224,422	51,323	44,525	-	6,479	319	-	51,323
300	33722	Personnel Management Branch	6,925,268	290,279	232,134	-	57,307	838	-	290,279
300	33084	Office Of Info & Tech-General Direction	1,799,393	75,423	11,040	-	64,249	134	-	75,423
300	33057	Enterprise Architecture	337,260	14,136	8,226	-	5,910	-	-	14,136
300	33058	Information Technology Project Mgmt	1,042,317	43,690	16,498	-	27,118	74	-	43,690
300	33088	School Process And Analysis	1,628,992	68,281	40,204	3,308	24,511	258	-	68,281
300	33089	Enterprise Infrastructure Services	5,249,212	220,026	91,008	-	56,000	70,838	2,180	220,026
300	33059	School Technology Services & Support	4,036,944	169,212	119,409	-	48,378	1,425	-	169,212
300	33021	Enterprise Systems	9,028,469	378,436	147,804	576	192,911	37,145	-	378,436
300 Total			48,599,682	2,037,102	1,266,706	6,533	648,566	113,117	2,180	2,037,102

**EXECUTIVE CHAMBERS**

HONOLULU

DAVID Y. IGE
GOVERNOR

June 24, 2016

EXECUTIVE MEMORANDUM

MEMO NO. 16-02

TO: All Department Heads**SUBJECT: FY 17 Budget Execution Policies and Instructions**

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 17.

In its most recent report of June 1, 2016, the Council on Revenues (COR) lowered its projected FY 16 general fund tax revenue growth rate from 6.7% to 6.1%. The decrease in the growth rate was based primarily on the COR's concern with the declining rate of growth of overall general fund tax collections in recent months. The COR notes that in order to reach the old forecast of 6.7% growth for FY 16, general fund tax revenues would need to be more than 9.0% higher in the last two months of FY 16 than they were in the last two months of FY 15. The growth of tax revenues in the last two months of FY 16 is expected to depend heavily on refunds of the individual income tax.

Preliminary actual general fund tax collections for the first 11 months of FY 16 has increased by 7.1% compared to tax collections for the first 11 months of FY 15. It is estimated that the FY 16 general fund balance will be about \$890 million based on the COR's projected 6.1% growth rate for FY 16.

Although Hawaii's major economic drivers continue to show strength, the Department of Business, Economic Development and Tourism cautions that Hawaii's economy faces the following potential challenges:

- The economies of most countries worldwide are experiencing slowdowns;
- Many Hawaii industries are still recovering;
- The Counties of Hawaii and Kauai have just recovered;
- Unemployment due to economic reasons is still high;
- Air seat growth is slowing down significantly, which will lead to a slowing down of visitor industry growth; and
- Construction industry momentum is weakening.

On the expenditure side, it is crucial to recognize that the State's expenditures are anticipated to outpace revenues substantially in FY 17. Additionally, the State must meet significant financial commitments to address our unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund in the coming years. And we will soon be undertaking collective bargaining (CB) negotiations for all of the bargaining units (BU) for FB 2017-19. Taken together, these factors all reinforce the need to continue to be fiscally prudent and responsible with our expenditures to ensure the State's fiscal stability in FY 17 and beyond.

Although the State's economy appears to be doing well, we must remain cognizant that the revenue picture can change suddenly and dramatically as it did only a few years ago. Therefore, we will continue a cautious approach in executing the FY 17 budget.

To provide program flexibility, \$5 million from each department's general fund discretionary appropriation ("discretionary adjustment"), as applicable, will not be subject to the 5% contingency restriction which will be applied to the balance of the discretionary general fund appropriation. Specific appropriations and Chapter 42F grants funded by general funds shall also be subject to the 5% contingency restriction. The 5% contingency restriction is intended as a contingency reserve for FY 17 and may be adjusted during the second half of the fiscal year based on actual tax collection trends and the COR's updated forecasts later in the fiscal year.

Similar to FY 16, these budget execution policies delegate many responsibilities to the department level to facilitate the efficiency of your operations.

