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TO THE SENATE COMMITTEE ON WAYS AND MEANS AND
THE HOUSE COMMITTEE ON FINANCE

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Chairs Tokuda and Luke and Members of the Committees:

Thank you for the opportunity to present an overview of the Administration's FY 17 Executive Supplemental Budget and Multi-Year General Fund Financial Plan. I will start by first discussing the Administration's general approach to the FY 17 Executive Supplemental Budget; then providing a brief synopsis of the supplemental operating and capital improvements program (CIP) budget; then, lastly, covering the general fund financial plan based on the Council on Revenues' (COR) September 10, 2015 revenue projections.

APPROACH TO THE FY 17 EXECUTIVE SUPPLEMENTAL BUDGET

The Administration is focused on ensuring the State's fiscal stability now and in the future. The State's current economic conditions are favorable and we need to take appropriate measures to continue to improve the State's financial condition. It was important that, as part of the development of the FY 17 Executive Supplemental Budget, the Administration consider the following recent and potential upcoming fiscal challenges to ensure that the State's fiscal health improves through FB 2015-17 and beyond:

1. Hawaii's economy suffered greatly due to the Great Recession, which distressed economies around the globe. The State implemented drastic measures, including reductions in force, furloughs, hiring freezes, temporary tax increases and deep program cuts, while depleting reserves, delaying income tax refunds, and delaying vendor payments to stay afloat through the recessionary and recovery periods. The

Great Recession also adversely affected the investments of the Employees' Retirement System (ERS);

2. In recent years, the State's fiscal situation has fluctuated significantly and general fund revenue growth trends have often not been clearly reflective of economic activity;
3. The State's general fund balance as of June 30, 2015 of \$828.1 million is expected to decrease through FY 18 due to annual spending in excess of annual revenues;
4. The FY 16 and FY 17 Executive expenditure ceilings have already been exceeded;
5. For many years, the general fund financial plan has reflected repayments of 1) a general fund cash advance to the general obligation (G.O.) bond fund for the purchase of the Kapalama Military Reservation (\$89.9 million); and 2) a general fund cash advance to the Hawaii Health Systems Corporation (HHSC) (\$13.3 million) which will likely not be realized. The Administration will propose a measure to formally recognize that these amounts will not be repaid to the general fund to more accurately reflect estimated general fund balances in the future;
6. The State is also facing a significant ramp up in funding pension and other post-employment benefits (OPEB) liabilities and negotiations for collective bargaining contracts for upcoming FB 2017-19; and
7. There are national and global events with potential adverse economic impact and the inevitable trough of every economic cycle that must be taken into consideration.

It is clear that the actions taken to balance the budget in the past continue to impact on our programs and services today and we cannot afford to repeat them. Our management of the State's resources must provide for the State's priorities and near- and long-term financial commitments, while we build the State's budget reserves and broaden our economic base. Thus, the Administration's budget approach includes:

1. Developing a formal budget reserve policy;
2. Developing a formal debt policy;
3. Strategically planning expenditures and limiting expansion of annual recurrent spending;
4. Aggressively addressing pension and OPEB unfunded liabilities to reduce amounts required in the future; and
5. Strengthening budget reserves by depositing additional funds into the Emergency and Budget Reserve Fund (EBRF).

The Administration's policies to support the State's financial foundation will help to ensure that the State is able to support ongoing program needs and weather future economic downturns. Part and parcel to this approach is the Administration's proposal to pay the OPEB annual required contribution (ARC) at the 100% level beginning in FY 17, instead of FY 19. The ARC amortizes the OPEB \$8.52 billion unfunded liability over a 30-year period but, like a mortgage, paying more now will result in significant savings in the future. Another essential component is to provide additional funding for the EBRF, which the Administration will propose for FY 17, to bolster the State's ability to withstand future economic challenges.

While we are committed to being fiscally responsible, we also strive to be responsive to the needs of Hawaii's residents and our State programs. We recognize that many State programs were significantly constrained by the reductions imposed due to the Great Recession and have been unable to fulfill the full scope of their responsibilities.

There will always be many compelling needs, such as the basic needs of our residents for good schools, housing, and health and social services, which will continue to be at the forefront. Ultimately, the Administration is committed to improving the

State's delivery of vital public services by increasing efficiency, transparency, and preparedness. As such, to provide the most impact to Hawaii's residents and State programs, the FY 17 Executive Supplemental Budget is aligned with the Administration's strategic priorities, as follows:

- Education: Empower our public schools and university, focus on 21st century skills and learning, and ensure that schools provide a healthy and safe learning environment.
- Effective, Efficient, and Open Government: Restore the public's trust in government by committing to reforms that increase efficiency, reduce waste, and improve transparency and accountability.
- Housing: Build homes that people can afford, including rentals, to address the needs of those entering the work force and improve the State's public housing facilities. On Oahu, identify State lands near transit stations for the development of housing, employment centers, daycare, senior centers, and community facilities.
- Health: Create a 21st century health system that improves access, treatment, and affordability for all Hawaii residents, beginning with our children and our elders, and including rural communities on all islands.
- Economy: Promote economic diversification and policies that support growth and attract more air carriers to Hawaii, expand the U.S. Customs Pre-clearance Program, and upgrade and expand broadband infrastructure. Recognize and support renewable energy initiatives and the military as crucial pillars of Hawaii's economy.
- Energy: Ensure a 100% renewable energy future in which we work together as a State, focusing on making solar and other technologies available for all.

