

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

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EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY CRAIG K. HIRAI
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STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE

January 4, 2021

Chair Luke and Members of the Committees:

Thank you for the opportunity to present an overview of the Administration's
FB 2021-23 Executive Biennium Budget and Multi-Year General Fund Financial Plan.

My presentation will cover the following:

- The Administration's approach to the FB 2021-23 Executive Biennium Budget;
- The FB 2021-23 Program Review;
- Budget and fiscal considerations;
- Constitutional and statutory requirements;
- Budget transparency;
- A synopsis of the FB 2021-23 Executive Biennium Budget Requests – Operating and Capital Improvements Program (CIP);
- The Multi-Year General Fund Financial Plan based on the Council on Revenues' (COR) September 9, 2020 revenue projections; and
- The general fund expenditure ceiling, requirement to provide a tax refund or credit and deposit to the Emergency and Budget Reserve Fund (EBRF), and State debt limit.

THE ADMINISTRATION'S APPROACH TO THE FB 2021-23 EXECUTIVE BIENNIUM
BUDGET

The novel coronavirus, which causes COVID-19, quickly became a pandemic that swept through and impacted countries around the globe. As we enter the new calendar year, we are still learning about COVID-19. Even many who predicted an eventual pandemic did not foresee the magnitude of its significant socio-economic impact, which is still unfolding.

Difficult decisions were made to mitigate and control the spread of COVID-19 in Hawai'i. These mitigation measures have helped to keep caseloads and deaths in Hawai'i among the lowest in the nation, but they have dramatically impacted Hawai'i's families and businesses. The State's preliminary unemployment rate rose sharply from 2.4% in March 2020 – one of the best in the nation – to 23.8% in April 2020. With so many unemployed, the State's Unemployment Insurance (UI) Trust Fund was quickly depleted, and the State had to obtain a \$1.0 billion loan for calendar year 2020 from the federal government to pay UI claims, for which the State will pay the interest. Future loans may also be necessary.

As businesses have reopened on a measured basis, the preliminary unemployment rate has decreased to 10.1% in November 2020. While an improvement, the overall contraction of Hawai'i's economy is especially difficult following years of growth, due in large part to the record expansion of the tourism industry, a major economic driver.

The public's general hesitation towards air travel due to COVID-19 and restrictions implemented to control the spread of the disease caused an abrupt

reduction in the number of travelers to Hawai'i. Year-to-date through November 2020, total visitor arrivals have decreased by 77.3%.

Back in March, we were hopeful that the pandemic would be contained in a few months and we would be able to open the State to tourism by July. However, due in part to surges in COVID-19 cases, the launch of the Safe Travels pre-travel testing program, which allows travelers to bypass the mandatory 14-day quarantine with negative COVID-19 test results, was delayed until mid-October for transpacific travelers. In early November, we welcomed back the first international flight from Japan.

Recent increases in the number of COVID-19 cases in other states and areas of the world will undoubtedly slow the recovery of the tourism sector. It may be years before tourism returns to pre-pandemic levels. Those in the tourism industry, as well as other related industries such as restaurants and entertainment, are suffering severely.

As expected, the State's general fund tax collections have taken a substantial blow. The growth of preliminary general fund tax collections for FY 20 decreased from 7.5% in February 2020, before COVID-19 restrictions were imposed, to -6.3% by the end of the fiscal year. This drastic drop in revenues, though not quite the 7.0% reduction projected by the COR, will negatively impact the State's fiscal situation for years to come.

As changes in revenue growth over a fiscal year have often proven to be unpredictable, we are closely monitoring general fund tax revenues in relation to the COR's FY 21 general fund tax revenue growth projection of -11%. General fund tax collections for FY 21 increased by 32.9% in July 2020 due to the deferral of the income tax filing deadline to July 20, 2020. Collections have declined by 7.8% in

November 2020, but we are hopeful that income tax collections and a possible tourism rebound as vaccinations become more widespread later in the fiscal year will keep revenue collections on track.

In April 2020, the State received \$862.8 million in federal funds pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act to assist with COVID-19-related costs. As the City and County of Honolulu received a separate award, subawards were provided to the counties of Kaua'i, Hawai'i and Maui. The balance of the funds has been awarded to various State agencies for such costs as personal protective equipment, testing, contact tracing and economic support, such as housing assistance.

Congress passed and the President recently signed a federal stimulus bill to provide additional federal assistance to help the unemployed and small businesses, and to defray education and health costs. Our understanding is that these federal funds can be used to directly support costs for the Department of Education (DOE) and Department of Health's (DOH) COVID-19 mitigation efforts. Additionally, it provides supplementary funding for the University of Hawai'i, mental health and substance abuse, emergency rental assistance, childcare, airports and highways. We will work with the affected departments and the Legislature to make the appropriate adjustments to the budget.

Regardless, we cannot expect that these federal funds will be the panacea for our fiscal issues. If we continue the current rate of State spending, the projected shortfalls are overwhelming, and it is our responsibility to take action to ensure the State's fiscal stability. The longer we wait to act, the larger these shortfalls become, and the more drastic corrective actions will need to be.

The Administration has already implemented measures to decrease general fund expenditures, including restrictions and a hiring freeze on non-critical general-funded positions in FY 21. We have suspended the prefunding of other post-employment benefits (OPEB) pursuant to Act 268, SLH 2013, for FY 21 through the Governor's emergency powers.

The general fund carryover balance from FY 20 has helped to support FY 21 operating costs. The State ended FY 20 with a general fund balance of approximately \$1 billion. However, this extraordinarily large balance is due to the 2020 Legislature authorizing \$303 million in general fund to general obligation (G.O.) bond swaps and special fund transfers and a \$345 million transfer from the EBRF to the general fund, increasing the FY 20 general fund balance by \$648 million.