Implementation of these budget controls is necessary to manage the State's finances with regard to the current and future demands on the State's resources. State funds must always be expended judiciously and appropriately. It is expected that each department will make a conscientious effort to operate efficiently and stay within its departmental allocation.

We must be committed to finding better ways to do our jobs and serve the public. As I have stressed previously, working together, we can strengthen the foundation of our State government by increasing the transparency and improving the accountability of our State operations, as well as helping to ensure that the State budget is sustainable.

I expect that the flexibility and authority provided to your department will be used wisely. These processes deserve your appropriate attention and should be executed responsibly with the utmost care to maintain the State's fiscal health.

Exhibit 1 contains your department's FY 17 allocation of operating program appropriations and permanent position ceilings from Act 119, SLH 2015, as amended by Act 124, SLH 2016, which include a 5% contingency restriction on your department's discretionary general fund appropriations less a \$5 million discretionary adjustment, as applicable. Other allocation adjustments may also have been applied.

Exhibit 1 also reflects included and excluded, if applicable, CB allocations for BUs 2, 3, 4, 5 (additional), 7, 8, 9, 11 (additional) and 14 for the applicable negotiated agreements. Amounts for the other BUs have been previously incorporated in your FY 17 appropriations.

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 17 budget execution to provide for prudent and efficient implementation of legislative intent.

Questions on the specific policies and instructions should be directed to the Department of Budget and Finance or the appropriate agency referenced. Electronic files of appropriate forms will be provided for your use.

/s/

DAVID Y. IGE
Governor, State of Hawaii

Exhibit 1
Attachment A
Attachment B

FY 2017 ALLOCATION
DEPARTMENT OF EDUCATION
(June 24, 2016)

	General Fund	Special Funds	Federal Funds (N)	Other Federal Funds (P)	Private Contrib.	County Funds	Trust Funds	Inter-dept'l Transfers	Revolving Funds	Other Funds	Total Allocation
Appropriation	19,315,25 1,567,678,982	737.50 52,159,324	5.00 257,220,049	- 7,814,000	- -	- -	- 17,640,000	- 7,765,636	8.00 24,029,491	- -	20,065.75 1,934,307,482
Collective Bargaining	23,840,592	73,519	2,312,542	161	-	-	-	-	47,750	-	26,274,564
Contingency Restrictions	(4,746,080)										(4,746,080)
Vacation Payout											-
Other Allocation Adj.	(1,080,184)										(1,080,184)
TOTAL	19,315.25 1,585,693,310	737.50 52,232,843	5.00 259,532,591	- 7,814,161	- -	- -	- 17,640,000	- 7,765,636	8.00 24,077,241	- -	20,065.75 1,954,755,782

Details of Collective Bargaining											
Bargaining Unit	General Fund	Special Funds	Federal Funds	Other Federal Funds			Trust Funds	Inter-dept'l Transfers	Revolving Funds	Other Funds	Ttl CB Allocation (Operating)
BU 02 - Included	847,072	1,436	182								848,690
- Excluded											-
BU 03,04 - Included	12,724,551	60,720	388,350	90			-	-	39,083		13,212,794
- Excluded	572,306	11,363	1,615,578	71			-	-	8,667		2,207,985
BU 05 - Included	9,263,426		307,841				-	-			9,571,267
- Excluded	415,687		591				-	-			416,278
BU 07 - Included											-
- Excluded											-
BU 08 - Included											-
- Excluded											-
BU 09 - Included	17,550										17,550
- Excluded											-
BU 11 - Included											-
- Excluded											-
BU 14 - Included											-
- Excluded											-
TOTAL C.B.	23,840,592	73,519	2,312,542	161	-	-	-	-	47,750	-	26,274,564

Discretionary:	5% restriction	5% cont. restr.	other alloc. Adj.
EDN 100	200,000	-	10,000
EDN 200	52,202,121	-	2,610,105
EDN 300	47,519,498	-	2,375,975
EDN 500		-	
EDN 700		-	
Subtotal	99,921,619	-	4,996,080
Less Disc. Adj.	(5,000,000)	-	(250,000)
Total	94,921,619	-	4,746,080

1,080,184