



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

OFFICE OF THE SUPERINTENDENT

September 15, 2015

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

FROM: 
Kathryn S. Matayoshi
Superintendent

SUBJECT: **Committee Action on Recommendation Concerning Department of Education's Operating Budget: Budget Restriction Implementation for Fiscal Year 2015-2016**

1. RECOMMENDATION

It is recommended that the Board of Education (Board) adopt the Department's recommendation for Fiscal Year (FY) 2015-16 general fund restriction plan. (See Attachment A.)

The total restriction target for the Department is \$14,726,214, of which \$4,823,015 is a 5% restriction, \$4,823,015 is a 5% contingency restriction, and \$5,080,184 is the Governor's allocation adjustment.

The restriction plan spreads out the cuts throughout all EDNs in order to minimize severely impacting any one program or specific office. The Department's plan also involves the use of federal Compact of Free Association reimbursement funding and carryover funds to further minimize the impact on the FY 2015-16 general funds allocated to schools and offices.

2. RECOMMENDED EFFECTIVE DATE

Upon approval.

3. RECOMMENDED COMPLIANCE DATE

Same as effective date.

4. DISCUSSION

a. Conditions leading to the recommendation

On June 22, 2015, Executive Memorandum (EM)15-01, Interim Budget Execution Policies and Instructions for FY16, was issued. This memorandum announced the release of the first quarter only Act 119, Session Laws of Hawaii 2015 (Act 119/15) appropriations to the Department, less 10% of the general fund "discretionary" budget. The amount of the first quarter general fund appropriation withheld was \$6,729,068, which if annualized would have been \$26,916,270. This memorandum stated, "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."

On August 18, 2015, the Finance and Infrastructure Committee was provided with an update on restrictions, which included a copy of EM 15-01, a copy of the Department's request to the Governor to expand programs classified as "non-discretionary," and a copy of the communication to return the request without action.

On August 24, 2015, EM 15-03, FY 16 Budget Execution Policies and Instructions, was issued. (See Attachment B.) This memorandum acknowledged:

- "FY15 ended with a higher than anticipated general fund balance of \$828.1 million;"
- "With a healthy general fund balance, FY 16 is off to a positive start...;"
- "Hawaii's major economic drivers continue to show strength through 2015;" and
- "We must continue to be prudent and responsible with our expenditures to ensure the State's fiscal stability this fiscal year and beyond. Therefore, we will continue our cautious approach until the revenue picture becomes clearer."

On September 3, 2015, the Council on Revenues held their quarterly meeting. In doing so, the Council recognized the actual FY 15 general fund receipts and updated their forecast. The media has reported a substantial upward re-projection for FY 16, which is expected to more than offset the slight decreases in out-year projected growth as that out-year growth will be on a higher base. The exact figures are not yet available, but will be shared with the Committee should they become available.

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

On October 21, 2014, the Finance and Infrastructure Committee and Board approved the Department's "Recommendation on the Fiscal Biennium (FB) Operating Budget for 2015-17."

On June 2, 2015, the Finance and Infrastructure Committee and Board approved the Department's "Recommendation Concerning Department of Education's Operating Budget: Implementation of Fiscal Year 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.

1200-1.12 Department of Education Budget: Any Department proposal to make adjustments in the operating budget and Capital Improvements Program budget shall require prior approval of the Board...

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

e. Arguments against the recommendation

The restriction amount must be achieved due to instructions in the latest memo from the Governor. However, the amounts and way in which the restriction is calculated and which programs are impacted could be altered.

f. Other agencies or departments of the State of Hawaii involved in the action

None.

g. Possible reaction of the public, professional organizations, unions, DOE staff and/or others to the recommendation

The possible reaction from school communities will likely be minimal, since the Weighted Student Formula (WSF) funding that they were projected to receive and planned for did not change. The only change that has come about was due to the August official enrollment count slightly lower than initial projection. Nevertheless, reaction will likely be mixed as a result of the inability of the formula to provide adequate funding to all schools.

The reaction from the unions will likely be one of concern, since it seems that the Council on Revenues is projecting a surplus in the State's general fund and yet the Department, due to the restrictions, may have to hold back on filling positions or even abolish positions. Considering the surplus projection, there shouldn't be a need to "freeze" the hiring of individuals.

Reaction from Department program managers will probably be one of frustration, since for the past few years the Department has asked the state and complex areas to carry the burden of the imposed restrictions and budgetary cuts.

h. Educational implications

The restriction will affect the quality, speed and amount of support services the Department will be able to provide all schools. This will ultimately affect the ability of students to meet the Hawaii Content and Performance Standards III and Common Core Standards.

i. Personnel implications

None at this time.