All departments were asked to review their planned expenditures and find innovative ways to deliver essential services and trim costs. We expect these restrictive fiscal controls will need to continue through the remainder of the fiscal year and beyond. These measures are in addition to the sizeable reductions made to FY 21 general fund appropriations by the 2020 Legislature.

Given the magnitude and consequences of these actions, we took out a \$750 million working capital loan to provide short-term liquidity through the end of FY 21 to give the Administration and Legislature time to consider the best options to balance the budget going forward. The loan will be paid back over five fiscal years, FY 22 through FY 26.

Due to the unprecedented revenue gap that must be addressed, a wide range of cost-saving and revenue enhancement measures were evaluated. After much

consideration, we believe that a multi-pronged approach is necessary to address the estimated annual general fund revenue shortfall of \$1.4 billion.

Savings due to revised projections for fixed costs and the continuation of the suspension of OPEB payments for four more years will help to alleviate some of the shortfall. Program review reductions and furloughs are also integral parts of the Administration's plan to reduce the balance of the projected shortfall, but revenue enhancements are also needed to fill in the gap. All of the proposed actions are necessary to balance the State's general fund financial plan for FB 2021-23 and through the four-year statutory planning period (FY 24 through FY 27).

Due to the extent of the State's estimated revenue losses through FY 21 and the forthcoming fiscal years, permanent ongoing changes must be made to State government. These changes will understandably be difficult.

Regrettably, we are unable to shield our employees and priority programs from these reductions. We understand that furloughs will unfortunately cause hardships for many and, while difficult, they will allow us to avoid layoffs of roughly 4,000 people.

Throughout the Governor's tenure, we have nourished and protected education, our highest priority. It was extremely difficult for us to consider reductions that would impact students and teachers.

However, in these very difficult times, we were forced to look at education and other priority programs due to the significant portion of the State budget that they receive. We would be unable to leave these programs untouched without decimating the rest of State government. The State provides critical services, many of which are needed now more than ever.

THE FB 2021-23 PROGRAM REVIEW

As a prerequisite to the development of the FB 2021-23 Executive Biennium Budget, the Administration conducted an extensive FB 2021-23 Program Review. The objective of this review was to identify significant reductions to general fund appropriations for FY 22, FY 23 and beyond based on a systematic review of State programs and services in response to the reduced level of general fund support that would be available due to the economic fallout of the COVID-19 pandemic.

Thus, the program review focused on programs that were fully or partially funded by general funds. Programs wholly funded by other means of financing, such as special funds, were encouraged to conduct their own modified reviews with the goal of increasing program efficiency and effectiveness.

The intent was to have each department make honest and discerning assessments of its programs and services as compared to its primary mission (what it does and who it serves) by identifying:

- Programs, functions, and/or activities for possible elimination that are of marginal benefit, low performing, or of lesser priority.
- Cost saving opportunities in core and primary programs and services through tightening program eligibility, reducing program benefits, improving efficiency, or cost shifting.
- Programs within or between departments with complimentary goals and operations that could be combined to reduce operational redundancies and administrative costs.

The first step was to establish a prioritized program inventory to set the groundwork for a more rigorous program review and the systemic identification of

possible reductions. To ensure both short- and long-term operational sustainability, departments identified their highest to lowest priority program functions and activities. Then, departments proposed reductions to meet reduction targets of 10%, 15%, and 20% of Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020 (to be referred to as “Act 5, SLH 2019, as amended”), plus FY 21 transfers pursuant to Section 44 of Act 5, SLH 2019, as amended (to be referred to as “Act 5, SLH 2019, as amended, including Section 44 transfers”), as adjusted for fixed costs and the application of a \$4 million exemption for all departments.

The reduction proposals were reviewed based on statewide priorities, and the decisions regarding the identified reductions have been incorporated into the FB 2021-23 Executive Biennium Budget Request. We realize reductions of this magnitude are extremely difficult, as all programs have value, but we must position the State to deal with the ongoing, significant economic downturn that will impact the State for many years.

BUDGET AND FISCAL CONSIDERATIONS

We have always taken our responsibility to ensure the State’s fiscal stability seriously. The Administration has generally approached the budget in a cautious manner, often because unpredictable general fund revenue growth did not reflect the State’s economic situation.

In developing each Executive Biennium or Supplemental Budget, the Administration takes a hard look at the State’s fiscal situation and potential fiscal challenges to ensure that the State’s fiscal health is maintained through the upcoming biennium and beyond. Doing this during a pandemic, however, poses significant challenges due to the added levels of uncertainty.

While no one can predict how long this worldwide health crisis will last, we are hopeful that continuing our mitigation measures and the availability of vaccines will help us recover from this pandemic. As such, the Administration will be requesting, through specific legislation, emergency appropriations for FY 21 (beginning January 1, 2021) and appropriations for FY 22 for the substantial funding requirements to support COVID-19 mitigation efforts, including, but not limited to, the Safe Travels program, hospital surge staffing, and vaccination implementation.

Aside from vaccination costs, many of these costs are currently supported by federal CARES Act funds. Thus, the State has been insulated from these costs. However, the CARES Act funds must be expended by December 30, 2020 (the new federal stimulus bill extends this deadline but most of our CARES Act funds have already been committed and/or expended at this point), so any subsequent COVID-19-related costs must be paid by the State.

The COVID-19 mitigation costs that the State must now cover are currently estimated to be \$205 million and \$182 million, which will be requested as FY 21 emergency appropriations and FY 22 appropriations, respectively, but are subject to change as more information becomes available. We will work closely with the Legislature to ensure that sufficient resources are appropriated for these mitigation efforts.

