

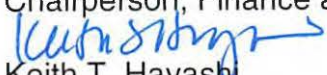


STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

July 18, 2017

TO: The Honorable Kenneth Uemura
Chairperson, Finance and Infrastructure Committee

FROM: 
Keith T. Hayashi
Interim Superintendent

SUBJECT: **Update on Instructions and Restrictions by the Executive Branch on the Department of Education's Fiscal Year 2018-2019 Appropriation**

1. DESCRIPTION

Update on the Governor's Executive Memorandum No. 17-01: Interim Budget Execution Policies and Instructions for FY 18.

2. UPDATE

- a. On June 21, 2017 the Governor signed H.B.100, CD1 into law, with no line item vetos. The 2017-2019 Executive Biennium Budget Bill became Act 49, Session Laws of Hawaii (SLH) 2017.
- b. On June 22, 2017, the Governor issued Executive Memorandum No. 17-01: Interim Budget Execution Policies and Instructions for FY 18, noting:
 - i. We are cautiously optimistic about the strength of Hawaii's economy;
 - ii. A call for prudence in spending state funds and preparation for reduction in federal funds; and
 - iii. First quarter allocations only with allocations for subsequent quarters to be "made upon further consideration of revenue and expenditure requirements."
- c. First quarter allocation (see Attachment B) comprised of:
 - i. One-fourth of 90% of the "discretionary" general fund programs (as defined by the state administration) after a \$4 million exemption adjustment was applied;
 - ii. One-fourth of 100% of "non-discretionary" general fund programs and non-general funds; and
 - iii. No operating grant-in-aid funds released.

The Honorable Kenneth Uemura

July 18, 2017

Page 2

d. Next steps for Department:

- Continue to review and identify by program and character of expenditure how the restriction may be imposed; and
- Coordinate with incoming Superintendent Dr. Christina Kishimoto on a restriction proposal to bring to the Finance and Infrastructure Committee for consideration at a future meeting.

KTH:ks

Attachments

c: Budget Branch



EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

June 22, 2017

EXECUTIVE MEMORANDUM

MEMO NO. 17-01

TO: All Department Heads

SUBJECT: Interim Budget Execution Policies and Instructions for FY 18

As we move into the next fiscal biennium, the State's economy continues to be buoyed by the tourism industry. The tourism industry is still experiencing record breaking visitor arrivals and expenditures; however, the State's overall economic growth has slowed and general fund tax revenue collections are lower than previously expected.

After the FB 2017-19 Executive Budget was submitted to the Legislature, the Council on Revenues (COR) lowered its FY 17 growth rate projection for general fund tax revenues from 5.5% to 3.0% and maintained its forecasts of 5% in FY 18 and 4.4% in FY 19 through FY 23 at its January 4, 2017 meeting. As a result of the lower projection in FY 17, we proposed significant reductions to the Administration's budget request.

As revenues continued to lag, the COR further reduced its FY 17 general fund growth rate projection to 2.5%, while adjusting its general fund tax forecast to 4% for FY 18 and FY 19 and 4.5% for FY 20 through FY 23 at its March 13, 2017 meeting. These projections were retained by the COR at their most recent meeting on May 30, 2017.

Preliminary general fund tax revenue collections for FY 17 through May 2017 are 1.6% more than the same period in FY 16, short of the 2.5% projection. Thus, with only June collections remaining, there are serious concerns that general fund revenue growth for FY 17 will not meet 2.5% and that FY 18 may get off to a slow start, making it difficult to reach the 4% projected level of growth.

Although the Department of Taxation has indicated that one-time adjustments have negatively impacted FY 17 general fund tax revenue growth, the current lackluster level of revenue growth warrants our attention. In addition, the ongoing and proposed changes to federal grant programs may be significant and the State may be forced to make difficult - and costly - choices regarding the continuation of federally funded programs which may be reduced or discontinued.

Thus, while we are cautiously optimistic about the strength of Hawaii's economy, we must responsibly control our expenditures now to maintain the State's fiscal stability during uncertain periods of tax revenue collections. We must be prudent when spending State funds and be prepared, to the extent possible, for reductions in federal funds. It is under this context that all general funded programs are subject to a 10% restriction (5% restriction and 5% contingency restriction) on their FY 18 discretionary appropriations, with applicable adjustments. Restrictions shall not be applied to Chapter 42F general funded grants.

