



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

OFFICE OF THE SUPERINTENDENT

April 21, 2022

TO: The Honorable Catherine Payne
Chairperson, Board of Education

FROM: Keith T. Hayashi
Interim Superintendent

A handwritten signature in blue ink, appearing to read "Keith T. Hayashi", is written over the printed name and title.

SUBJECT: **Update on Department of Education's Supplemental Budget for Fiscal Year 2022-2023, Including Status on Budget Priorities and Additional Allocations Resulting from Elementary and Secondary School Emergency Relief ("ESSER") Maintenance of Effort ("MOE") Requirements**

I. PURPOSE OF MEMORANDUM

The purpose of this memorandum is to update the Hawaii State Board of Education (Board) on the status and, to the extent feasible, the condition of the Operating Budget for Fiscal Year (FY) 2022-2023 Executive Supplemental Budget to date.

II. EXECUTIVE SUMMARY

The House Draft of the budget bill, House Bill (HB) 1600, HD1, substantially agreed with the operating budget request for the Hawaii State Department of Education (Department) as proposed by Governor David Ige for the FY 2022-2023 Executive Supplemental Budget.

What the HB 1600, HD1 did not include was the \$63.25 million of one-time funding in general funds that the Governor included to ensure the State is in compliance with the American Rescue Plan (ARP) Elementary and Secondary School Emergency Relief (ESSER) Fund Maintenance of Effort (MOE) requirements. In addition, \$6.36 million was converted from general funds to federal ARP (non-ESSER) funds. In total, about \$70 million of one-time funding items in general funds were not included.

During the March 10, 2022 House Committee on Finance hearing, Representative Sylvia Luke, Chair of the committee, indicated the House will consider the one-time funding items during the Conference Committee with the Senate when there is more clarity regarding the total State general fund appropriation.

On March 16, 2022, HB1600, HD1 was passed by the House and transmitted to the Senate for its review and consideration.

On April 7, 2022, the Senate Committee on Ways and Means (WAM) recommended the House Draft be passed with amendments. However, details of the Senate committee's decision were not available at that time. The information that was available after the amended bill was posted were the appropriation amounts (Full-Time Equivalents and dollars) by EDN and by means of financing (e.g., general funds, federal funds, special funds).

At the time this memorandum was prepared to meet Board deadlines, the Senate Draft of the budget bill, HB1600, HD1, SD2, had not yet been passed by the full Senate. The measure is expected to be voted on by the full Senate on April 14, 2022.

At a high level, the Department's Operating Budget contained in the Senate Draft includes \$604,667,350 more in general funds as compared to the FY 2022-2023 Executive Supplemental Budget request. The Department believes that a large portion of the additional general funds is related to one-time items needed to meet the ARP ESSER MOE requirements. For K-12 education, the State must maintain annual support of at least 23.04% of the overall general fund spending to meet these requirements.

III. KEY POINTS

The budget has not yet been finalized and there are a number of factors that are unknown at the time this memorandum was drafted:

- The House Draft of the budget provided the vast majority of what the Department requested through the Executive Budget; however, one-time funding items to meet the MOE requirements must still be negotiated with the Senate during the Conference Committee.
- The Senate Draft of the budget provided substantially more general funds than the House Draft; however, the details of the Senate Draft had not yet been released during the drafting of this memorandum.
- Due to the improved forecast of State revenues and the MOE requirement, the Department may receive a possible large infusion of one-time general funds for operations in FY 2022-2023, depending upon the final levels of State support the Legislature agrees upon.
- There is uncertainty about the level of State appropriations that will be made outside of the budget bill, which must ultimately be included in the MOE calculations. The Legislature and the Department of Budget and Finance (B&F) will likely collaborate to determine whether the MOE has or has not been met by considering the final FY 2022-2023 General Fund Financial Plan, which must consider overall authorized expenditures of general funds for Operating Budget purposes.

IV. UPDATE

Department of Education's Supplemental Budget for Fiscal Year 2022-2023

The FY 2022-2023 Executive Supplemental Budget has been making its way through the 2022 Legislature, which opened on January 19, 2022. The Executive Budget included

appropriations that addressed the Department's five priorities along with one-time funding items to ensure the State is in compliance with the ESSER ARP MOE requirements.

On March 16, 2022, the House passed its draft, HB1600, HD1, of the budget bill. The Department received the vast majority of what it requested from what was submitted in the Executive Budget. Table 1 highlights the general fund appropriations by EDN in the Executive Budget and the House Draft and shows how much more or less the House Draft provided.

