



STATE OF HAWAII
DEPARTMENT OF EDUCATION
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HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

June 2, 2022

TO: The Honorable Bruce Voss
Chairperson, Finance and Infrastructure Committee

FROM: Keith T. Hayashi 
Interim Superintendent

SUBJECT: **Committee Action on the use of Federal Funds in the Second Round of the Education Stabilization Fund's Elementary and Secondary School Emergency Relief ("ESSER II") and in the Third Round of ESSER Funds Authorized under the American Rescue Plan Act of 2021 ("ESSER ARP") for Department of Education ("Department") Budget Shortfalls in Accordance with Board ESSER II and ESSER ARP Fund Guidance, Section 3.a, Adopted on October 21, 2021**

I. EXECUTIVE SUMMARY

The Hawaii State Department of Education (Department) is returning to the Hawaii State Board of Education (Board) Finance and Infrastructure Committee (FIC) to seek approval for the use of \$76 million of Elementary and Secondary School Emergency Relief (ESSER) funds to cover budget shortfalls for Fiscal Year (FY) 2021-2022. This budget shortfall is the result of a lump sum general fund budget cut and the decision made earlier this fiscal year to not impose corresponding reductions to Department program allocations.

The Department and the Board had previously agreed to defer action on using ESSER funds to off-set \$76 million in lump sum budget cuts in FY 2021-2022 until the Department had gathered more information on actual spending. As the end of the fiscal year approaches, it is evident that the shortfalls in the Department's budget cannot be managed from within existing general fund resources. The use of ESSER funding is needed to avoid year-end deficit balances in the Department's centrally managed portion of the general fund budget that, if not addressed, would prevent the Department from being able to allocate to schools a significant portion of the general fund carryover next fiscal year. Schools plan for and rely on the allowable carryover of funds from one year to the next, pursuant to Hawaii Revised Statutes, Chapter 37-41.5, to support school operations.

This \$76 million of lump sum general fund cuts for FY 2021-2022 were externally imposed a year ago in response to projected State revenue declines due to the pandemic. In the recently completed 2022 session that adjourned May 5, 2022, the Legislature, working collectively with the Board, the Governor, and the Superintendent, approved the restoration of the Department's

lump sum general fund reductions beginning in FY 2022-2023, ensuring that the use of ESSER funds for this purpose will not be needed after FY 2021-2022. The attachment summarizes the legislative-approved budget appropriations that includes over \$328.5 million in general funds to restore reductions, address existing budget shortfalls, and provide additional resources to advance education. The Governor is currently reviewing the budget appropriations bill, HB 1600, HD1, SD2, CD1, and has until July 12, 2022 to make his decision.

II. **RECOMMENDATION**

The Department recommends that the FIC approve the use of up to \$76 million of ESSER II and III funds in the following amounts for the forecasted shortfall for FY 2021-2022:

Proposed Uses of ESSER Funds	FY 2021-2022		
	ESSER II	ESSER III (ARP)	TOTAL
To offset the unaddressed remaining shortfall due to \$100.2 million lump sum budget cut for FY 2021-2022	\$54,069,420	\$21,930,580	\$76,000,000

III. **RECOMMENDED EFFECTIVE DATE**

Upon Board approval.

IV. **RECOMMENDED COMPLIANCE DATE**

Upon Board approval.

V. **DISCUSSION**

A. Conditions leading to the recommendation:

On August 19, 2021, the Department presented a plan for the use of \$176.9 million in ESSER II and ESSER III funds. The FIC recommended approval of the FY 2021-2022 plan, but the Board deferred action on three items totaling \$137.4 million which included the \$100.2 million shortfall due to lump sum budget cuts mentioned above.

https://boe.hawaii.gov/Meetings/Notices/Meeting%20Material%20Library/FIC_08192021_DOE%20Presentation%20on%20Allocation%20Plan%20Use%20for%20ESSER%20II%20and%20ESSER%20ARP.pdf

- FIC August 19, 2021 minutes:
<https://alala1.k12.hi.us/STATE/BOE/Minutes.nsf/7d59b00aff8d3cf50a2565cb00663e82/4c8973989d96d46f0a25874c0077405c?OpenDocument>
- General Business Meeting (GBM) August 19, 2021 minutes:
<https://alala1.k12.hi.us/STATE/BOE/Minutes.nsf/ebb43af14ca5cdb30a2565cb006622a8/7b311a491bb960d60a25874c0072870e?OpenDocument>

