


STATE OF HAWAII
DEPARTMENT OF EDUCATION
KA 'OIHANA HO'ONA'AUAO
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OFFICE OF THE SUPERINTENDENT

August 10, 2023

TO: The Honorable Ken Kuraya
Chairperson, Finance and Infrastructure Committee

FROM: Keith T. Hayashi
Superintendent 

SUBJECT: Presentation on Department of Education ("Department") Fiscal Update:
Operating Budget and Carryover Funds for Fiscal Year 2023-24, Supplemental
Operating Budget for Fiscal Year 2024-2025, and Elementary and Secondary
School Emergency Relief Fund ("ESSER") Resources

1. EXECUTIVE SUMMARY

The Hawaii State Department of Education's (Department) Fiscal Update 2024-1 provides a summary of and status of:

- **Fiscal Year (FY) 2023-2024, the first year of the 2023-2025 Biennium Budget**
 - The outlook for the Department's FY 2023-2024 operating budget is stable and manageable, with the majority of the Hawaii State Board of Education (Board) approved budget either in place via appropriations or pending transfer of funds by the Governor.
- **Preliminary considerations for the FY 2024-2025 Supplemental Budget**
 - For FY 2024-2025, the Department is facing the challenge of considerable budgetary uncertainty, due to inconsistency in year-to-year funding and significant unmet needs.
 - The funding gap in relation to the Board approved budget for FY 2024-2025 is \$163.5 million.
 - The Department is planning to bring its Supplemental Budget proposal to the Finance and Infrastructure Committee at the first meeting in October.
- **Preliminary General Fund Carryover for FY 2022-2023**
 - General Fund Carryover from FY 2022-2023 into FY 2023-2024 totaled \$43.6 million. This is down from the carryover last fiscal year, which totaled \$59.0 million.

- **Elementary and Secondary School Emergency Relief (ESSER) Funds resources and other miscellaneous updates**

2. DESCRIPTION

The presentation on the Department's Fiscal Update will:

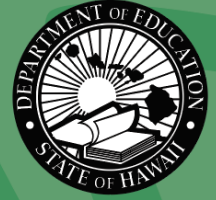
- A. Provide basic information on the 2023-2025 Biennium Budget - for both the current (first) FY 2023-2024 and preliminary considerations for the second FY 2024-2025, as well as information on the General Fund Carryover for FY 2022-2023, ESSER funds available, and other miscellaneous updates; and
- B. Provide the public and Committee members with context on the Department's current financial status and outlook.

3. PRESENTATION

The Department's presentation is attached.

KTH:bh
Attachment

c: Office of Fiscal Services



Hawaii State Board of Education Fiscal Update 2024-1

1 Fiscal Year (FY) 2023-2024: first year of the 2023-2025 Biennium Budget

- A. The outlook for the Hawaii State Department of Education's (Department) Fiscal Year (FY) 2023-24 operating budget is stable and manageable, with the majority of the Hawaii State Board of Education (Board) approved budget either appropriated directly by the legislature or pending transfer of funds by the Governor.

On June 15, 2023 the Finance and Infrastructure Committee (FIC) was provided with the following: [Update on Department of Education's \("Department"\) operating budget appropriations for fiscal biennium 2023-2025](#).

On page 3 of this update it was pointed out that: "Of the \$186,881,176 in requests for general funds approved by the Board for FY 2023-2024, \$88,720,141 was included in House Bill 300, Conference Draft 1 (HB 300 CD1), Session Laws of Hawaii (SLH) 2023. This amounts to \$98,161,035 in requests not included in the general fund budget for FY 2023-2024." See Attachment D of this memorandum for a detailed list of all requests not funded in HB300 CD1.

On June 14, 2023 it was reported that the Governor intends to,

"use "the lion's share" of the \$200 million lawmakers authorized the governor to use at his discretion to fund the Hawaii Tourism Authority, the Department of Education and the University of Hawaii.

The DOE would directly receive \$55 million while UH would get \$25 million. The figure for HTA was not stated but has previously been reported to be around \$60 million."

- Source: [here](#)

On Friday, July 14, 2023 the Department submitted a [formal request](#) to the Governor through the Department of Budget and Finance for the transfer of the \$55 million. As of the date this update was prepared, this request was still pending.

The remaining funding gap has required the Department to forego or delay allocating funds for a number of Board approved requests, the vast majority of which originated from the Office of Facilities and Operations and include:

- \$14.4 million for State Office Moves;
- \$10 million for a Student Transportation pilot City and County bus pass program;
- \$8 million for Food Services operations;
- \$4 million for Equipment for New Facilities;
- \$2 million for Maintenance Service Contracts; and
- \$875,000 for Motor Vehicle replacements.

Despite the sizable funding gap for these programs, the Department anticipates being able to meet critical needs with resources that may be identified over the course of the year from sources such as unused federal funds from other Departments and non-Department programs.