Table 1: House Draft vs. Executive Budget - Total General Funds by EDN for FY 2022-2023

EDN*	Executive Budget	House Draft (HD1)	\$ Difference (HD1 minus Executive)
100	1,182,217,774	1,108,097,791	-74,119,983
150	408,450,744	408,450,744	0
200	71,636,656	71,636,656	0
300	57,194,298	57,194,298	0
400	229,689,957	229,775,541	85,584
500	4,399,012	4,399,012	0
Total	\$1,953,588,441	\$1,879,554,042	-\$74,034,399

*Excludes EDN 450, School Facilities Authority, and EDN 700, Early Learning, which report to their own governing boards.

The items that were not included in the House Draft were as follows (all general funds):

- \$63,253,476 in one-time funding (FY 2022-2023 only) added by the Governor;
- \$6,360,000 in one-time funding (FY 2022-2023 only) for equipment for new classrooms, which the House converted to federal ARP funds;
- \$4,326,507 for a new virtual school; and
- \$180,000 and 2.00 FTE for ROTC instructors and salaries.

With regards to the one-time funding items, the Executive Budget bill included a total of \$78,300,000 in one-time requests (of which \$63,253,476 was not included and \$6,360,000 was converted to federal ARP funds in HB1600, HD1 totaling \$69,613,476). The purpose of the one-time requests was to address repair, maintenance, equipment, and other essential school operating needs and to ensure compliance with the ESSER ARP MOE requirements.

As a House Adjustment, the House Draft added \$85,584 and 2.00 FTE for account clerks and salaries in EDN 400 for the Office of Facilities and Operations.

The budget worksheets with the details of the Senate Draft, HB 1600, HD1, SD1, have not yet been released as of the writing of this memorandum, as lead time for submission to the Board precluded the inclusion of the information. The appropriation amounts (Full-Time Equivalents and dollars) by EDN and by means of financing (e.g., general funds, federal funds, special funds) were contained in the bill.

The Senate Draft included an additional \$604,667,350 in general funds as compared to the FY 2022-2023 Executive Supplemental Budget. The Department believes that a large portion of the additional general funds are related to one-time items needed to meet the ESSER ARP MOE requirements.

Table 2 highlights the general fund appropriations by EDN in the Executive Budget and the Senate Draft and shows how much more or less the Senate Draft provided.

Table 2: Senate Draft vs. Executive Budget - Total General Funds by EDN for FY 2022-2023

EDN*	Executive Budget	Senate Draft (SD1)	\$ Difference (SD1 minus Executive)
100	1,182,217,774	1,302,644,193	120,426,419
150	408,450,744	438,423,781	29,973,037
200	71,636,656	59,789,695	-11,846,961
300	57,194,298	72,974,018	15,779,720
400	229,689,957	679,624,040	449,934,083
500	4,399,012	4,800,064	401,052
Total	\$1,953,588,441	\$2,558,255,791	\$604,667,350

*Excludes EDN 450, School Facilities Authority, and EDN 700, Early Learning, which report to their own governing boards.

The WAM committee report highlighted some of the items that were part of the Senate Draft. A few of the larger items are:

- \$100,200,000 in general funds to restore one hundred percent of COVID-19 pandemic budget cuts;
- \$104,000,000 in general funds in FY 2022-2023 to expand the academy education model to middle and high schools across the state;
- \$94,000,000 in general funds in FY 2022-2023 for a pilot teacher salary modernization project; and
- \$34,500,000 in general funds in FY 2022-2023 for teacher salary differentials.

In addition, the Senate Draft included \$90 million in EDN 400 for the current fiscal year, FY 2021-2022. A few of the larger items highlighted in the WAM committee report are:

- \$45,500,000 in general funds in FY 2021-2022 for centralized kitchens for the farm-to-school program; and
- \$15,000,000 in general funds in FY 2021-2022 for a centralized maintenance baseyard.

Table 3 shows the difference between the House and Senate Drafts, with the Senate Draft appropriating about \$679 million more in general funds than the House Draft.