- Agriculture: Double local food production by 2020; develop water and energy resources to support this effort. Provide loans for farmers and more land for agriculture.
- Environment: Foster environmental stewardship from mountain to sea. Protect and more efficiently use our fresh water supply. Provide State lands for public use and enjoyment.
- Native Hawaiians: Honor, respect, and promote Native Hawaiian culture and sustainability. Support the Native Hawaiian community's ongoing efforts for a Hawaiian-based governance structure.
- Traffic: Support the development and completion of public transit systems, including bus and rail. Deploy traffic mitigation initiatives to reduce congestion on our roadways.
- Taxes: Modernize our tax system, increase efficiency for taxpayers and hold accountable those who do not pay their taxes.

THE OPERATING BUDGET

The FY 17 Executive Supplemental Budget includes amendments for FY 17 that total \$433.1 million from all means of financing (MOF) for operating costs. This represents an increase of 3.3% over FY 17 appropriations in the FB 2015-17 Executive Budget. The net request for general funds totals \$297.6 million in FY 17, resulting in an increase of 4.4% in FY 17.

Of the requested general funds, \$20.3 million is for non-recurring costs (e.g., one-time cash infusions to special funds, relocation costs, equipment, motor vehicles). Additionally, a significant portion of general funds – \$163.9 million of the \$297.6 million requested – is to increase the funding level for OPEB to 100% of the ARC in FY 17.

The State has an obligation to pay these already earned benefits and it is fiscally responsible to increase the OPEB funding now, while the funds are available, to significantly lessen the amounts that the State will be required to pay in the future.

The OPEB request, along with other fixed cost requests for \$8.4 million for health premium payments and \$23.2 million for health care payments, are partially offset by reductions of \$23.2 million for debt service and \$13.7 million for retirement benefits payments, which total \$36.9 million.

To improve budget transparency, departments were instructed to review their FB 2015-17 operating budget details for items which did not align with anticipated expenditures and could be addressed immediately. Requests include those to correct the following:

- Negative adjustments.
- Underfunded, unfunded, or unbudgeted positions.
- Specific budget line items which do not align with anticipated expenditures.

Additionally, Act 160, SLH 2015, which becomes effective July 1, 2017, provides that no funds shall be expended to fill a permanent or temporary position if the filling of that position causes the position ceiling to be exceeded, with specified exceptions.

Act 160 defines "position ceiling" as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program.

In anticipation of these requirements, all departments were instructed to review their unbudgeted positions to determine which were critical and should continue as budgeted positions. Because the unbudgeted positions are currently funded, only cost neutral requests (i.e., tradeoff/transfer requests with related increases in permanent or temporary position counts) were allowed.

Hence, the FY 17 Executive Supplemental Budget includes requests to convert such unbudgeted positions to budgeted positions. However, many other unbudgeted positions are still under review by their respective departments and may take longer to convert depending upon the types of positions.

Act 160 also requires that permanent and temporary position ceilings for each program be provided in the budget documents after July 1, 2017. In advance of this deadline, the Executive Supplemental Budget provides permanent and temporary position ceilings by program ID and department in interim report formats.

The Administration will also submit a measure to initially authorize permanent civil service positions and funds for services currently performed under contracts with various State agencies, pursuant to an agreement between the United Public Workers and the State of Hawaii.

Highlights of the operating budget request by priority area may be found in Attachment 1.

THE CAPITAL IMPROVEMENTS PROGRAM BUDGET

For the CIP budget, proposed FY 16 amendments total -\$20.9 million and FY 17 amendments total \$1.8 billion from all MOF.

There are no G.O. bond fund requests for FY 16; thus, the net request for G.O. bond funds in FY 17 totals \$891.8 million, of which \$125.4 million is to reauthorize funding which supports expenditures from prior year encumbered appropriations from the State Educational Facilities Improvement Special Fund.

While the Administration recognizes that the proposed G.O. bond fund issuance is large, there are many factors which support the need for an issuance of this size. For example, the Department of Education was unable to implement heat abatement

measures to mitigate health concerns for our public school students when temperatures reached record highs just a few months ago.

Consequently, we have requested funding for heat mitigation at our public schools. Additionally, the FY 17 Executive Supplemental Budget includes funds for major repair and maintenance (R&M) and other renovations needed to provide appropriate learning environments for our public school students.

We have also requested funding for improvements to our correctional facilities in the State of Hawaii, which are needed to alleviate current overcrowded conditions and could generate program savings. The State should no longer put off replacing the Department of Health's Forensics Building at the Hawaii State Hospital to reduce overcrowding and to address the safety concerns of the public and the hospital's staff. We must also address the need to provide housing which is affordable for Hawaii's families.

These requests are for critical program needs which the State should no longer wait to address. These projects will alleviate health and safety concerns and will help to decrease the backlog of deferred major R&M. Despite the large issuance, however, the State will still have significant unmet needs to address in future years.

Highlights of the CIP budget request by priority area may also be found in Attachment 1.

THE MULTI-YEAR GENERAL FUND FINANCIAL PLAN

The financial plan shown in Attachment 2 was based on the most recent COR September 10, 2015 tax and non-tax revenue projections. The COR's tax revenue projections provide 6.0% growth for FY 16 over FY 15, 5.5% growth for FY 17 and FY 18, 5.0% growth for FY 19, 5.0% growth for FY 20, and 4.5% growth for FY 21 and FY 22. Also included in the revenue section are other non-tax revenues not reflected in

the COR's non-tax revenue projection and estimated revenue impacts from various Administration measures that we will be submitting.