Full-year budget execution policies for FY 18 are forthcoming. During the interim, the following actions are hereby authorized:

1. On July 1, 2017, departments will receive their respective budget allocations for the first quarter only.

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

- General funds – One fourth of: 100% of non-discretionary appropriation; \$4,000,000 of discretionary appropriation; and 90% of balance of discretionary appropriation (adjusted by 5% restriction, 5% contingency restriction and grants). Other allocation adjustments may be applied, as applicable.
 - Non-general funds – One fourth of: 100% of appropriation.
2. Allocations for subsequent quarters will be made upon further consideration of revenue and expenditure requirements.
 3. General funded grants and specific appropriations will be considered for release after FY 17 actual and FY 18 preliminary general fund revenue data indicate that the revenue climate has stabilized. CIP grants and specific appropriations with other means of financing may be requested for release beginning July 1, 2017.
 4. Except for allocation amounts, budget execution policies as contained in Executive Memorandum (E.M.) No. 16-02, *FY 17 Budget Execution Policies and Instructions* (dated June 24, 2016) shall continue. Policies and procedures for FY 18 operating grants will be issued under separate cover.
 5. E.M. No. 97-07, *Procedures for Requesting the Implementation of Capital Improvement Projects* (dated June 19, 1997), shall also remain in effect.
 6. Departments are reminded that all information systems technology (IT) and telecommunications services (TC) facilities and resources are under the purview of the State's Chief Information Officer (CIO). As such, all related IT and TC acquisitions require CIO approval through the Office of Enterprise Technology Services.

Questions on the specific policies and procedures should be directed to the Department of Budget and Finance analyst assigned to your department.

A handwritten signature in black ink, appearing to read "David Y. Ige". The signature is fluid and cursive, with a large, sweeping flourish at the end.

DAVID Y. IGE
Governor, State of Hawaii

Attachment (Exhibit 1)

FY 2018 ALLOCATION

DEPARTMENT OF EDUCATION
(Interim June 22, 2017)

		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	Perm	19,403.75	22.00	720.50	-	-	-	-	-	8.00	-	20,154.25
	Temp	2,007.50	-	156.50	1.00	-	-	-	-	2.00	-	2,167.00
	\$	1,610,321,050	52,301,103	263,588,685	9,292,794	-	-	15,900,000	7,765,636	24,083,680	-	1,983,252,948
1st Quarter Allocation	Perm	19,403.75	22.00	720.50	-	-	-	-	-	8.00	-	20,154.25
	Temp	2,007.50	-	156.50	1.00	-	-	-	-	2.00	-	2,167.00
	\$	399,999,669	13,075,276	65,897,171	2,323,199	-	-	3,975,000	1,941,409	6,020,920	-	493,232,644
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Detailed Calculation of First Quarter General Fund Allocation by EDN

Attachment B

	EDN100	EDN150	EDN200	EDN300	EDN400	EDN500	EDN700	Totals
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1. DOE General Fund (G.F.) Appropriations (Act 49, SLH 2017)

Appropriations (Act 49, SLH 2017)	941,582,174	367,652,889	53,666,953	49,838,966	190,640,268	3,713,514	3,226,286	1,610,321,050
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2. E.M. 17-01 DOE G.F. Act 49, SLH 2017 Appropriation Classifications

"Non Discretionary" per Exec Memo (E.M.) 17-01 definition	941,582,174	367,652,889	703,980	-	190,640,268	3,435,314	3,226,286	1,507,240,911
"Discretionary" per E.M. 17-01 definition	-	-	52,780,773	49,838,966	-		-	102,619,739
Grant-In-Aids (GIA)			182,200			278,200		460,400
	941,582,174	367,652,889	53,666,953	49,838,966	190,640,268	3,713,514	3,226,286	1,610,321,050

3. \$4 million "Discretionary" Exemption Adjustment

		-2,057,334	-1,942,666					(4,000,000)
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4. E.M. 17-01 DOE G.F. Act 49, SLH 2017 Appropriation Classifications with Exemption Adjustment

Non-Discretionary	941,582,174	367,652,889	703,980	-	190,640,268	3,435,314	3,226,286	1,507,240,911
\$4 million "Discretionary" Exemption Adjustment			2,057,334	1,942,666				4,000,000
Discretionary (basis for restriction calculation)			50,723,439	47,896,300				98,619,739
GIAs - 100% of appn withheld			182,200			278,200		460,400
	941,582,174	367,652,889	53,666,953	49,838,966	190,640,268	3,713,514	3,226,286	1,610,321,050

5. Annualized - Interim First Quarter Restriction Amounts

Restriction Amount (5% Restriction & 5% Contingency Restriction)	-	-	(5,072,344)	(4,789,630)	-	-	-	(9,861,974)
GIA appropriations (pending future E.M. Instructions)			(182,200)			(278,200)		(460,400)

6. June 22, 2017 E.M. 17-01 G.F. Allocation - Proposed Distribution by EDN

First Qtr 25% of Non-Discretionary + \$4 million Disc Exempt Adj	235,395,543	91,913,222	690,328	485,667	47,660,067	858,829	806,572	377,810,228
First Qtr 25% of 90% of Discretionary	-	-	11,412,772	10,776,668	-	-	-	22,189,441
First Qtr GIA allocation			-			-		-
	235,395,543	91,913,222	12,103,100	11,262,335	47,660,067	858,829	806,572	<u>399,999,669</u>