Table 3: House Draft vs. Senate Draft - Total General Funds by EDN for FY 2022-2023

EDN*	House Draft (HD1)	Senate Draft (SD1)	\$ Difference (SD1 minus HD1)
100	1,108,097,791	1,302,644,193	194,546,402
150	408,450,744	438,423,781	29,973,037
200	71,636,656	59,789,695	-11,846,961
300	57,194,298	72,974,018	15,779,720
400	229,775,541	679,624,040	449,848,499
500	4,399,012	4,800,064	401,052
Total	\$1,879,554,042	\$2,558,255,791	\$678,701,749

*Excludes EDN 450, School Facilities Authority, and EDN 700, Early Learning, which both report to their own governing boards.

When this General Business Meeting to review this issue is held, the House and Senate Conference Committee on HB 1600 should already be in progress to negotiate a final draft (CD1) for the Supplemental Budget that will be presented to both chambers of the Legislature for a vote before going to the Governor.

Note: Attachment A includes background details and links to source documents and budget terms.

Additional Allocations resulting from ARP ESSER MOE Requirements

One of the areas to resolve during the Conference Committee concerns the one-time funding items that were included in the Executive Budget needed to meet the ARP ESSER MOE requirements. During the House Committee on Finance hearing for the budget bill on March 10, 2022, Representative Luke indicated the House will consider the one-time funding items during Conference with the Senate, when there is more clarity regarding the total State general fund appropriation. During the Senate WAM Committee hearing regarding the budget on April 7, 2022, Senator Donovan Dela Cruz, Chair of Senate committee, noted that the committee was cognizant of the federal MOE requirement when developing the Senate Draft.

Table 4: Proposed Additional Allocations in HB 1600 resulting from ARP ESSER MOE Requirements

Executive Budget	House Draft	Senate Draft
\$78.3 million	\$15.05 million	*

*Pending release of Legislative budget worksheets by the Senate.

Federal law requires the State maintain funding to support education of at least the same percentage of the total State budget as the average of FYs 2016-2017, 2017-2018 and 2018-2019. Referred to as MOE, the State must maintain the level of its support of at least

23.04% and 6.49% of the overall Executive Branch general fund budget for K-12 education and higher education, respectively. Attachment B is the letter dated March 23, 2022 from Governor Ige to the U.S. Department of Education confirming the average baseline percentages to be maintained to meet the MOE.

The State's economy has improved since the onset of the COVID-19 pandemic. On March 10, 2022, the Council on Revenues (COR) increased its general fund revenue forecast for FY 2021-2022 from 15.0% to 21.0% growth. The COR is forecasting revenues of about \$8.77 billion for FY 2021-2022 and about \$9.30 billion for FY 2022-2023 up from \$7.25 billion for FY 2020-2021.

As such, the Department may receive a possible large infusion of one-time general funds for FY 2022-2023 to comply with the MOE, depending upon the level of statewide general fund support the Legislature determines for other departments - some of which may be appropriated in bills outside of the budget bill.

For example, there is a potential of \$600 million in general funds under consideration for the Department of Hawaiian Home Lands via HB 2511. Based upon the 23.04% MOE requirement for K-12 education, this one measure alone could translate to an additional \$138,240,000 in one-time appropriations for the Department.

Ideally, the general fund infusion will provide:

- Resources that will make an investment in the Department's assets that will return benefits beyond FY 2022-2023 and
- Funding in a manner that will not create sustainability issues in the future.

The Department is optimistic that the budget, when finalized by the Legislature, will restore the Department's general fund Operating Budget and provide resources to advance education as the Board and the Department have advocated for throughout the budget cycle.