- B. FY 2023-2024 Budget Details have been posted to the Department’s website
- a. [FY 2023-24 Appropriation Summary](#)
 - b. [Reference](#) information to help decipher various codes used in the Appropriation Summary
 - c. Two particularly helpful references are:
 - i. [Means of Finance codes](#); and
 - ii. [Position and FTE / Character of Expenditure](#)
- C. [Executive Memorandums \(EMs\)](#) (that include Governor’s Budget Policies)
- a. On June 20, 2023, the Governor issued [EM 23-02 Interim Budget Execution Policies and Instructions for FY 24](#). These policies were issued primarily to allow departments to have an initial budget allocations in place for the start of the fiscal year, July 1, 2023. They released 25% of the general fund appropriation less a 10% restriction and less any grant-in-aid funding appropriated for non-profit organizations. A subsequent EM will be issued to replace this one with the annual FY 24 Budget Execution Policies.
 - b. The Department is awaiting the issuance of the annual FY 24 Budget Execution Policies. It is anticipated that when these policies are issued, they will contain a 10% restriction (5% hard restriction and 5% contingency restriction) imposed on discretionary general fund appropriations. Historically, the Department’s EDN 200 Instructional Support and EDN 300 State Administration programs have been considered “discretionary.” The EDN 200 and 300 general funds appropriation totals \$142.8 million, thus each of the 5% restrictions equate to approximately \$7.1 million. The Department anticipates requesting the release of these restrictions later in the fiscal year, once the Department of Budget and Finance has a better indication of the outlook of actual and projected State revenues and expenditures.

Predictable and reliable funding in particular will continue to have significant relevance for FY 2024-2025 budget planning, as the State Legislature's ability to provide consistent fiscal support for schools remains uncertain.

The Department is facing a perfect storm of uncertainty for FY 2024-2025 due to:

1. Receiving first year funding only for \$37 million worth of recurring expenses such as Utilities and Workers Compensation, and not being provided with legislative intent by either the budget bill itself or the associated [Committee Report](#);
2. The Legislature's delegation of decision making authority to the Governor for the distribution of \$200 million in the current fiscal year for "government operations" ([Act 164, SLH, Section 5](#)), without providing an indication on the level of commitment to provide recurring funding to sustain those operations; and
3. The impending fiscal cliff with the performance period for the use of federal Elementary and Secondary School Emergency Relief (ESSER) funds ending on September 30, 2024.

The fact that schools are facing this lack of clarity for State support at the same time they are diligently working to overcome students' learning loss as a result of the pandemic presents significant challenges for education program planning.

A National Conference of State Legislatures (NCSL) policy paper "Principles of a Sound State School Finance System" underscore these concerns as it recognizes that, "A sound state school finance system is characterized by clarity of purpose, internal consistency and comprehensiveness." This paper outlines that a Sound State School Finance System is based on the following five primary principals:

1. Equity;
2. Efficiency;
3. Adequacy;
4. Accountability; and
5. Stability

The NCSL paper affirms that, "Stability in revenues and expenditures is important for all publicly funded services, but in particular, it is critical for education where wide fluctuations in funding levels may be disruptive. Dramatic reductions in revenues for a period as short as a year may impair the quality of children's education and have long-term effects on their academic success."

- Source: [here](#)

Referring again to the June 15, 2023 material provided to the Board's FIC [Update on Department of Education's \("Department"\) operating budget appropriations for fiscal biennium 2023-2025](#), the funding gap in relation to the Board approved budget for FY 2024-2025 is \$163.5 million.

On page 3 of this update it was pointed out that: “Of the \$213,541,202 in requests for general funds approved by the Board for FY 2024-2025, \$50,044,527 was included in HB 300 CD1. This amounts to \$163,469,675 in requests not included in the general fund budget for FY 2024-2025.” See Attachment D of this memorandum for a detailed list of all requests not funded in HB 300 CD1.

To help put this into context of this \$163.5 million figure:

- \$55 million of this gap in FY 2023-2024 will be met with the assistance of the Governor using a portion of the \$200 million of non-recurring general funds at his disposal.
- \$37 million of this gap is due to the legislature appropriating funding for FY 2023-2024 only, despite the nature of those items being recurring, including:
 - \$13 million for Utilities;
 - \$10 million for Workers Compensation;
 - \$5 for Weighted Student Formula funding for inflation; and
 - \$4 million for Night Security
- \$14.875 million of the gap includes items that were not funded in FY 2023-2024, but are intended to be met with one-time sources such as unrequired COVID relief funds from other Departments and non-Department programs.
 - \$8 million for Food Service;
 - \$4 million for Equipment for New Facilities;
 - \$2 million for Maintenance Service Contracts; and
 - \$875,000 to replace motor vehicles
- The balance of the FY 2024-2025 gap includes items that were not requested for FY 2023-2024, due to the availability of ESSER funds in FY 2023-2024 or due to inflation or program expansion:
 - \$21 million to continue Summer School programs (due to ESSER);
 - \$16.8 million to meet Student Transportation cost increases (due to inflation);
 - \$5 million to expand Middle School Athletics (due to program expansion);
 - \$5 million for Weighted Student Formula (WSF) for Reserve and Remote School funding (due to ESSER);
 - \$2.4 million (more) for WSF (due to inflation);
 - \$1.7 million for Social Emotional Learning (SEL) mobile student identification system (due to ESSER);
 - \$1.7 million for Indexed Complex Area Allocation (ICAA) support capacity (due to ESSER); and
 - \$1.6 million for Educational Psychologists (due to program expansion)