In addition, we will be submitting several other emergency appropriation bills for FY 21 which total over \$82.5 million. These appropriations are necessary to provide critical support for the respective programs for the remainder of FY 21, in many cases to offset the indirect impact of COVID-19. Such requests include, but are not limited to,

\$20 million for the DOE's food service program deficit; \$5.4 million for the General Assistance program under the Department of Human Services; and \$1.5 million for the Stadium Authority.

Based on a preliminary assessment, the recently approved federal stimulus bill will help defray:

- \$120.1 million of DOH's estimated COVID-19 mitigation costs (testing, contact tracing, isolation, etc.) – \$67.3 million in FY 21 and \$52.8 million in FY 22;
- \$31.5 million of DOH's estimated immunization costs – \$12.6 million in FY 21 and \$18.9 million in FY 22; and
- \$62.2 million of DOE's estimated FY 21 emergency appropriation requirements (workers' compensation, teacher differentials, converged infrastructure, Financial Management System licensing and maintenance, and the above mentioned food service program deficit).

As indicated earlier, we will work with the affected departments and the Legislature to make the appropriate adjustments to the budget.

We are continuing to work to align resources to address our most critical issues. As such, the Executive Biennium Budget proposes limited general fund appropriations for FB 2021-23 beyond those for fixed costs.

Due to the anticipated general fund revenue shortfall, significant reductions have also been proposed based on the FB 2021-23 Program Review. Requests for non-general funds have been included based on priority and sustainability.

We must be fiscally prudent and responsible with our expenditures to ensure the State's fiscal stability through FB 2021-23 and beyond. We must control our expenditures to prepare, to the extent possible, for uncertain revenue collections.

CONSTITUTIONAL AND STATUTORY REQUIREMENTS

The FB 2021-23 Executive Biennium Budget includes the operating and CIP requirements of the Executive Branch as required by the State Constitution. In preparing the Biennium Budget, the Executive Branch is bound by constitutional and statutory requirements, which include, but are not limited to, the following:

- Article VII, Section 8, of the State Constitution provides that “[w]ithin such time prior to the opening of each regular session in an odd-numbered year as may be provided by law, the governor shall submit to the legislature a budget in a form provided by law setting forth a complete plan of proposed expenditures of the executive branch. . . .”
- Section 37-69, HRS, requires that “[t]he governor prepare a [S]tate six-year program and financial plan encompassing all state programs, . . .” The program and financial plan shall contain financial summaries displaying the State’s financial condition including “[t]he changes proposed to the existing tax and nontax rates, sources or structure, and the estimated increases or reductions in revenues, the estimated cumulative increases or reductions, and the estimated fund balance or deficit in each of the next six fiscal years as a result of such proposed changes. Proposals for changes in the existing tax and nontax rates, sources or structure shall be made in every case where the proposed, total state expenditures exceed the total resources anticipated from existing tax and nontax sources at existing rates.”
- Section 37-71(b)(4), HRS, prescribes that the information provided in the budget be formatted such that “[p]rogram costs shall include all costs, including research and development, operating and capital, regardless of the means of financing. . . .”

- Section 37-71(c)(3), HRS, requires a summary listing of all capital improvement projects by program, at the lowest level of the program structure, which shows for each project, by investment cost elements, the amount of new appropriations and authorizations proposed. Under Section 37-62, Definitions, HRS, “cost elements” means the major subdivisions of a cost category. The category “capital investment” includes plan, land acquisition, design, construction, and equipment and furnishing.

In order to prepare a comprehensive Executive Biennium Budget, which includes all program costs, FY 21 operating appropriations and position ceilings from various departmental budget bills were transferred to Act 5, SLH 2019, as amended, as approved by the Governor on June 19, 2019, pursuant to Section 44 of Act 5, SLH 2019, as amended. These transfers were also intended to provide centralized funding for operations, which would improve fiscal control and reduce workload.

These transfers have been included in the operating budget ceilings of the respective departments. The Governor’s approval and list of bills with budget impact is available here: <https://budget.hawaii.gov/wp-content/uploads/2020/10/FM-20-15-Attachment-8.pdf>. Please note that this list includes bills that were repealed by the 2020 Legislature; thus, no appropriations were available from those bills for transfer in FY 21.

BUDGET TRANSPARENCY

To increase budget transparency, departments were instructed to review their FY 21 operating budget details for items that did not align with anticipated expenditures and could be addressed immediately. Each department’s review was to include, but would not be limited to, the following, as applicable:

- Negative adjustments;

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

Section 37-74(f), HRS, and Section 42 of Act 5, SLH 2019, as amended, prohibit funds from being expended to fill a permanent or temporary position for the lowest level of a program if the filling of that position causes the position ceiling for that level of the program to be exceeded. "Position ceiling" is defined as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program.

Consequently, it was highly recommended that all departments review their unbudgeted positions. All unbudgeted positions that are critical and on-going were to be identified and incorporated into the budget. Because the unbudgeted positions are currently funded, only cost neutral requests (i.e., trade-off/transfer requests with related increases in permanent or temporary position counts) were allowed.

Departments were also specifically advised to review positions that were not funded in Act 5, SLH 2019, as amended. General-funded programs with unfunded positions deemed critical for department operations were advised to submit trade-off and transfer requests to fund such positions.

As such, the FB 2021-23 Executive Biennium Budget includes the following:

1. "Conversion of unbudgeted positions" requests to authorize unbudgeted positions through trade-off and transfer of funding and position counts (if necessary, permanent or temporary position counts have been requested).
2. Trade-off and transfer adjustment requests necessary to fully fund underfunded or unfunded positions, if the positions are deemed critical.

3. Trade-off and transfer adjustment requests necessary to correct negative amounts or realign the budget to expenditures.
4. Base adjustment requests to delete underfunded or unfunded positions.