During the September 16, 2021 FIC meeting, the Department requested approval to use \$137.4 million of ESSER funds for the three items that the Board deferred on August 19, 2021, but when presenting to the FIC, the Department amended its request to offset \$100.2 million of lump sum cuts to just \$24.2 million, enough to cover the portion of the shortfall attributed to three formula-funded programs: Weighted Student Formula, Indexed Complex Area Allocation, and Community School for Adults. The FIC recommended, and the Board approved, the Department’s use of up to \$61.4 million for the three previously deferred items, leaving the matter of the \$76.0 million budget gap to be taken up at a future meeting. https://www.hawaiipublicschools.org/DOE%20Forms/budget/ESSER-BOE%20Materials/FIC%20_09162021.pdf

- FIC September 16, 2021 minutes: <https://alala1.k12.hi.us/STATE/BOE/Minutes.nsf/a15fa9df11029fd70a2565cb0065b6b7/12cbe52c311269680a25876f006f842f?OpenDocument>

The \$76 million lump sum cuts have been managed centrally (via the central salary budget); no programs have had their operating funding reduced since the Department’s plan was to “off-set” or “backfill” these budget reductions using ESSER funds. However, to date, the Board has not approved the Department’s plan to utilize ESSER funds for this purpose.

Forecasted Central Salary Balances	
	FY 2021-2022
AVAILABLE FUNDS	1,882,862,054
Operational Allocations *	569,624,218
Centrally managed General Funds (Total Available Funds - Operational Allocations*)	1,313,237,836
Year-To-Date Salary Expenditures (July 2021-April 2022)	1,140,407,652
Forecasted Salary Expenditures for the remainder of the fiscal year (May-June 2022)	246,985,424
TOTAL FY 2021-2022 SALARY EXPENDITURES (Year- To- Date + Forecasted)	1,387,393,076
FORECASTED BALANCE (DEFICIT) (Centrally Managed General Funds - Total Salary Expenditure)	(74,155,240)

* Operational Allocations include any non-payroll allocations sent to schools and offices.

During the October 21, 2021 joint Student Achievement Committee (SAC)-FIC meeting, the two committees, together, advanced ESSER II and ESSER ARP fund guidance to the GBM that included the following on page 17: “3.a. Budget Shortfalls. The Board directs the Department to bring requests to fund actual, not projected, budget shortfalls to the Board; the Department cannot expend funds on budget shortfalls without Board approval.” The Department recognizes that any funds not used to address shortfalls would otherwise be available to fund activities outlined in the ESSER Educational Plan¹ and, as such, has waited to provide as precise a figure as possible. In addition, the Department recognizes

¹ <https://www.hawaiipublicschools.org/DOE%20Forms/ESSER-EducationalPlan.pdf>

that with any forecasted shortfall, there is a margin of error and, as such, the Department is seeking the authority to use up to \$76 million of ESSER funds.

https://www.hawaiipublicschools.org/DOE%20Forms/budget/ESSER-BOE%20Materials/GBM_SAC-FIC_20211021_Action.pdf

The Department would note that the actual amount required to offset the lump sum cuts will be provided to the public via the monthly ESSER expenditure reporting that may be found on the Department's website and to the Board as ESSER updates are periodically agendized.

In addition, as the annually compiled general fund carryover report is reported by both program (activity) and organizational code (location), the Board, Governor, Legislature, and public will be able to see the actual level of centralized carryover². As has been the practice in previous years, any planned uses of centralized carryover balance will be shared with the FIC when information is available.

This \$76 million is a temporary bridge needed to fill the budget gap stemming from the FY 2021-2022 budget cuts imposed during a time when the state financial outlook was bleak and the lingering effects of the pandemic were unknown. The Department is extremely grateful for the Legislature's support in fully addressing this budget gap and more in the FY 2022-2023 Supplemental Budget (See Attachment). The commitment from the Legislature ensures the Department can now focus its efforts on utilizing the balance of ESSER funds to address accelerated learning, social emotional learning, health and safety, and other activities to help our students recover from the challenges of the pandemic.