In the expenditure section, the financial plan reflects anticipated expenditures for the FY 17 Executive Supplemental Budget, Judiciary's Supplemental Budget, and continuation of FY 17 funding levels for the Office of Hawaiian Affairs and Legislature. Additionally, the expenditures reflect various specific appropriation measures that the Administration will also be submitting. The most notable is the appropriation measure to build up the State's emergency reserves by depositing funds to the EBRF.

As can be seen, the financial plan submitted to the Legislature in December shows reasonable positive balances for the current fiscal biennium and the planning period.

THE GENERAL FUND EXPENDITURE CEILING

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Section 9 of Article VII of the State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level that includes all branches of government, the total proposed appropriations from the general fund are within the expenditure ceilings for both FY 16 and FY 17.

For the Executive Branch, including appropriations made up to and including the regular session of 2015, the Executive Branch appropriation ceiling has already been exceeded for FY 16 by \$57,056,901 or 0.9%, and for FY 17 by \$14,892,787 or 0.2%. Total proposed appropriation measures from the general fund to be submitted to the Legislature during the regular session of 2016 will result in the appropriation ceiling for the Executive Branch to be exceeded in FY 16 by an additional \$21,289,815 or 0.3% and in FY 17 by an additional \$536,076,489 or 7.7%. The reasons for this excess are

the substantial costs of social assistance entitlements, support for public education, fringe benefits and other critical requirements.

THE DEBT LIMIT

Section 13 of Article VII of the State Constitution places a debt limit on G.O. bonds that may be issued by the State. It has been determined that the total amount of principal and interest calculated on: a) all bonds issued and outstanding; b) all bonds authorized and unissued; and c) all bonds proposed in the Executive Supplemental Budget (including State guaranties) will not cause the debt limit to be exceeded at the time of each bond issuance.

TAX REFUND OR CREDIT AND DEPOSIT TO THE EMERGENCY AND BUDGET RESERVE FUND

Article VII, Section 6 of the Hawaii State Constitution, requires that whenever the State general fund balance at the close of each of two successive fiscal years exceeds 5% of general fund revenues for each of the two fiscal years, the Legislature must provide for a tax refund or tax credit to the taxpayers of the State or make a deposit into one or more emergency funds, as provided by law. Section 328L-3, HRS, provides that whenever general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%, 5% of the general fund balance shall be deposited into the EBRF.

For FYs 14 and 15, general fund balances were greater than 5% of general fund revenues. FY 14 general fund revenues were less than 5% of the previous year's revenues and FY 15 general fund revenues were greater than 5% of the previous year's revenues. Accordingly, the 2016 Legislature must provide for a tax refund or tax credit but need not make a deposit into the EBRF.

In summary, the FY 17 Executive Supplemental Budget and financial plan reflect our continued commitment to manage the State's near- and long-term obligations, meet federal and State mandates, and improve operations to efficiently deliver much needed public services. The Ige Administration will work with you on a continual basis during the 2015 Session deliberations on the Executive Supplemental Budget and the financial plan.

Thank you again for the opportunity to make this presentation.

HIGHLIGHTS OF THE FY 17 EXECUTIVE SUPPLEMENTAL BUDGET

Highlights by department may also be found in the Budget in Brief for the FY 17 Executive Supplemental Budget on the Department of Budget and Finance's website (<http://budget.hawaii.gov/wp-content/uploads/2015/12/Budget-in-Brief-FY-17-BIB.pdf>).

Operating Budget Requests

The proposed FY 17 requests support the following priority areas (general funds unless otherwise noted; most positions funded for six months):

Education

- \$26.5 million for the Department of Education's (DOE) Weighted Student Formula to support the goals and objectives of each school. \$10 million of this amount is specifically for English Language Learners as recommended by the Committee on Weights.
- \$2 million to provide skilled nursing services to eligible students, ages 3-22, at public schools in compliance with federal law.
- \$9 million and \$7 million for DOE's utility and student transportation costs, respectively.
- 8.50 FTE permanent positions and \$0.8 million in general funds and \$0.5 million in special funds for the Hawaii State Public Library System for security services, repair and maintenance (R&M) and new positions at Aiea, Nanakuli, and Naalehu public libraries.
- \$6 million for the Preschool Open Doors program which assists low and moderate income families to send their children to preschool. 1.00 FTE permanent position and \$0.2 million (0.55 permanent position and \$0.2 million in general funds; 0.45 permanent position and \$21,888 in federal funds) also provided for program administration.
- \$4 million for the University of Hawaii's (UH) Cancer Center.
- 12.00 FTE permanent positions and \$0.7 million to support growth at UH West Oahu.
- \$1.3 million for critical equipment needs for UH Community Colleges.

Effective, Efficient, and Open Government

- 8.00 FTE permanent positions and \$0.3 million for the Department of Accounting and General Services (DAGS) to implement and support the State's new accounting systems.

- 25.00 FTE permanent positions and \$0.8 million for the Office of Enterprise Technology Services (ETS) for web developers, systems engineers, and network technicians to support new enterprise technology initiatives and 6.00 FTE permanent positions and \$0.2 million for technology security positions to staff the State's Security Operations Center.
- \$7 million in other funds for the implementation of critical security features and equipment to protect the ERS' computer system, conversion of employer provided personnel data, internal audit functions to access security threats and upgrade of the ERS pension system.
- \$5.9 million in general funds and \$17.7 million in federal funds for maintenance and operation of the Department of Human Services' (DHS) integrated eligibility enterprise system.