THE EXECUTIVE BIENNIUM BUDGET REQUEST FOR FB 2021-23

The Operating Budget

The development of the Executive Biennium Budget for FB 2021-23 began with an operating base budget amount for each department, equivalent to its FY 21 appropriations, minus non-recurring costs and plus collective bargaining (CB) (except for federal and other federal funds) and other adjustments, as applicable. These base budget amounts were adjusted by requests that included:

- Trade-offs and transfers and conversion of unbudgeted positions to align the budget with current operational requirements;
- Select fixed costs and entitlements;
- Federal funds based on anticipated grant awards;
- Health and safety or immediate requirements of court orders or federal mandates; and
- Other special, revolving, and trust fund requests that were sustainable, reasonable and necessary for program implementation.

All Means of Financing

For FB 2021-23, total operating budget requests from all sources of funding amount to \$15.417 billion in FY 22 and \$15.521 billion in FY 23, resulting in decreases of 1.8% and 1.1%, respectively, below the current level appropriated for FY 21 in Act 5, SLH 2019, as amended, including Section 44 transfers.

<u>Means of Financing</u>	<u>FY 21*</u> <u>Appropriation</u> (\$million)	<u>FY 22</u> <u>Request</u> (\$million)	<u>FY 23</u> <u>Request</u> (\$million)
General Funds	8,047.9	7,686.0	7,798.3
Special Funds	3,639.2	3,370.1	3,453.3
Federal Funds	2,825.0	3,091.6	3,021.5
Other Federal Funds	198.3	220.3	199.3
Private Contributions	0.9	0.9	0.9
County Funds	2.2	2.2	2.2
Trust Funds	433.8	433.8	433.8
Interdept. Transfers	76.5	79.1	79.1
Revolving Funds	450.6	514.0	514.0
Other Funds	<u>18.7</u>	<u>18.8</u>	<u>18.9</u>
Total	15,693.2	15,416.7**	15,521.3
Decrease under FY 21		-276.4	-171.8
Percentage decrease		-1.8%	-1.1%

* - Includes FY 21 appropriations from Act 5, SLH 2019, as amended by Act 7, SLH 2020, and Act 9, SLH 2020, including transfers pursuant to Section 44 of Act 5, as amended by Act 7, SLH 2020, and Act 9, SLH 2020.

** - Total differs due to rounding.

The decreases are primarily due to suspension of prefunding for OPEB, program review reductions for general-funded programs, and reduced retirement benefit payments, which are offset by escalating other non-discretionary costs (general funds for debt service; health premium payments; and federal and general funds for Medicaid). Also contributing are adjustments made for transportation.

General Fund

Total requests for general funds amount to \$7.686 billion in FY 22 and \$7.798 billion in FY 23, which represents a decrease of \$361.9 million (4.5%) in the first year and \$249.6 million (3.1%) in the second year over the FY 21 appropriation level.

Increased non-discretionary requests (debt service, health premium payments, and Medicaid) are offset by decreases due to suspension of prefunding for OPEB, program review reductions, and reduced retirement benefit payments.

Net new general fund requests by budget request category include (does not include general fund ceiling):

FY 22

<u>Category</u>	<u>FY 22 Perm Positions (FTE)</u>	<u>FY 22 Temp Positions (FTE)</u>	<u>FY 22 Request (\$million)</u>
Trade-Off/Transfer	-11.00	-	-
Non-Discretionary	-	-	-124.5
Other Requests	-364.78	-172.66	91.5
Program Review	<u>-431.57</u>	<u>-62.15</u>	<u>-347.8</u>
Total	-807.35	-234.81	-380.8

FY 23

<u>Category</u>	<u>FY 23 Perm Positions (FTE)</u>	<u>FY 23 Temp Positions (FTE)</u>	<u>FY 23 Request (\$million)</u>
Trade-Off/Transfer	-11.00	-	-
Non-Discretionary	-	-	-8.8
Other Requests	-364.78	-176.66	94.5
Program Review	<u>-431.57</u>	<u>-62.15</u>	<u>-350.3</u>
Total	-807.35	-238.81	-264.5*

* - Total differs due to rounding.

A department-by-department summary and highlights of what is contained in the FB 2021-23 Executive Biennium operating budget can be found in “The FB 2021-23 Executive Biennium Budget - Budget in Brief” that is available on the Department of Budget and Finance’s (B&F) website at www.budget.hawaii.gov/budget/.

The Capital Improvements Program Budget

For FB 2021-23, total requests for capital improvements amount to \$1.236 billion in FY 22 and \$1.116 billion in FY 23, to be funded from the following sources:

<u>Means of Financing</u>	<u>FY 22 Request</u> (\$million)	<u>FY 23 Request</u> (\$million)
General Funds	-	-
Special Funds	25.4	7.0
G.O. Bonds	679.4	512.1
G.O. Reimbursable	-	-
Revenue Bonds	312.5	428.1
Federal Funds	159.3	160.7
Other Federal Funds	1.2	3.2
Private Contributions	-	5.0
County Funds	-	-
Trust Funds	-	-
Interdept. Transfers	-	-
Revolving Funds	-	-
Other Funds	<u>58.6</u>	<u>0.2</u>
Total	1,236.3*	1,116.3

* - Total differs due to rounding.

The State's fiscal prudence and financial strength in the past has allowed the State to maintain its credit quality during the pandemic. Going forward, it is critical that we prioritize essential CIP projects given the uncertain revenue situation and evaluate which projects that could be deferred until revenues rebound and the full budgetary impact of pension and OPEB costs are absorbed.