B. Previous action of the Board and Committee(s) on same or similar matter:

During the February 18, 2021 GBM, the Department requested *Board Action on Department of Education's Plan for Use of Federal Funds in the New COVID-19 Relief Package and Annual Federal Spending Bill*. This plan indicated a need to offset the \$100.2 million lump sum cuts for FY 2021-2022 and FY 2022-2023 if not restored by the Legislature.

https://boe.hawaii.gov/Meetings/Notices/Meeting%20Material%20Library/02182021_GBM_Board%20Action%20on%20Department%27s%20Plan%20for%20Federal%20Funds%20in%20the%20New%20COVID-19%20Relief%20Package%20and%20Annual%20Spending%20Bill.pdf

The Board approved the use of ESSER II funds for teacher differentials for FY 2021-2022, the school food service forecasted shortfall, and a proportionate level of support for charter schools for ESSER II funds not intended to be used to support both Department and public charter school students. The Board did not approve the use of ESSER II to offset the \$100.2 million lump sum cut for FY 2021-2022 in anticipation that the Legislature may restore this cut.

<https://alala1.k12.hi.us/STATE/BOE/Minutes.nsf/ebb43af14ca5cdb30a2565cb006622a8/105c2470f0f8feb90a2586ba000dab2a?OpenDocument>

² Centralized carryover balance represents the general fund balances held by the Department of Accounting and General Services in the State's Financial Accounting and Management Information System (FAMIS) less the amounts returned to schools as carryover funds.

C. Other policies affected:

Board Policy 400-1: 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.”

<http://boe.hawaii.gov/policies/Board%20Policies/Board%20of%20Education%20Roles%20and%20Responsibilities.pdf>

Federal guidelines for ESSER II and III allow funds to be used for pre-award costs dating back to March 13, 2020, when the national emergency was declared. The ESSER II funds are available for expenditure through September 30, 2023; ESSER III funds are available for expenditure through September 30, 2024.

Federal guidelines indicate ESSER funds may be used for activities that are necessary to maintain operations and the continuity of services.

D. Arguments in support of the recommendation:

Addressing the \$76 million shortfall will avoid ending this fiscal year with a centralized year-end deficit, which would necessitate the restricting of schools’ FY 2021-2022 year-end general fund balances that would otherwise carryover for school use in FY 2022-2023.

ESSER funds are considered to be education stabilization funds intended to support both:

- The maintenance of education programs and positions impacted by the fiscal fallout created by the pandemic and
- The provision of resources for the school district to address student learning loss and the safe return to in-person learning.

The proposed uses of ESSER funds are aligned with both of these intended uses.

Approving ESSER funds to address the \$76 million lump sum cut imposed on the Department’s FY 2021-2022 general fund base budget and the shortfall that has resulted by the decision to not restrict spending in response to this cut will help lift the cloud of fiscal uncertainty that has had a negative impact on the tri-level’s ability to focus on forward-facing strategic planning.

Stabilizing the public school system will position it to embrace transformational and innovative practices designed to better meet student needs through intentional, strategic, and broad-based initiatives.

E. Arguments against the recommendation:

Winston Churchill’s remark made following World War II and in support of establishing the United Nations, “Never let a good crisis go to waste,” is one that is often cited by business management advisors, suggesting the expedient use of the disruption of a crisis to advance an agenda that otherwise would be met with resistance. The use of this \$76 million of educational stabilization funds to maintain core operations may be viewed by some as not consistent with the more opportunistic approach to organizational transformation.

F. Other agencies or departments in the State of Hawaii involved in this action:

During the 2021 Legislative Session, the State Legislature passed a biennium budget for the public school system that focused on balancing the State's budget while providing the minimal level of State support to comply with the federal ESSER Maintenance of Effort requirements. As a result, to maintain core operations the Department has been forced to rely heavily on these federal funds for FY 2021-2022.

During the 2022 Legislative Session, the State Legislature, in response to prioritizing support for public schools, improved revenue projections, and in recognition of the ESSER Maintenance of Effort requirements, restored the cuts originally contained in the biennium budget for FY 2022-2023.

G. Possible reaction of the public, professional organizations, unions, DOE staff and/or others to the recommendations:

It is anticipated that unions and employees will welcome the avoidance of deep program and personnel cuts that would be necessary to balance the Department's budget without these Education Stabilization Funds.