5. OTHER SUPPLEMENTARY RECOMMENDATIONS

If the Council on Revenues forecast compels the Administration to release the contingency restriction, the Department will look to restore funds to the following, but not limited to, WSF, ICAA, School Transformation, Auxiliary Services and Information Technology programs.

KSM:BH:KK:ks
Attachments

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

			5% Restriction	4,823,015				
			5% Contingency Restriction	4,823,015				
			Allocation Adjustment	5,080,184				
			TARGET RESTRICTION	14,726,214				
			COFA	-1,276,000				
			EDN 400 Carryover	-1,231,728				
			EDN 150 Carryover	-2,295,143				
			Sub Total	9,923,343				
Values								
OFFICE	EDN	ProgID	Program Description	TOTAL RESTRICTION	TOTAL APPROPRIATION	TOTAL REMAINING APPROPRIATION	% of Budget	COMMENTS
DEPUTY				(515,669)	23,274,833	22,759,164		
	EDN200	25219	Coordinated Support	(51,500)	257,146	205,646	-20%	B funds - Office decision
		25220	School Transformation	(239,169)	4,766,046	4,526,877	-5%	B funds - Office decision
		25240	ICAA CI-Quality And Performance	(225,000)	18,251,641	18,026,641	-1%	A1 & BC funds - \$15,000 restriction for each complex area
OCISS				(335,478)	5,781,565	5,446,087		
	EDN100	27100	Athletics (Salary, Supp & Equip)	(97,395)	5,543,482	5,446,087	-20%	A1 funds - Office decision
	EDN150	15685	Integrated Special Education Database	(238,083)	238,083	0	-100%	B funds - Office decision
OFS				(4,022,487)	836,154,490	832,132,003		
	EDN100	18501	GIA-Center For Tomorrow's Leaders (CTL)	(9,500)	95,000	85,500	-10%	B funds - 10% Restriction
		18594	GIA-Hawaii Agricultural Foundation	(32,500)	325,000	292,500	-10%	B funds - 10% Restriction
		18596	GIA-Hui Malama Learning Center	(150,000)	150,000	0	-100%	B funds - 100% Restriction due to AG decision
		42100	Weighted Student Formula	(3,722,856)	829,291,343	825,568,487	-4%	A funds - FY 16 WSF Enrollment Reserve & 2nd WSF Reserve
	EDN300	33001	Duplicating Services	(10,823)	108,225	97,402	-10%	B funds - 10% Restriction
		33006	Budget	(3,855)	1,283,567	1,279,712	-3%	A1 & BC funds - 10% Restriction
		33010	Accounting Services	(48,127)	3,315,938	3,267,811	-1%	BC funds - 10% Restriction
		34001	Procurement Services	(3,203)	719,679	716,476	-4%	BC funds - 10% Restriction
		47213	Fiscal Services	(1,623)	465,738	464,115	-3%	BC funds - 10% Restriction
	EDN500	18504	GIA-Read To Me International Foundation	(20,000)	200,000	180,000	-10%	B funds - 10% Restriction
	EDN700	10303	GIA-Kamalapua O Koolau	(20,000)	200,000	180,000	-10%	B funds - 10% Restriction
OHR				(225,872)	7,397,179	7,171,307		
	EDN100	23002	Unemployment Insurance	(250,000)	2,256,888	2,006,888	-11%	B funds - Office decision
	EDN300	15125	Blood Pathogen Control	(19,732)	63,592	43,860	-31%	B funds - Office decision
		33122	Para Educator Training Program	(19,408)	43,787	24,379	-44%	B funds - Office decision
		33292	Personnel Development Branch	50,945	3,054,558	3,105,503	-2%	Office decision
		33829	Criminal History Check	(50,000)	606,867	556,867	-8%	BC funds - Office decision
		33926	Office Of Human Resources	62,323	1,371,487	1,433,810	-5%	Office decision
OITS				(1,276,398)	22,770,983	21,494,585		
	EDN300	33021	Enterprise Systems	(550,226)	8,883,925	8,333,699	-6%	A1 & BC funds - 10% Restriction
		33057	Enterprise Architecture	(14,100)	329,005	314,905	-4%	B funds - 10% Restriction
		33058	Information Technology Project Mgmt	(64,872)	1,025,891	961,019	-6%	BC funds - 10% Restriction
		33059	School Technology Services & Support	(147,546)	4,248,329	4,100,783	-3%	BC funds - 10% Restriction
		33084	Office Of Info & Tech-General Direction	(124,872)	1,507,260	1,382,388	-8%	BC funds - 10% Restriction
		33088	School Process And Analysis	(66,982)	1,608,778	1,541,796	-4%	A1 & BC funds - 10% Restriction
		33089	Enterprise Infrastructure Services	(307,800)	5,167,795	4,859,995	-6%	A1, BC & M funds - 10% Restriction