Housing

- \$3 million for the DHS' State family and elderly housing facilities to stabilize operations and mitigate rent increases.
- 22.00 FTE permanent positions, 7.00 FTE temporary positions and \$1.1 million to convert the Hawaii Public Housing Authority's (HPHA) administrative positions from federal funds to general funds to allow HPHA to maximize the amount of federal funds used for housing vouchers. Related reduction to federal funds has also been requested.
- 64.00 FTE permanent positions and \$4.5 million in revolving funds to restore positions which were used for HPHA's multi-skilled worker program.
- An Administration measure will also be submitted to eliminate the cap on conveyance tax revenues which go into the Rental Housing Revolving Fund.

Homelessness

- \$3 million for DHS' Housing First program which provides housing and supportive services to homeless who may have mental health or addiction issues.
- \$0.4 million for a new Stored Property program.
- \$2 million for Homeless Outreach services.
- \$2 million to establish a new Rapid Re-housing program to move capable families out of shelters.
- \$0.4 million for ongoing R&M of the State's homeless shelters.

- 3.00 FTE temporary positions and \$0.2 million for the Governor's Homelessness special project.
- 12.00 FTE permanent positions and \$0.4 million to provide additional deputy sheriffs at the State Capitol and to assist with homeless enforcement efforts.
- \$0.4 million in highway special funds for assistance from the Department of Public Safety to deal with homeless-related highway safety issues.
- 7.00 FTE permanent positions and \$0.8 million in highway special funds for two Highways Maintenance Units to work with homeless enforcement issues on a daily basis.

Health

- \$4.9 million in general funds and \$5.7 million in federal funds to provide Autism Spectrum Disorder services for Medicaid children through age 6.
- \$8 million in general funds and \$9.4 million in federal funds to provide Solvaldi treatment for Medicaid patients with chronic Hepatitis C infections.
- \$4.8 million in general funds and \$7.7 million in federal funds to restore adult dental benefits for Medicaid recipients.
- \$4.3 million in general funds and \$3.3 million in federal funds for increase in Medicare Part B premiums.
- \$4.7 million for the Hawaii State Hospital for projected shortfall due to continued high patient census and acuity.
- \$2.8 million for increase in State match for Department of Health's (DOH) intellectual and developmental disabilities home and community based services.
- 2.00 FTE permanent positions and \$8 million for DOH's Aging Disability Resource Center.
- \$4.1 million for the Kupuna Care program.
- Additionally, the State is in negotiations to implement Act 103, SLH 2015, and transfer the HHSC, Maui Region's facilities to Kaiser Foundation Hospital. Once the Transfer Agreement is finalized, the Administration will make an appropriate request for funding via Governor's message to the 2016 Legislature, if necessary.

Economy

- \$5 million for Hawaii Strategic Development Corporation Revolving Fund infusion for the HI Growth Initiative. \$5 million revolving fund ceiling also requested for expenditure of the funds.
- 2.00 FTE temporary positions and \$0.3 million for the Office of Military Affairs and Federal Grant Maximization.
- 20.00 FTE permanent positions and \$3.5 million for UH's Hawaii Research and Innovation Initiative to develop an innovation-based entrepreneurial system to create high quality jobs.

Agriculture

- 4.00 FTE temporary positions and \$0.3 million for UH's Agriculture Extension Service to provide a specialist for each county for livestock, organic agriculture, food production and federal food safety compliance.

Environment

- \$2 million for the Aloha + Challenge to support the Department of Land and Natural Resources' (DLNR) Wildfire Contingency Fund, Kawainui Restoration Project, Kure Atoll Management, endangered species programs and the Na Ala Hele program to enhance the State's trail and access systems.
- \$4 million in special funds to host the International Union of Conservation of Nature World 2016 Congress.
- \$1.5 million for DLNR to conduct a stream study necessary to establish instream flow standards pursuant to Section 174C-71, HRS.

Native Hawaiians

- 2.00 FTE permanent positions and \$0.1 million for the Papahānaumokuākea Marine National Monument as federal funds will no longer be available.
- 6.00 FTE permanent positions and \$0.1 million for the State's Historical Preservation Division.

Traffic

- 10.00 FTE and \$0.8 million in special funds for the new Intelligent Transportation Systems Branch to be located at the Joint Traffic Management Center.

Taxes

- 14.00 FTE permanent positions and \$0.6 million for new Investigation Branch, which includes new Tax Fraud Section.
- 16.00 FTE permanent positions converted from temporary in the Tax Services and Processing Division to support recruitment and retention.

Capital Improvement Program Budget Requests

The proposed FY 17 requests support the following priority areas (general obligation (G.O.) bond funds unless otherwise noted):

Education

- \$30 million for heat abatement improvements at public schools, statewide.
- \$16.1 million to address enrollment capacity issues at public schools, statewide.
- \$10.1 million for R&M to improve the condition of public schools, statewide.
- \$13.1 million for public school equity projects, including high school science facility upgrades and special education renovations, statewide.
- \$10.6 million for program support at public schools, including libraries, cafeterias, and administration renovations, statewide.
- \$35 million for a new classroom building at Campbell High School, necessary due to high enrollment.
- \$125.4 million reauthorization to support prior year encumbered appropriations from SEFI Special Fund.
- \$1.5 million for health and safety projects at public libraries, statewide.
- \$2.5 million for design of Snyder Hall renovation project at UH Manoa.
- \$10 million for improvements, which may include modernization, to UH Community College campuses, statewide.
- \$60 million for capital renewal and deferred maintenance projects at UH campuses, statewide.