Some individuals may not recognize the limited allowable uses of ESSER funds and the sizable gap in State support for education that was contained in the Department's FY 2021-2022 general fund budget. These individuals may advocate for new spending initiatives for purposes that are not directly related to responding to the pandemic and/or may compromise the Department's ability to meet the requirement to provide learning loss interventions, maintain existing programs and positions, and support the safe return to in-person learning.

H. Educational implications:

The purpose of the ESSER funds is to safely reopen and sustain the safe operation of schools for in-person learning and to address the impact of the COVID-19 pandemic on students. The anticipated use of \$76 million of ESSER fund over the course of FY 2021-2022 to ensure a balanced general fund budget has provided the Department with the financial assurance that it could afford to implement strategies and interventions to re-engage students in their education, address learning loss, and provide the necessary academic, social, emotional, and mental health supports to facilitate student success.

I. Personnel implications:

Existing personnel were maintained by the earlier decision to not impose the \$76 million of lump sum cuts at the program level. Approval for the funding to support this decision is now needed. The soundness of the previous decision intended to contain the chaotic and disruptive impacts of the pandemic on the public school system and its capacity to support student needs has been realized, particularly with the restoration of the lump sum cut for FY 2022-2023.

J. Facilities implications:

None.

K. Financial implications:

Without this approval, the Department will end the year with deficits in the centrally managed budget. The implication of this is that the Department will not be able to meet its obligations to schools to return carryover funds during next fiscal year.

Please note that if the Department ends up with centralized general fund balances, the Board will be provided with an opportunity to develop a plan to use those funds through FY 2022-2023 when the carryover balances are shared with the FIC.

Thank you for your continued support as we continue to work towards a plan that best supports our students, our schools, and our communities.

KTH:bh
Attachment

c: Office of Fiscal Services

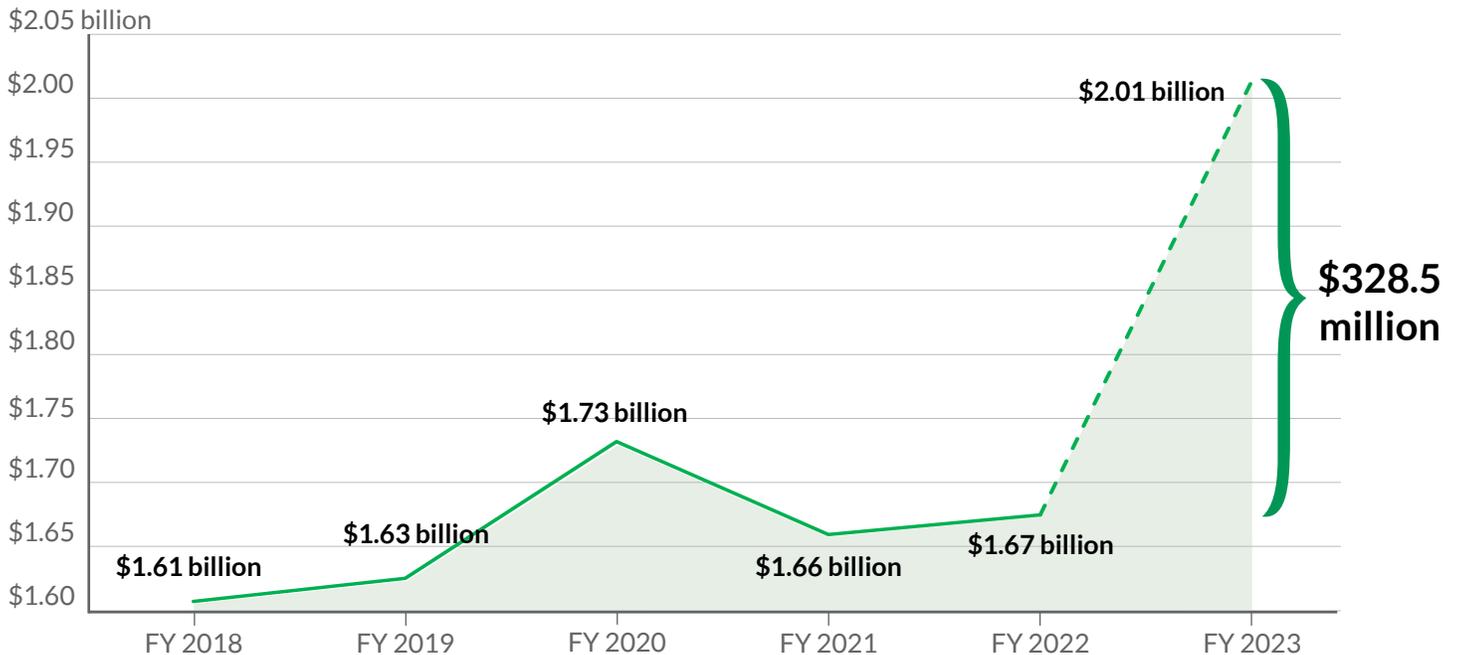
Budget Summary for Fiscal Year 2022-2023