This is necessary to limit debt service costs to preserve the State's financial flexibility through the planning period and position the State to handle future economic shocks. As such, the Administration has made a conscientious effort to reduce the FB 2021-23 CIP budget request compared to the previous biennium. We have requested a total of less than \$1.2 billion in G.O. bond funds for FY 22 and FY 23.

The requested projects are necessary to maintain and improve our State facilities and resources to allow our programs to better serve Hawai'i's people. It makes good financial sense to invest now – while interest rates are low – to meet these priority needs. This will help reduce debt service costs while creating jobs and sustaining our construction industry.

A department-by-department summary and highlights of what is contained in the FB 2021-23 Executive Biennium CIP budget can be found in “The FB 2021-23 Executive Biennium Budget - Budget in Brief” that is available on B&F's website at www.budget.hawaii.gov/budget/.

THE MULTI-YEAR GENERAL FUND FINANCIAL PLAN

Attachment 1 is the Multi-Year General Fund Financial Plan that reflects the FB 2021-23 Executive Biennium Budget submitted to the Legislature on December 21, 2020, and the COR's September 9, 2020 general fund tax and non-tax revenue projections.

Revenues

The “REVENUES” section incorporates the COR's tax and non-tax revenue projections, and other revenues not part of the COR's projections.

The “Executive Branch: Tax revenues” row reflects the COR's tax revenue projections which provide for a minus 11.0% growth rate for FY 21 over FY 20, an 8.5% growth rate for FY 22, a 6.0% growth rate for FY 23, a 4.0% growth rate for FY 24, and a 3.0% growth rate annually for FY 25 through FY 27. It is noted that when compared to the COR's March 11, 2020 projections, there are annual revenue losses of about \$1.4 billion and greater for the period from FY 22 through FY 27.

Preliminary actual general fund tax revenue growth for FY 21 increased in July 2020 and August 2020, when collections increased by 32.9% and 5.6%, respectively, due to the deferral of the income tax filing deadline to July 20, 2020. Since then, general fund revenues have gone down by 2.7% in September 2020, 8.0% in October 2020, and 7.8% in November 2020 when compared to the same periods in FY 20. Current economic activity may be better reflected by the 24% decrease in general excise tax revenues and the 92% drop in transient accommodations tax (TAT) revenues in November 2020.

In the letter transmitting its projections, the COR acknowledged the great amount of uncertainty surrounding the forecast figures for FY 21 and FY 22. The COR's forecast of 8.5% for FY 22 resulted in a split 4-3 vote, with the minority stating that the growth rate was likely to be higher. The COR's FY 21 forecast considered the fiscal impacts of the delay in the income tax filing deadline from April 2020 to July 2020, which resulted in a shift of \$308 million from FY 20 to FY 21. This large revenue shift was a reason why the FY 21 forecast moved from -12.0% to -11.0% as it offset a downward adjustment.

The forecast reflects the depressed economic activity resulting from the global pandemic from COVID-19. The COR expressed concerns about the prolonged closure of Hawai'i's tourism economy and the effects of shutdowns of non-essential businesses due to spikes in COVID-19 infection rates. In addition, the COR discussed the expiration of the federal fiscal stimulus on the local economy in the current year. There are a number of unknowns that may significantly affect Hawai'i's economic activity and State tax collections like the trajectory of the virus, the availability of an effective vaccine

treatment, rapid low-cost testing, the State and federal governments' response to the epidemic, reopening the tourism economy and its timing, and the duration of government shut down measures.

Given the prominent role of tourism in Hawai'i's economy, the COR noted that extended delays in the return of visitors will have major impacts on the economy and tax collections. The COR noted that the State government's role in facilitating visitor arrivals in a safe and orderly manner is vital for the return of economic growth. The COR will be meeting on January 7, 2021, to review and deliberate its projections.

The "Other revenues" row reflects in FY 20 the \$648 million transferred from the EBRF to the general fund. In FY 21, the \$1,027.8 million reflects: \$750 million working capital borrowing; \$203 million from suspension of Section 237D-6.5(b), HRS, TAT distributions by emergency proclamation; \$80 million in Coronavirus Relief Fund payments for eligible COVID-19 expenditures; and several minor revenue adjustments. It should be noted that the Administration's financial plan does not transfer \$183.0 million from the Hawai'i Hurricane Relief Fund in FY 21 as authorized as an option by Act 9, SLH 2020. In FY 22 through FY 27, the amounts shown reflect revenue proposals that the Administration will be submitting to the Legislature as part of its legislative package.

Expenditures

The "EXPENDITURES" section incorporates the FB 2021-23 Executive Biennium Budget, Judiciary's FB 2021-23 Biennium Budget, continuation of FY 20 funding levels for the Office of Hawaiian Affairs (minus the \$75,000 one-time grant amount), continuation of FY 21 funding levels for the Legislature, specific appropriations/CB, and other expenditures/adjustments not accounted for in the Executive Budget.

The “Executive Branch: Operating” row reflects the Executive Branch appropriations for FY 20 and FY 21, the FB 2021-23 Executive Biennium Budget for FY 22 and FY 23, and projected out-year requirements-based carry over of FY 23 non-fixed costs through FY 27 and projected increases for fixed costs (debt service, fringe benefits, Medicaid, etc.) through FY 27. The Executive Biennium Budget also incorporates: ongoing costs of CB increases from the current FB 2019-21 CB contracts; projected savings from temporary suspension of pre-funding for OPEB under Act 268 until FY 25; and program review reductions of approximately \$350 million per fiscal year.

The “Executive Branch: Specific appropriations/CB” row reflects primarily the CB costs from the current contracts with other specific appropriations for FY 20 and FY 21. The FY 22 and out-year amounts reflect set asides for the School Facility Authority (Act 72, SLH 2020), access learning (Act 46, SLH 2020) and education data (Act 76, SLH 2020).