Values							
OFFICE	EDN	ProgID	Program Description	TOTAL RESTRICTION	TOTAL APPROPRIATION	TOTAL REMAINING APPROPRIATION	% of Budget COMMENTS
OS				(49,693)	2,799,045	2,749,352	
	EDN200	18502	GIA-Leilehua Alumni/Community Associatn	(25,000)	250,000	225,000	-10% B funds - 10% Restriction
	EDN300	33007	Superintendent's Office	(5,121)	931,868	926,747	-1% B funds - 10% Restriction
		33013	Civil Rights Compliance	(4,289)	488,237	483,948	-1% B funds - 10% Restriction
		33016	Corporate & Community Partnerships Offic	(5,929)	187,412	181,483	-3% BC funds - 10% Restriction
		33017	Standard Practices Office	(746)	169,667	168,921	-.4% B funds - 10% Restriction
		33025	Special Projects Office	(886)	139,447	138,561	-1% B funds - 10% Restriction
		33656	Internal Audit	(7,553)	630,726	623,173	-1% BC funds - 10% Restriction
		33790	Protocol Fund	(169)	1,688	1,519	-10% B funds - 10% Restriction
OSFSS				(2,542,290)	39,779,102	37,236,812	
	EDN400	33009	School Facility & Suport Services	(2,755)	287,321	284,566	-1% B funds - 10% Restriction
		33022	Reprographic Services	(31,678)	1,021,556	989,878	-3% B funds - 10% Restriction
		35161	Food Service Administration	(6,939)	460,416	453,477	-2% BC funds - 10% Restriction
		37299	School Custodial Centralized Services	(22,350)	573,197	550,847	-4% B funds - 10% Restriction
		37663	Environmental Services Unit	(56,770)	620,042	563,272	-9% BC funds - 10% Restriction
		37710	Facilities Development Branch	(3,070)	831,680	828,610	-.4% BC funds - 10% Restriction
		37711	Facilities Maintenance Branch	(721,876)	17,483,306	16,761,430	-5% A1, BC & M funds - 10% Restriction
		37712	Auxiliary Services Branch	(1,671,376)	17,796,637	16,125,261	-9% A1 & BC funds - 10% Restriction
		37932	Safety, Security & Emergency Preparednes	(25,476)	704,947	679,471	-4% BC funds - 10% Restriction
OSIP				(955,456)	9,767,179	8,811,723	
	EDN200	15654	Haw Content/Perform Stand-Assessment	(895,456)	9,167,179	8,271,723	-10% B funds - 10% Restriction + SAO & SIP 10%
		25218	Educator Effectiveness System	(60,000)	600,000	540,000	-10% B funds - 10% Restriction
Grand Total				(9,923,343)	947,724,376	937,801,033	



EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

August 24, 2015

EXECUTIVE MEMORANDUM

MEMO NO. 15-03

TO: All Department Heads

SUBJECT: FY 16 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations 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 refund payments resulting from the slower processing of individual tax returns due to additional screening being done by the Department of Taxation (TAX) to prevent the payment of fraudulent refund claims. Slower processing in FY 15 also meant that more tax refunds would be paid in FY 16; thus, the COR decreased its forecast for FY 16 from 5.5% to 2.7%.

Preliminary actual general fund tax collections for FY 15 increased by 6.8%, less than the anticipated 7.5%, primarily because TAX was able to process more tax refunds by June 30, 2015 than they had anticipated. Nonetheless, FY 15 ended with a higher than anticipated general fund balance of \$828.1 million. With a healthy general fund balance, FY 16 is off to a positive start with preliminary actual general fund tax collections for July 2015 coming in 4.4% higher than the same period last year.

Hawaii's major economic drivers continue to show strength through 2015. The preliminary seasonally adjustment unemployment rate for June 2015 was 4%, which is the lowest June rate since 2007. In the construction sector, the value of private building permits, year to date through June 2015, has increased by 36.6%. Hawaii's visitor and tourism industry, after several years of growth, has continued to show growth through June 2015, with visitor arrivals increasing by 4% and spending increasing by 3.5%.

However, preliminary general excise tax revenues, generally a measure of business activity, for July 2015 have decreased by 2.7% compared to last year. Additionally, it is crucial that we recognize that the State's expenditures are anticipated to outpace revenues this fiscal year and in the upcoming biennium.

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. On the national and worldwide level, 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.