KTH:bh

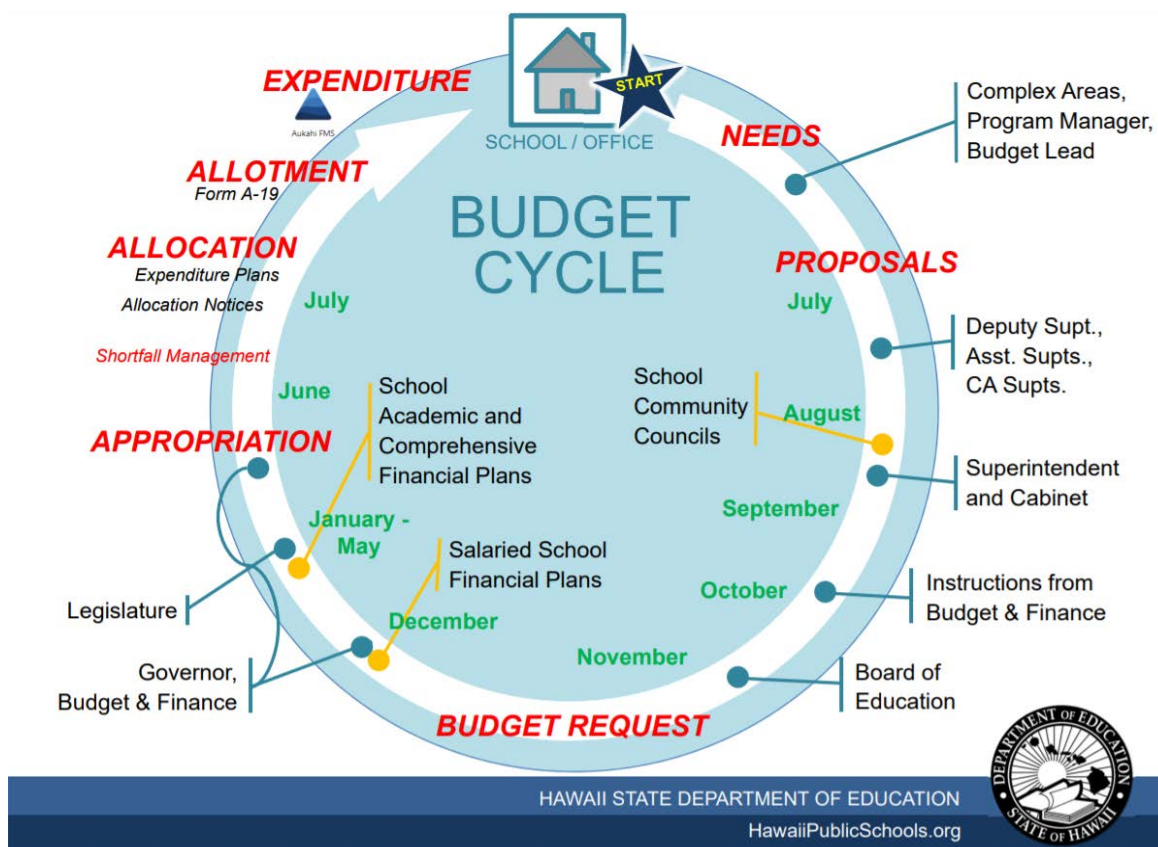
Attachments: Attachment A: Detailed Background

Attachment B: Letter to U.S. Department of Education from Governor Ige

c: Deputy Superintendent
Office of Fiscal Services

DETAILED BACKGROUND

We are currently in the latter portion of the budget cycle for the development of the Fiscal Year (FY) 2023 Executive Supplemental Budget – all State departments are awaiting the passing of the appropriations bill by the Legislature in May.



The following is a timeline of the major events that have transpired during the budget cycle thus far, beginning in October 2021.

October 2021:

- On October 21, 2021, the Hawaii State Board of Education (Board) approved the Hawaii State Department of Education's (Department) supplemental budget.
 - Memo: https://boe.hawaii.gov/Meetings/Notices/Meeting%20Material%20Library/FIC_10212021_Recommendation%20on%20Supplemental%20Budget.pdf

November 2021:

- On November 17, 2021, the Department of Budget and Finance released its recommendations on the Department's budget proposal. The recommendations were posted publicly on its website.
 - Memo: <https://budget.hawaii.gov/wp-content/uploads/2021/11/FM-21-16-BF-Recommendations-on-FY-23-Supplemental-Budget-Requests.pdf>
 - Details (see EDN 100, 150, 200, 300, 400, 450, and 500): <https://budget.hawaii.gov/wp-content/uploads/2021/11/FM-21-16-Attachment-EDN-HTH.pdf>

- On November 24, 2021, the Governor's decisions on the Department's budget proposal were posted publicly.
 - Memo: <https://budget.hawaii.gov/wp-content/uploads/2021/11/FM-21-17-Gov-Decisions-on-FY-23-Supplemental-Budget-Requests.pdf>
 - Details (See EDN 100, 150, 200, 300, 400, 450, and 500): <https://budget.hawaii.gov/wp-content/uploads/2021/11/FM-21-17-Attachment-EDN-HTH.pdf>

December 2021:

- On December 6, 2021, revisions to the Governor's November 24, 2021, decisions were posted publicly.
 - Memo and Details: <https://budget.hawaii.gov/wp-content/uploads/2021/12/Revised-Governors-Decisions-on-FY-23-Supplemental-Budget-Requests.pdf> (See pages 52 and 55 for details of new items added on).
- On or about December 20, 2021, the Governor submitted the Executive Branch budget to the Legislature.