Effective, Efficient, and Open Government

- \$14.3 million in general funds to convert G.O. bond funded capital improvement program (CIP) project funded staff cost appropriations for the DAGS; Hawaii Community Development Authority (HCDA); DOE; HPHA and DLNR to a more appropriate means of financing. We note that HCDA has a FY 16 G.O. bond funded staff cost appropriation but does not have one for FY 17; thus, the request is not a conversion of a current G.O. bond fund appropriation. Also, appropriation amounts have been adjusted to delete fringe benefit costs and reflect current salaries, if available.
- \$15 million for the government financial system which would replace FAMIS, Datamart and the Payroll system for statewide use.

Housing

- \$15 million for construction of mixed-use affordable rental housing, juvenile services and shelter center at 902 Alder Street, Oahu.
- \$25 million for the Dwelling Unit Revolving Fund.
- \$75 million for the Rental Housing Revolving Fund.
- \$31 million for public housing improvements and renovations, including expedited repair of vacant units, statewide.

Health

- \$6.5 million for Kona Community Hospital for ceiling mitigation and expansion of the wastewater treatment facility.
- \$160.5 million for a patient care facility at the Hawaii State Hospital, Oahu, to replace the Forensics building.
- \$6.8 million for improvements to the Hilo Counseling Center and Keawe Health Center, Hawaii.
- \$6.5 million for improvements to Waimano Ridge buildings and site, Oahu.

Economy

- \$5.2 million in reimbursable G.O. bond funds for improvements and upgrades to the seawater system at the Natural Energy Lab of Hawaii Authority, Hawaii.
- \$6 million for the completion of the Kalaeloa energy corridor, Oahu.

- \$50 million for a permanent Federal Inspection Station (Customs) at Kona International Airport at Keahole, Hawaii.
- \$350 million in revenue bond funds, \$50 million in other federal funds, and \$2,000 in private funds for improvements at Kapalama Military Reservation, Oahu, as part of the Department of Transportation's Harbors Modernization Program.
- \$62 million in revenue bond funds for Elliott Street support facilities at Honolulu International Airport, Oahu.
- \$47 million in revenue bond funds for new mauka concourse improvements at Honolulu International Airport, Oahu.
- \$20 million in revenue bond funds for ticket lobby improvements at Honolulu International Airport, Oahu.

Energy

- \$1 million for retro-commissioning at public libraries, statewide.

Agriculture

- \$8.2 million in G.O. bond funds and \$1 million in federal funds for irrigation system projects, including improvements to Molokai, Waimanalo, and Waimea irrigation systems.
- \$2 million in G.O. bond funds and \$2 million in federal funds for the lower Hamakua Ditch watershed.

Environment

- \$8 million for dredging of the Ala Wai Canal, Oahu
- \$2 million for the acquisition of 1,735 acres of land for the Hilo Forest Reserve, Hawaii.

Native Hawaiians

- \$9 million for Papakolea sewer system improvements for the Hawaiian Home Lands on Oahu.
- \$2.5 million for remediation improvements to Hawaiian Home Lands' dams and reservoirs on Kauai.
- \$2 million for mitigation and removal of unexploded ordinances on existing Hawaiian Home Lands' lots on the island of Hawaii.

Traffic

- \$4 million in revenue bond funds and \$16 million in federal funds for airport viaduct improvements for Interstate Route H-1, Oahu.
- \$5.8 million in revenue bond funds and \$23.2 million in federal funds for Hana Highway widening from Kaahumanu Avenue to Haleakala Highway, Maui.

Public Safety

The Administration finds that there are significant capital improvement needs in the area of public safety, which have long been neglected.

- \$45 million (\$15 million each) to construct housing and associated support spaces at Kauai Community Correctional Center (KCCC), Hawaii Community Correctional Center (HCCC), and Maui Community Correctional Center (MCCC).
- \$39.5 million for maintenance, repairs, and related projects at Waiawa Correctional Facility (\$4.5 million), OCCC (\$6.5 million), Women's Community Correctional Center (\$8.5 million), KCCC (\$7 million), MCCC (\$3.5 million), HCCC (\$9.5 million).

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 15 - 21
(in millions of dollars)