Although the State's economy appears to be doing well, the revenue trend for FY 16 is still developing. We must continue to be prudent and responsible with our expenditures to ensure the State's fiscal stability this fiscal year and beyond. Therefore, we will continue our cautious approach until the revenue picture becomes clearer.

To provide program flexibility, \$1 million from each department's general fund discretionary appropriation ("discretionary adjustment") will not be subject to the 5% restriction and 5% contingency restriction which will be applied to the balance of the discretionary general fund appropriation.

The 5% restriction is intended to mitigate the potential impact of lower than forecasted FY 16 actual general fund tax collections and is applicable for the full fiscal year. The 5% contingency restriction is intended as a contingency reserve for FY 16 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.

Specific appropriations and Chapter 42F grants funded by general funds shall also be subject to the 5% restriction and 5% contingency restriction. By January 2016, we expect that a general fund revenue trend will be more evident and we will be better able to discern the level of general fund spending which will be sustainable.

Similar to FY 15, these budget execution policies delegate many responsibilities to the department level to facilitate the efficiency of your operations. Additional flexibility has been provided with respect to budgeted recurring routine expenditures. Also, these policies reflect the updated process for appropriated and non-appropriated federal awards as part of our ongoing effort to improve the management of federal grant awards from receipt to expenditure.

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 shall find better ways to do our jobs and serve the public. Working together, we can strengthen the foundation of our State government by increasing the transparency and improving the accountability of our State operations, while ensuring 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 16 allocation of operating program appropriations and position ceilings from Act 119, SLH 2015, which include a 5% restriction and a 5% contingency restriction on your department's discretionary general fund appropriations less a \$1 million discretionary adjustment. Other allocation adjustments may have been applied, as applicable.

Exhibit 1 also reflects included and excluded, if applicable, collective bargaining allocations for Bargaining Units (BU) 2, 3, 4, 5, 7, and 9 for the applicable negotiated agreements. Amounts reflected for included and excluded BU 14 reflect amounts equivalent to the terms of BU 3 or 4 agreements, pending an initial agreement with BU 14.

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 16 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.



DAVID Y. IGE
Governor, State of Hawaii

Exhibit 1
Attachment A
Attachment B

FY 2016 ALLOCATION
DEPARTMENT OF EDUCATION
(August 20, 2015)

ATTACHMENT B

Exhibit 1

	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
Appropriation	19,313.25	737.50	5.00	-	-	-	-	-	-	8.00	-	20,083.75
	1,530,655,758	56,159,324	250,220,049	7,792,000	-	-	17,640,000	7,761,985	-	32,634,438	-	1,903,083,554
Collective Bargaining	35,884,710	38,191	2,103,142	80	-	-	50,438	8,528	-	26,927	-	38,090,016
Restrictions	(4,823,015)											(4,823,015)
Contingency Restrictions	(4,823,015)											(4,823,015)
												-
Other Allocation Adj.	(5,080,184)											(5,080,184)
	19,313.25	737.50	5.00	-	-	-	-	-	-	8.00	-	20,083.75
TOTAL	1,551,794,254	56,195,515	252,323,191	7,792,080	-	-	17,690,438	7,770,513	-	32,681,365	-	1,926,427,356

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	TU CB Allocation (Operating)
BU 01 & 10 - Included												-
- Excluded												-
BU 02 - Included	490,537	829	111									491,477
- Excluded												-
BU 03,04 & 14												-
- Included	6,377,342	29,482	203,485	44			17,958	1,519		20,704		6,650,544
- Excluded	300,728	5,880	827,120	35			287			8,223		1,140,274
BU 05 - Included	27,577,320		915,711				28,805	6,408				28,528,244
- Excluded	1,111,704		156,705				3,388	801				1,272,398
BU 07 - Included												-
- Excluded												-
BU 08 - Included												-
- Excluded												-
BU 09 - Included	7,079											7,079
- Excluded												-
BU 11 - Included												-
- Excluded												-
TOTAL C.B.	35,884,710	38,191	2,103,142	80	-	-	50,438	8,528	-	26,927	-	38,090,016

Discretionary:	5% restriction	5% cont. restr.	other alloc. Adj.
EDN 100	570,000	28,500	28,500
EDN 200	50,588,338	2,529,315	2,529,315
EDN 300	45,903,995	2,295,200	2,295,200
EDN 400			1,080,184
EDN 500	200,000	10,000	10,000
EDN 700	200,000	10,000	10,000
	97,460,333	4,873,015	4,873,015
			5,080,184
less disc. Adj.	(1,000,000)	(50,000)	(50,000)
	96,460,333	4,823,015	4,823,015
			5,080,184