January 2022:

- On January 6, 2022, the Council on Revenues (COR) increased its general fund revenue forecast for FY 2022 from 6.3% to 15.0% growth and for FY 2023 from 4.0% to 6.9% growth.
 - https://files.hawaii.gov/tax/useful/cor/2022gf01-06_with0110_Rpt2Gov.pdf
- On January 13, 2022, the House Committee on Finance held its informational briefing on the Department's budget request.
 - https://www.capitol.hawaii.gov/session2022/hearingnotices/HEARING_FI_N_01-13-22_INFO_.PDF
- Also on January 13, 2022, the Senate Committee on Ways and Means held its informational briefing on the Department's budget request.
 - https://www.capitol.hawaii.gov/session2022/hearingnotices/HEARING_W_AM-EDU_01-13-22-2_INFO_.PDF

March 2022:

- On March 10, 2022, the COR increased its general fund revenue forecast for FY 2022 from 15.0% to 21.0% growth but lowered its forecast for FY 2023 from 6.9% to 6.0% growth.
 - https://files.hawaii.gov/tax/useful/cor/2022gf03-10_with0315_Rpt2Gov.pdf
- On March 10, 2022, the House Committee on Finance held a decision-making hearing on HB1600, HD1.
 - https://www.capitol.hawaii.gov/session2022/hearingnotices/HEARING_FI_N_03-10-22_.PDF
- On March 16, 2022, the House passed HB1600, HD1 and transmitted the measure to the Senate.
 - https://www.capitol.hawaii.gov/session2022/bills/HB1600_HD1_.PDF
- Also on March 16, 2022, the House Finance Committee posted HB1600, HD1 worksheets showing details of its decisions (See Program IDs EDN100, 150, 200, 300, 400, and 500, pages 231-320).
 - <https://www.capitol.hawaii.gov/session2022/worksheets/EXEC%20HB1600%20HD1%20Worksheets.pdf>
- On March 22, 2022, the Senate Committee on Ways and Means held its initial hearing on HB1600, HD1.
 - https://www.capitol.hawaii.gov/session2022/hearingnotices/HEARING_W_AM_03-22-22_.PDF

April 2022:

- On April 7, 2022, the Senate Committee on Ways and Means held a decision-making hearing on HB1600, HD1, which was passed with amendments as HB1600, HD1, SD1.
 - https://www.capitol.hawaii.gov/session2022/hearingnotices/HEARING_WAM_04-07-22-1_.PDF
- On April 8, 2022, the Senate Committee on Ways and Means, posted HB1600, HD1, SD1 and its related committee report online:
 - HB1600, HD1, SD1:
https://www.capitol.hawaii.gov/session2022/bills/HB1600_SD1_.PDF
 - Committee Report:
https://www.capitol.hawaii.gov/session2022/CommReports/HB1600_SD1_SSCR3896_.pdf



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

March 23, 2022

VIA ELECTRONIC MAIL

Ms. Gaby Tanner, Management and Program Analyst
Office of State and Grantee Relations
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202
hawaii.oese@ed.gov

Dear Ms. Tanner:

Thank you for your e-mail regarding required levels for the State's Maintenance of Effort provisions in the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, 2021, and the American Rescue Plan (ARP) Act of 2021.

I confirm the average baseline percentages in your e-mail – to comply with the CRRSA Act and the ARP Act, Hawai'i must maintain annual support as follows:

- K-12 education at 23.04% of our overall State Executive Branch general fund spending, and
- Higher education at 6.49% of our overall State Executive Branch general fund spending.

I can also confirm that the FY 22 interim information we previously submitted was 23.14% of overall State Executive Branch general fund spending for K-12 education and 6.49% of overall State Executive Branch general fund spending for higher education.

However, I note that the FY 22 data will change because the calculation was based on the Administration's Executive Supplemental Budget, requested emergency appropriations, and requested specific appropriations. These requests are currently undergoing legislative review and are subject to change.

With warmest regards,

A handwritten signature in black ink, appearing to read "David Y. Ige". The signature is fluid and cursive, with a large, stylized "D" and "I".

David Y. Ige
Governor, State of Hawai'i

c: Mr. Craig K. Hirai, Director, Hawai'i State Department of Budget and Finance
Mr. Keith Hayashi, Interim Superintendent, Hawai'i Department of Education