	Actual* FY 15	Estimated FY 16	Estimated FY 17	Estimated FY 18	Estimated FY 19	Estimated FY 20	Estimated FY 21
REVENUES:							
Executive Branch:							
Tax revenues	5,734.5	6,079.2	6,413.6	6,766.4	7,104.7	7,424.4	7,758.5
Nontax revenues	807.4	644.3	672.5	691.9	710.4	729.7	750.1
Judicial Branch revenues	34.8	35.4	36.0	36.6	37.4	38.1	38.8
Other revenues	-	40.0	76.3	73.3	73.3	60.3	47.3
TOTAL REVENUES	6,576.7	6,798.9	7,198.4	7,568.2	7,925.8	8,252.5	8,594.7
EXPENDITURES							
Executive Branch:							
Operating	6,189.2	6,545.8	7,131.8	7,309.4	7,524.5	7,688.2	7,813.3
CIP	-	-	14.3	14.3	14.3	14.3	14.3
Specific appropriations/CB	260.9	170.2	346.6	127.0	127.0	152.4	152.4
Other expenditures/adjustments	-	25.6	66.6	69.0	69.0	69.0	69.0
Sub-total - Exec Branch	6,450.1	6,741.6	7,559.4	7,519.7	7,734.8	7,924.0	8,049.1
Legislative Branch	37.7	38.8	39.3	39.3	39.3	39.3	39.3
Judicial Branch	154.9	158.2	164.5	164.5	164.5	164.5	164.5
OHA	2.7	3.2	3.2	3.2	3.2	3.2	3.2
Counties	-	0.4	0.4	0.4	0.4	0.4	0.4
Lapses	(231.9)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	6,413.4	6,862.3	7,686.8	7,647.2	7,862.3	8,051.4	8,176.5
REV. OVER (UNDER) EXPEND.	163.3	(63.4)	(488.4)	(78.9)	63.5	201.1	418.2
CARRY-OVER BALANCE (DEFICIT)							
Beginning	664.8	828.1	764.8	276.3	197.4	260.9	462.0
Ending	828.1	764.8	276.3	197.4	260.9	462.0	880.2
Ending fund balance as % of revenues	12.59%	11.25%	3.84%	2.61%	3.29%	5.60%	10.24%
<i>EBRF (add'l \$10M FY 16, \$100M FY 17)</i>	<i>90.2</i>	<i>108.0</i>	<i>215.9</i>	<i>221.9</i>	<i>228.0</i>	<i>234.0</i>	<i>240.1</i>
<i>Hawaii Hurricane Relief Fund</i>	<i>182.4</i>	<i>182.4</i>	<i>182.4</i>	<i>182.4</i>	<i>182.4</i>	<i>182.4</i>	<i>182.4</i>
<i>Total - Reserves</i>	<i>272.6</i>	<i>290.5</i>	<i>398.3</i>	<i>404.4</i>	<i>410.4</i>	<i>416.5</i>	<i>422.5</i>
<i>Reserves fund balances as % of revenues</i>	<i>4.15%</i>	<i>4.27%</i>	<i>5.53%</i>	<i>5.34%</i>	<i>5.18%</i>	<i>5.05%</i>	<i>4.92%</i>

* unaudited

Note: Due to rounding, details may not add to totals

**SUMMARY STATEMENT OF GENERAL FUND
EXPENDITURE CEILING AND APPROPRIATIONS**

A. Total State Personal Income and State Growth

1. Total State Personal Income (in \$ millions)

Calendar Year 2011	59,179
Calendar Year 2012	61,984
Calendar Year 2013	62,437
Calendar Year 2014	65,348
Calendar Year 2015*	67,962

* As estimated by the Council on Revenues Nov. 2015

2. State Growth

Fiscal Year 2016	3.38%
Fiscal Year 2017	3.13%

B. All Branches of State Government

1. General Fund Appropriations

Fiscal Year 2015	6,645,339,071
Fiscal Year 2016 (incl proposed)	6,946,936,221
Fiscal Year 2017 (incl proposed)	7,698,556,686

2. General Fund Expenditure Ceiling

Fiscal Year 2016	7,790,458,161
Fiscal Year 2017	8,034,384,048

C. Executive Branch

1. Recommended General Fund Appropriations

Fiscal Year 2016	6,746,281,463
Fiscal Year 2017	7,491,526,146

2. Actual and Proposed General Fund Appropriations

Fiscal Year 2015	6,450,072,988
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Fiscal Year 2016 (actual apprns)	6,724,991,648
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Proposed Add'l Appropriations FY 2016	21,289,815
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Total - FY 2016 apprns	6,746,281,463
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Fiscal Year 2017 (actual apprns)	6,950,449,657
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Proposed Add'l Appropriations FY 2017	541,076,489
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Total - FY 2017 apprns	7,491,526,146
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3. General Fund Appropriation Ceiling

Fiscal Year 2016	6,667,934,747
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Fiscal Year 2017	6,957,513,288
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DECLARATION OF FINDINGS

Pursuant to Section 37-72 of the Hawaii Revised Statutes, the Director of Finance finds and declares that with respect to the proposed capital improvement appropriations for the budget period 2016-2017 for which the source of funding is general obligation bonds:

(1) Limitation on general obligation debt. Article VII, Section 13, of the State Constitution, states in part: "General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed ... a sum equal to eighteen and one-half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance." Article VII, Section 13, also provides that in determining the power of the State to issue general obligation bonds, certain bonds are excludable, including "reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year."

(2) Actual and estimated debt limits. The limit on principal and interest of general obligation bonds issued by the State, actual for fiscal year 2013-2014 and estimated for each fiscal year from fiscal year 2016-2017 to 2018-2019, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2012-2013	6,226,008,766	
2013-2014	6,088,589,303	
2014-2015	6,569,327,192	
2015-2016	6,753,966,000	1,164,508,724
2016-2017	7,117,584,000	1,197,066,087
2017-2018	7,491,663,000	1,260,520,760
2018-2019	(not applicable)	1,317,398,135

For fiscal years, 2015-2016, 2016-2017, 2017-2018 and 2018-2019 respectively, the debt limit is derived by multiplying the average of the net general fund revenues for the three preceding fiscal years by eighteen and one-half percent. The net general fund revenues for fiscal years 2012-2013, 2013-2014 and 2014-2015 are actual, as certified by the Director of Finance in the Statement of the Debt Limit of the State of Hawaii as of July 1, 2015, dated November 24, 2015. The net general fund revenues for fiscal years 2015-2016 to 2017-2018 are estimates, based on general fund revenue estimates made as of September 10, 2015, by the Council On Revenues, the body assigned by Article VII, Section 7, of the State Constitution to make such estimates, and based on estimates made by the Department of Budget and Finance of those receipts which cannot be included as general fund revenues for the purpose of calculating the debt limit, all of which estimates the Director of Finance finds to be reasonable.