The “Executive Branch: Other expenditures/adjustments” row reflects in FY 20 \$0.2 million of claims against the State payments. In FY 21, the minus \$196.3 million reflects: \$98.3 million of estimated six months of furlough savings; \$390.2 million in OPEB pre-funding savings; \$204.8 million in COVID-19-related emergency appropriations; \$82.5 million in non-COVID-19 emergency appropriations; and \$5.0 million set aside for claims against the State. In FY 22, the minus \$84.3 million reflects: \$271.0 million of estimated 12 months of furlough savings; \$181.7 million in COVID-19 expenses; and \$5.0 million set aside for claims against the State. In FY 23 and FY 24, the minus \$272.6 million reflects: \$277.6 million of estimated 12 months of furlough savings; and \$5.0 million set aside for claims against the State. In FY 25, the

minus \$21.2 million reflects: \$26.2 million of estimated payroll lag and after-the-fact furlough savings; and \$5.0 million set aside for claims against the State. In FY 26 and FY 27, the \$5.0 million reflects the set aside for claims against the State.

Ending Balances

For FY 20, total revenues were \$8,285.1 million and total expenditures were \$8,034.5 million, resulting in revenues over expenditures of \$250.6 million and an ending balance of \$1,002.7 million. It is noted that the FY 20 balance was adjusted to include certain transactions that were authorized for FY 20 but processed in FY 21. Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain items were processed in FY 21 but for purposes of the financial plan have been reflected as authorized in FY 20.

For FY 21, estimated total revenues are \$7,662.9 million and estimated total expenditures are \$8,161.1 million, resulting in revenues under expenditures of -\$498.2 million and an estimated ending balance of \$504.5 million. For FY 22, estimated total revenues are \$7,378.2 million and estimated total expenditures are \$7,728.3 million, resulting in revenues under expenditures of -\$350.1 million and an estimated ending balance of \$154.3 million. For FY 23, estimated total revenues are \$7,707.3 million and estimated total expenditures are \$7,652.2 million, resulting in revenues over expenditures of \$55.1 million and an estimated ending balance of \$209.4 million. Revenues are estimated to exceed expenditures for FY 24 and FY 25, resulting in estimated balances of \$437.9 million and \$492.5 million, respectively. Expenditures are estimated to exceed revenues for FY 26, resulting in an estimated balance of \$242.5 million. Revenues are estimated to exceed expenditures for FY 27, resulting in an estimated balance of \$269.9 million.

At the bottom of Attachment 1, we reflect the actual and estimated balances of the EBRF and the percentages of the EBRF fund balance of prior year revenues. As can be seen, the percentages range from 0.7% in FY 20 to a little over 1.0% in FY 27, which is well below the target EBRF reserve of 10.0%.

As indicated earlier, we will be assessing the impact of the recent federal stimulus bill on the budget and financial plan and will work with the Legislature to make the appropriate adjustments.

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 HRS.

At the aggregate level that includes all branches of government, the total proposed appropriations from the general fund are within the expenditure ceilings for FY 21 through FY 23.

For the Executive Branch, the total proposed appropriations from the general fund (which include emergency appropriations for FY 21, the Executive Biennium Budget for FB 2021-23 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by \$79.3 million (or 0.9%) in FY 21 but are within the expenditure ceilings for FY 22 and FY 23. In FY 21, the excess is due to the costs of COVID-19-related expenses, differentials for classroom teachers, support of education, public safety operational requirements, and critical operational needs.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included as Attachment 2.

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

Article VII, Section 6, of the Hawai'i State Constitution, requires that whenever the State general fund balance at the close of each of two successive fiscal years exceed 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 exceed revenues for each of the preceding fiscal years by 5%, 5% of the general fund balance shall be deposited into the EBRF.

For FYs 19 and 20, the general fund balances were greater than 5% of general fund revenues. It is noted that the FY 20 general fund balance was adjusted to include certain transactions that were authorized for FY 20 but processed in FY 21. Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain items were processed in FY 21 but for the purposes of the general fund financial plan have been reflected as authorized in FY 20.

Although the general fund balance exceeded 5% of general fund revenues for FYs 19 and 20, FYs 19 and 20 general fund revenues did not exceed the respective previous years' (FYs 18 and 19) general fund revenues by more than 5%.

Accordingly, the 2021 Legislature must provide for a tax refund or tax credit or make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of emergency, economic downturn, or unforeseen reduction in revenues, or appropriate general funds for the prepayment of either or both of 1) debt service or 2) pension or OPEB liabilities.

DEBT LIMIT

Section 13 of Article VII of the Hawai'i 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 FB 2021-23 Executive Biennium Budget (including State guaranties) will not cause the debt limit to be exceeded at the time of each bond issuance.

The Declaration of Findings with respect to the G.O. bond debt limit is included as Attachment 3.

In summary, the FB 2021-23 Executive Biennium Budget and Multi-Year General Fund Financial Plan reflect our continued commitment to ensure the State's fiscal stability and long-term sustainability. You will be hearing from the respective departments on details of their FB 2021-23 Executive Biennium Budget requests in the coming weeks. The Ige Administration will work with you on a continual basis during the 2021 Session deliberations on the FB 2021-23 Executive Biennium Budget and the Multi-Year General Fund Financial Plan.

Thank you again for the opportunity to make this presentation.