The Department of Budget and Finance’s Supplemental Budget Policies and Guidelines have not yet been issued, but are anticipated to be posted [here](#) in late August or September 2023. The average deadline over the last eight years to submit the Department’s Board Approved request has been October 9th. As such, the Department is planning to bring its Supplemental Budget proposal to the FIC no later than the first meeting in October.

3

FY 2022-2023: Preliminary General Fund Carryover Information

In 1993, the State Legislature passed Act 364, Session Laws of Hawaii (codified as [§37-41.5 HRS](#)), in part to remove “obstacles to local funding and planning initiatives” and provide “budget and fiscal flexibility to empower schools to be innovative and creative.” This Act granted authority for the Department to carryover up to five percent of its appropriations to the first year of the next fiscal biennium.

In practice, this authority to carryover funds reduces the risk of Department schools and offices falling into a short-sighted ‘use it or lose it’ mentality that can be inherent to public sector spending, and supports the deliberate and strategic leveraging of year-end balances in the following year.

General Fund Carryover from FY 2022-2023 into FY 2023-2024 totalled \$43.6 million. This is down from the carryover last fiscal year, which totalled \$59.0 million. The following is a simple summary by EDN.

EDN: Program Title	Actual Carryover	5% Carryover Limit	Carryover %
100: School Based Budgeting	27,326,892	59,808,555	2.28%
150: Special Education and Student Support Services	6,349,787	21,317,709	1.49%
200: Instructional Services	1,419,580	3,399,415	2.09%
300: State Administration	1,779,008	2,746,548	3.24%
400: School Support	6,569,869	13,489,320	2.44%
500: School Community Services	179,484	442,949	2.03%
Department of Education Total	43,624,620	101,204,496	2.16%

In the coming weeks the Department will post its formal and detailed carryover report to the following site: [here](#) and transmit a copy to the Board Office for distribution.

NOTE: The following is an important and often overlooked requirements from §37-41.5: *“Appropriations allocated to the schools shall remain within the budget of the school to which they were originally allocated; provided that the retention of an appropriation shall not be used by the department as a basis for reducing a school’s future budget requirements.”* Despite this legislatively established requirement, the Department often receives inquiries regarding the extent to which carryover funds may be used to address various shortfalls.

4**Elementary and Secondary School Emergency Relief (ESSER) Funds resources**

The Department has received three tranches of federal ESSER funds:

- \$43.4 million of ESSER I funds - fully expended (lapse date: Sept 30, 2022);
- \$183.6 million of ESSER II funds - nearly fully expended (lapse date: Sept 30, 2023); and
- \$412.5 million of ESSER III funds - approximately 50% expended (lapse date: Sept 30, 2024)

At this point in time, the Department is anticipating that Congress will not be appropriating additional federal COVID relief funds.

The following Department website: [ESSER Educational Plan and Fiscal Plan](#) contains various State and Federal guidelines for the use of these funds, and:

- [Monthly Expenditure Reports](#) that track by program allocations, expenditures, and remaining balances; and
- [Quarterly Educational Plan Metrics](#)

5**Miscellaneous Updates**

- The [Committee on Weights](#) (COW) XIII has held a series of meetings over the summer break to work on developing recommendations for Board consideration related to the [WSF](#). Materials and minutes from these meetings can be found: [here](#). The Department anticipates that the recommendation will be brought to the FIC after the COW completes its report later this Summer.
- For 10-month teachers the first pay period under the new contract for School Year 2023-2024 will be the August 17, 2023 payroll.
- Additional adjustments to process and work flows of the (new as of 2021) Aukahi Financial Management System have been deployed as of July 7, 2023. These adjustments have resulted in a significant reduction in review time of most invoices allowing effort to be focused on improving turnaround time of employee reimbursements for costs associated with use of personal vehicles and work related travel.

If any Board member has any questions related to this update please feel free to reach out to Assistant Superintendent of Fiscal Services and Chief Financial Officer, Brian Hallett, via email at: brian.hallett@k12.hi.us or by phone at (808)784-6227 to schedule a time to discuss.