(3) Principal and interest on outstanding bonds applicable to the debt limit. In determining the power of the State to issue general obligation bonds for the fiscal years 2015-2016 to 2035-2036, the total amount of principal and interest on outstanding general obligation bonds are as follows:

Fiscal Year Ending June 30	Gross			Excludable			Net Debt Service		
	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable
2016	422,845,000	270,978,004	693,823,004	4,392,997	1,540,729	5,933,726	418,452,003	269,437,275	687,889,278
2017	429,165,000	262,697,935	691,862,935	4,162,432	1,409,788	5,572,219	425,002,568	261,288,147	686,290,716
2018	406,510,000	245,544,529	652,054,529	3,111,048	1,274,682	4,385,731	403,398,952	244,269,847	647,668,798
2019	423,105,000	228,486,297	651,591,297	2,230,352	1,153,278	3,383,630	420,874,648	227,333,019	648,207,667
2020	396,395,000	208,102,658	604,497,658	2,339,328	1,044,279	3,383,607	394,055,672	207,058,379	601,114,051
2021	350,470,000	189,748,972	540,218,972	2,453,591	930,000	3,383,591	348,016,409	188,818,972	536,835,381
2022	369,525,000	172,948,732	542,473,732	2,572,569	808,089	3,380,658	366,952,431	172,140,643	539,093,074
2023	368,445,000	155,628,432	524,073,432	2,700,670	680,029	3,380,698	365,744,330	154,948,403	520,692,734
2024	377,465,000	137,953,892	515,418,892	2,835,234	545,738	3,380,972	374,629,766	137,408,154	512,037,920
2025	355,690,000	120,289,502	475,979,502	2,976,674	404,301	3,380,975	352,713,326	119,885,200	472,598,527
2026	349,175,000	104,064,068	453,239,068	3,124,957	255,885	3,380,842	346,050,043	103,808,183	449,858,226
2027	315,990,000	86,755,565	402,745,565	1,135,554	100,184	1,235,738	314,854,446	86,655,381	401,509,828
2028	303,215,000	71,902,514	375,117,514	893,484	43,869	937,352	302,321,516	71,858,645	374,180,161
2029	284,630,000	57,502,962	342,132,962	0	0	0	284,630,000	57,502,962	342,132,962
2030	249,400,000	43,885,283	293,285,283	0	0	0	249,400,000	43,885,283	293,285,283
2031	214,985,000	31,647,042	246,632,042	0	0	0	214,985,000	31,647,042	246,632,042
2032	224,925,000	21,619,615	246,544,615	0	0	0	224,925,000	21,619,615	246,544,615
2033	161,295,000	12,915,733	174,210,733	0	0	0	161,295,000	12,915,733	174,210,733
2034	126,740,000	6,540,926	133,280,926	0	0	0	126,740,000	6,540,926	133,280,926
2035	70,170,000	2,230,818	72,400,818	0	0	0	70,170,000	2,230,818	72,400,818
2036	18,945,000	376,415	19,321,415	0	0	0	18,945,000	376,415	19,321,415

Additionally, the outstanding principal amount of bonds constituting instruments of indebtedness in which the State has incurred a contingent liability as a guarantor is \$233,500,000, all or a portion of which pursuant to Article VII, Section 13 of the State Constitution, is excludable in determining the power of the State to issue general obligation bonds.

(4) Amount of authorized and unissued general obligation bonds and proposed bonds.

As calculated from the State Comptroller's bond fund report as of October 31, 2015, adjusted for (a) appropriations made in Acts 119, 138, 121, 143, and 55, Session Laws of Hawaii 2015, to be expended in fiscal year 2016-2017 (b) lapses proposed in THE EXECUTIVE BUDGET SUPPLEMENTAL [Budget Period: 2015-2017] (referred to as the "Budget") the total amount of authorized but unissued general obligation bonds amounts to \$3,113,121,643. The amount of general obligation bonds proposed in the Budget is \$1,255,708,000 (does not include capital improvement appropriations to be funded through the issuance of general obligation bonds proposed by the Judiciary). The total amount of general obligation bonds previously authorized and unissued and the general obligation bonds proposed in the Budget is \$4,368,829,643.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2015-2016 to 2018-2019, the State proposed to issue \$850,000,000 in general obligation bonds during the remainder of fiscal year 2015-2016, \$600,000,000 in general obligation bonds during the first half of fiscal year 2016-2017, and \$600,000,000 in general obligation bonds during the second half of fiscal year 2016-2017, \$600,000,000 in general obligation bonds during the first half of fiscal year 2017-2018, and \$600,000,000 in general obligation bonds during the second half of fiscal year 2017-2018, \$600,000,000 in general obligation bonds during the first half of fiscal year 2018-2019 and \$600,000,000 in general obligation bonds during the second half of fiscal year 2018-2019. The State anticipates issuing twenty-year serial bonds with principal repayments beginning the third year, payable in substantially equal annual installments of principal and interest payment with interest payments commencing six months from the date of issuance and being paid semi-annually thereafter. It is assumed that this practice will continue to be applied to the bonds which are proposed to be issued.