Attachments

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 20 - 27
(in millions of dollars)

	Adj. Actual*	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
	<u>FY 20</u>	<u>FY 21</u>	<u>FY 22</u>	<u>FY 23</u>	<u>FY 24</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>
REVENUES:								
Executive Branch:	-6.3%	-11.0%	8.5%	6.0%	4.0%	3.0%	3.0%	3.0%
Tax revenues	6,694.7	5,958.4	6,464.8	6,852.7	7,126.8	7,340.6	7,560.9	7,787.7
Nontax revenues	914.2	649.5	664.3	673.6	693.0	708.4	789.3	789.3
Judicial Branch revenues	28.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2
Other revenues	648.0	1,027.8	221.8	153.7	163.7	154.8	156.0	157.2
TOTAL REVENUES	8,285.1	7,662.9	7,378.2	7,707.3	8,010.7	8,231.1	8,533.4	8,761.5
EXPENDITURES								
Executive Branch:								
Operating	8,024.0	8,047.9	7,686.0	7,798.3	7,928.2	8,062.9	8,643.0	8,593.7
CIP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific appropriation/CB	139.3	184.1	5.9	5.9	5.9	5.9	5.9	5.9
Other expenditures/adjustments	0.2	(196.3)	(84.3)	(272.6)	(272.6)	(21.2)	5.0	5.0
Sub-total - Exec Branch	8,163.5	8,035.7	7,607.6	7,531.6	7,661.6	8,047.6	8,653.9	8,604.6
Legislative Branch	42.6	42.5	42.5	42.5	42.5	42.5	42.5	42.5
Judicial Branch	172.2	163.0	164.0	164.0	164.0	164.0	164.0	164.0
Judicial Branch adjustments	0.0	0.0	(8.9)	(8.9)	(8.9)	(0.6)	0.0	0.0
OHA	3.1	-	3.0	3.0	3.0	3.0	3.0	3.0
Counties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lapses	(346.9)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	8,034.5	8,161.1	7,728.3	7,652.2	7,782.2	8,176.5	8,783.4	8,734.1
REV. OVER (UNDER) EXPEND.	250.6	(498.2)	(350.1)	55.1	228.5	54.6	(250.0)	27.3
CARRY-OVER BALANCE (DEFICIT)								
Beginning	752.1	1,002.7	504.5	154.3	209.4	437.9	492.5	242.5
Ending	1,002.7	504.5	154.3	209.4	437.9	492.5	242.5	269.9
<hr style="border-top: 1px dashed black;"/>								
EBRF (added \$308M & appropriated \$648M out in FY20)	58.9	63.7	68.3	73.0	77.3	81.3	85.1	89.0
EBRF fund balance as % of prior yr revenues	0.74%	0.77%	0.89%	0.99%	1.00%	1.01%	1.03%	1.04%

* unaudited

Notes: Due to rounding, details may not add to totals. It is noted that the FY 20 general fund balance was adjusted to include certain transactions that were authorized for FY 20 but processed in FY 21. Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain items were processed in FY 21 but for the purposes of the general fund financial plan have been reflected as authorized in FY 20.

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

A. Total State Personal Income and State Growth

Total State Personal Income (in \$ millions)	
Calendar Year 2016	73,048
Calendar Year 2017	76,110
Calendar Year 2018	78,436
Calendar Year 2019	80,727
Calendar Year 2020*	84,763
Calendar Year 2021*	81,372
* As estimated by the Council on Revenues Nov. 2018	
State Growth	
Fiscal Year 2021	3.39%
Fiscal Year 2022	3.66%
Fiscal Year 2023	1.31%

B. All Branches of Government

General Fund Appropriations	
Fiscal Year 2020 (incl proposed)	8,381,436,120
Fiscal Year 2021 (incl proposed)	8,720,284,821
Fiscal Year 2022 (incl proposed)	8,082,224,676
Fiscal Year 2023 (incl proposed)	8,012,787,859
General Fund Expenditure Ceiling	
Fiscal Year 2021	9,678,959,938
Fiscal Year 2022	10,033,107,411
Fiscal Year 2023	10,164,209,459

C. Executive Branch

Recommended General Fund Appropriations	
Fiscal Year 2022	7,872,702,970
Fiscal Year 2023	7,803,266,153
Actual General Fund Appropriations	
Fiscal Year 2020	8,159,012,770
Fiscal Year 2021	8,222,580,543
Proposed addtl appropriations	292,240,587
	8,514,821,130
General Fund Appropriation Ceiling	
Fiscal Year 2021	8,435,552,855
Fiscal Year 2022	8,826,373,446
Fiscal Year 2023	7,975,575,135

DECLARATION OF FINDINGS

Pursuant to Section 37-71(d)(6) 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 2021-2023 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 2020-2021 and estimated for each fiscal year from fiscal year 2021-2022 to 2024-2025, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2017-2018	7,656,001,540	
2018-2019	7,910,649,595	
2019-2020	7,631,208,040	
2020-2021	6,629,195,000	1,430,534,649
2021-2022	7,150,416,000	1,367,214,912
2022-2023	7,547,640,000	1,320,333,841
2023-2024	7,841,096,000	1,315,180,478
2024-2025	(not applicable)	1,389,914,373