Hawai'i State Department of Education



General Fund Appropriations for Operating Budget

Historic total appropriations (FY 2018 to FY 2022) in billions.



Overview of General Fund Appropriation Additions

Stable, predictable and reliable operating budget resources allows the Department to establish a solid foundation to implement new programs to advance education, and to support schools, teachers and students.

HB1600	Restorations	Shortfalls	Added Resources	
	Restore reductions due to the COVID-19 pandemic (1, 2, 3b)	Address budget shortfalls existing before the COVID-19 pandemic (3a)	Additional resources for advancing education and other resources (4, New)	One-time repair and maintenance
Original request in millions	\$114.4	\$49.0	\$42.6	\$63
FY 2023 in millions	\$114.0	\$49.0	\$165.5	\$256

\$328.5 million

General Fund Appropriation Estimated Totals

Estimated operating budget and other appropriations approved by legislature and submitted to the Governor for fiscal year 2022-2023.

DOE Priority	Estimated Amount	Notes
1	\$100,200,000	Restoration of reductions due to the COVID-19 pandemic.
2	\$10,670,000	Restoration of reductions due to the COVID-19 pandemic.
3a	\$49,000,000	Addressing shortfalls existing before the COVID-19 pandemic including teacher differentials and workers' compensation.
3b	\$3,144,000	Restoration of reductions due to the COVID-19 pandemic.
4	\$39,685,000	Advancing education. \$24.75 M for facilities related services. \$5.80 M for skilled nursing, school nursing, student residential and special education teacher mentor programs. \$1.20 M for instructional support including Hawai'i State Teacher Fellows and Workforce Development
New	\$855,000	Hatchery Program
New	\$117,000	Papahana 'o Kaiona
New	\$121,700,000	Teacher salary compression
New	\$600,000	Grow Our Own teachers initiative
New	\$86,000	Additional Office of Facilities and Operations positions.
New	\$2,000,000	Menstrual Products
New	\$450,000	Two Adult Workforce Development Coordinators + \$250,000 to support HB1561
Total Operating	\$328,507,000	HB1600 \$269.3 M Original request submitted to the Legislature
Resources in addition to operating budget		
	\$21,681,000	Other FY2022-2023 Appropriation bills.
Grand Total	\$350,188,000	Approved by legislature and submitted to the governor.

Other Fiscal Year 2022-2023 Appropriation Bills

Bill	Estimated Amount	Notes
SB2862	\$10,000,000	Air Conditioning
SB2184	\$7,099,000	Virtual Schools
SB2826	\$2,600,000	Incentives for qualified industry-credential programs
SB2893	\$807,000	School supply subsidy pilot program
SB2186	\$500,000	Land Title transfer
HB1775	\$350,000	Title IX training
SB2182	\$200,000	School Gardens
SB2818	\$125,000	Summer Program
\$21,681,000		Estimated Total

Other Fiscal Year 2021-2022 Appropriation Bills

Bill	Estimated Amount	Notes
SB3098	\$1,850,000	Emergency appropriation for lead abatement measures at elementary schools (signed into law as Act 22 on May 5, 2022)

Capital Improvement Projects Appropriations

The Capital Improvement Projects (CIP) Budget includes school facility development and major improvements to facilities.

Estimated Amount	Notes
\$577,465,000	General Obligation Bond CIP appropriation
\$256,000,000	Part VIII Section 91.1 General Fund appropriation per Federal Maintenance of Effort requirements
	\$125.9 M Deferred maintenance
	\$130.1 M CIP