(6) Sufficiency of proposed general obligation bond issuance to meet the requirements of authorized and unissued bonds and the bonds proposed in the Budget. From the schedule reported in paragraph (5), the total amount of general obligation bonds, which the State proposes to issue during this fiscal year and in fiscal years 2016-2017 2017-2018, and 2018-2019, is \$4,450,000,000. The total amount of \$4,450,000,000 which is proposed to be issued through fiscal year 2018-2019 is sufficient to meet the requirements of the previously authorized and unissued bonds and the bonds proposed in the Budget, the total amount of which is \$4,368,829,643 as reported in paragraph (4). Thus, taking the Budget into account, the amount of previously authorized and unissued bonds and bonds proposed, versus the amount of bonds which is proposed to be issued by June 30, 2019, the Director of Finance finds that in the aggregate, the amount of bonds is sufficient to meet these requirements.

(7) Bonds excludable in determining the power of the State to issue bonds. As noted in paragraph (1), certain bonds are excludable in determining the power of the State to issue general obligation bonds. (A) General obligation reimbursable bonds can be excluded under certain conditions. It is not possible to make a conclusive determination as to the amount of reimbursable bonds which are excludable from the amount of each proposed bond issuance because:

(i) It is not known exactly when projects for which reimbursable bonds have been authorized in prior acts and in the Budget will be implemented and will require the application of proceeds from a particular bond issue; and

(ii) Not all reimbursable general obligation bonds may qualify for exclusion.

However, the Director of Finance notes that with respect to the principal and interest on outstanding general obligation bonds, as reported in Section 3 herein, the average proportion of principal and interest which is excludable each year from calculation against the debt limit is 0.65 percent for approximately ten years from fiscal year 2015-2016 to fiscal year 2024-2025. For the purpose of this declaration, the assumption is made that 0.50 percent of each bond issue will be excludable from the debt limit, an assumption which the Director of Finance finds to be reasonable and conservative. (B) Bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor can be excluded but only to the extent the principal amount of such guaranties does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under subparagraph (A) of this paragraph (7) and provided that the State shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State as provided by law. According to the Department of Budget and Finance and the assumptions presented herein, the total principal amount of outstanding general obligation bonds and general obligation bonds proposed to be issued, which are not otherwise excluded under Article VII, Section 13 of the State Constitution for the fiscal years 2015-2016, 2016-2017, 2017-2018 and 2018-2019 are as follows:

<u>Fiscal Year</u>	<u>Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution</u>
2015-2016	6,857,285,000
2016-2017	8,051,285,000
2017-2018	9,224,810,000
2018-2019	10,418,810,000

Based on the foregoing and based on the assumption that the full amount of a guaranty is immediately due and payable when such guaranty changes from a contingent liability to an actual liability, the aggregate principal amount of the portion of the outstanding guaranties and the

guaranties proposed to be incurred, which does not exceed seven percent of the average amount set forth in the last column of the above table and for which reserve funds have been or will have been established as heretofore provided by, can be excluded in determining the power of the State to issue general obligation bonds. As it is not possible to predict with a reasonable degree of certainty when a guaranty will change from a contingent liability to an actual liability, it is assumed in conformity with fiscal conservatism and prudence, that all guaranties not otherwise excluded pursuant to Article VII, Section 13 of the State Constitution will become due and payable in the same fiscal year in which the greatest amount of principal and interest on general obligation bonds, after exclusions, occurs. Thus, based on such assumptions and on the determination in paragraph (8), the aggregate principal amount of the portion of the outstanding guaranties; which must be included in determining the power of the State to issue general obligation bonds, is \$0.

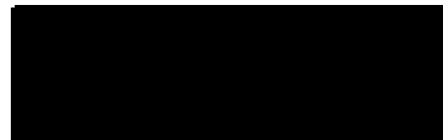
(8) Determination whether the debt limit will be exceeded at the time of issuance. From the foregoing and on the assumption that the bonds identified in paragraph (5) will be issued at an interest rate of 6.00 percent thereafter, as reported in the Budget, it can be determined from the following schedule that the bonds which are proposed to be issued, which includes all bonds issued and outstanding, bonds previously authorized and unissued and the bonds proposed in the Budget, will not cause the debt limit to be exceeded at the time of each bond issuance:

<u>Time of Issue and Amount of Issue to be Counted Against Debt Limit</u>	<u>Debt Limit at Time of Issuance</u>	<u>Greatest Amount & Year of Principal & Interest</u>
2nd half FY 2015-2016 \$845,750,000	1,164,508,724	729,701,297 (2018-2019)
1st half FY 2016-2017 \$597,000,000	1,197,066,087	765,521,297 (2018-2019)
2nd half FY 2016-2017 \$597,000,000	1,197,066,087	801,341,297 (2018-2019)
1st half FY 2017-2018 \$597,000,000	1,260,520,760	830,337,658 (2019-2020)
2nd half FY 2017-2018 \$597,000,000	1,260,520,760	866,157,658 (2019-2020)
1st half FY 2018-2019 \$597,000,000	1,317,398,135	902,925,032 (2021-2022)
2nd half FY 2018-2019 \$597,000,000	1,317,398,135	958,060,032 (2021-2022)

(9) Overall and concluding finding. From the facts, estimates, and assumptions stated in this declaration of findings, the conclusion is reached that the total amount of principal and interest estimated for the general obligation bonds proposed in the Budget and for all bonds previously

authorized and unissued and calculated for all bonds issued and outstanding and guaranties, will not cause the debt limit to be exceeded at the time of issuance.

The Director of Finance hereby finds that the bases for the declaration of findings set forth herein are reasonable. The assumptions set forth in this declaration with respect to the principal amount of general obligation bonds which will be issued, the amount of principal and interest on reimbursable general obligation bonds which are assumed to be excludable and the assumed maturity structure shall not be deemed to be binding, it being the understanding that such matters must remain subject to substantial flexibility.



State of Hawaii