For fiscal years 2020-2021, 2021-2022, 2022-2023, 2023-2024 and 2024-2025 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 2017-2018, 2018-2019 and 2019-2020 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, 2020, dated November 19, 2020. The net general fund revenues for fiscal years 2020-2021 to 2023-2024 are estimates, based on general fund revenue estimates made as of September 9, 2020, 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 2020-2021 to 2040-2041, the total amounts 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
2021	482,710,000	306,916,821	789,626,821	4,060,903	1,851,380	5,912,283	478,649,097	305,065,441	783,714,538
2022	835,955,000	314,695,040	1,150,650,040	4,222,554	1,688,753	5,911,307	831,732,446	313,006,287	1,144,738,733
2023	632,345,636	279,029,029	911,374,665	4,395,654	1,518,993	5,914,647	627,949,982	277,510,036	905,460,018
2024	640,644,123	256,108,090	896,752,213	4,570,218	1,341,728	5,911,946	636,073,905	254,766,362	890,840,267
2025	623,495,473	232,780,282	856,275,755	4,756,657	1,156,468	5,913,125	618,738,816	231,623,814	850,362,630
2026	699,730,747	209,353,031	909,083,778	4,949,940	962,877	5,912,817	694,780,807	208,390,154	903,170,961
2027	521,476,178	186,547,088	708,023,266	3,010,535	756,364	3,766,899	518,465,643	185,790,724	704,256,367
2028	515,404,107	164,971,214	680,375,321	2,823,484	647,663	3,471,147	512,580,623	164,323,551	676,904,174
2029	503,544,815	143,834,374	647,379,189	1,985,000	545,069	2,530,069	501,559,815	143,289,305	644,849,120
2030	476,732,126	123,720,363	600,452,489	2,050,000	484,544	2,534,544	474,682,126	123,235,819	597,917,945
2031	449,393,919	104,412,124	553,806,043	2,110,000	420,825	2,530,825	447,283,919	103,991,299	551,275,218
2032	466,722,152	87,040,643	553,762,795	2,180,000	352,431	2,532,431	464,542,152	86,688,212	551,230,364
2033	411,698,856	71,019,454	482,718,310	2,250,000	280,444	2,530,444	409,448,856	70,739,010	480,187,866
2034	385,229,932	56,577,257	441,807,189	2,325,000	206,100	2,531,100	382,904,932	56,371,157	439,276,089
2035	339,915,000	43,423,768	383,338,768	2,405,000	127,734	2,532,734	337,510,000	43,296,034	380,806,034
2036	297,720,000	32,541,700	330,261,700	2,490,000	43,575	2,533,575	295,230,000	32,498,125	327,728,125
2037	250,235,000	22,274,647	272,509,647	0	0	0	250,235,000	22,274,647	272,509,647
2038	181,150,000	14,030,586	195,180,586	0	0	0	181,150,000	14,030,586	195,180,586
2039	132,555,000	7,670,640	140,225,640				132,555,000	7,670,640	140,225,640
2040	99,035,000	3,663,518	102,698,518				99,035,000	3,663,518	102,698,518
2041	101,460,000	1,235,623	102,695,623				101,460,000	1,235,623	102,695,623

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, 2020, adjusted for the lapses proposed in THE MULTI-YEAR PROGRAM AND FINANCIAL PLAN AND EXECUTIVE BUDGET FOR THE PERIOD 2021-2027 [Budget Period: 2021-2023] (referred to as the "Budget"), the total amount of authorized and unissued general obligation bonds is \$3,274,275,708. The amount of general obligation bonds proposed in the Budget is \$1,223,044,446 (but 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 \$4,497,320,154.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2020-2021 to 2024-2025, the State proposed to issue \$525,000,000 in general obligation bonds during the second half of fiscal year 2020-2021, \$500,000,000 in general obligation bonds during the first half of fiscal year 2021-2022, and \$500,000,000 in general obligation bonds during the second half of fiscal year 2021-2022, \$500,000,000 in general obligation bonds during the first half of fiscal year 2022-2023, and \$500,000,000 in general obligation bonds during the second half of fiscal year 2022-2023, \$500,000,000 in general obligation bonds during the first half of fiscal year 2023-2024, and \$500,000,000 in general obligation bonds during the second half of fiscal year 2023-2024, and \$500,000,000 in general obligation bonds during the first half of fiscal year 2024-2025, and \$500,000,000 in general obligation bonds during the second half of fiscal year 2024-2025. The State anticipates issuing a combination of twenty-year serial bonds with principal repayments beginning the fifth year and ten-year serial bonds with principal repayments beginning the first 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 2021-2022, 2022-2023, 2023-2024, and 2024-2025, is \$4,525,000,000. The total amount of \$4,525,000,000, which is proposed to be issued through fiscal year 2024-2025 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 \$4,497,320,154, 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, 2025, 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 0.61 percent for approximately ten years from fiscal year 2020-2021 to fiscal year 2029-2030. 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) The amount of principal and interest on the Taxable General Obligation Bond Anticipation Notes (BANS) issued on April 14, 2020, is excludable pursuant to Section 13 of Article VII of the State Constitution, as the governor has declared that an emergency condition exists due to the COVID-19 pandemic and the 2020 State Legislature concurred with this declaration. (C) 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 2020-2021, 2021-2022, 2022-2023, 2023-2024 and 2024-2025 are as follows:

<u>Fiscal Year</u>	Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 <u>of the State Constitution</u>
2020-2021	9,023,993,064
2021-2022	10,218,993,064
2022-2023	11,213,993,064
2023-2024	12,208,993,064
2024-2025	13,203,993,064


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 5.75 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 2020-2021 \$522,375,000	1,430,534,649	994,966,602 (2021-2022)
1st half FY 2021-2022 \$497,500,000	1,367,214,912	1,022,488,072 (2025-2026)
2nd half FY 2021-2022 \$497,500,000	1,367,214,912	1,066,369,709 (2025-2026)
1st half FY 2022-2023 \$497,500,000	1,320,333,841	1,109,762,541 (2025-2026)
2nd half FY 2022-2023 \$497,500,000	1,320,333,841	1,153,646,566 (2025-2026)
1st half FY 2023-2024 \$497,500,000	1,315,180,478	1,197,065,047 (2025-2026)
2nd half FY 2023-2024 \$497,500,000	1,315,180,478	1,240,947,984 (2025-2026)
1st half FY 2024-2025 \$497,500,000	1,389,914,373	1,284,390,078 (2025-2026)
2nd half FY 2024-2025 \$497,500,000	1,389,914,373	1,328,271,328 (2025-2026)

(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.


Director of Finance
State of Hawaii