

STAND. COM. REP. NO.

1222

Honolulu, Hawaii

, 2023

MAR 13

RE: H.B. No. 300

H.D. 1

Honorable Scott K. Saiki  
Speaker, House of Representatives  
Thirty-Second State Legislature  
Regular Session of 2023  
State of Hawaii

Sir:

Your Committee on Finance, to which was referred H.B. No. 300  
entitled:

"A BILL FOR AN ACT RELATING TO THE STATE BUDGET,"

begs leave to report as follows:

The purpose of this measure is to appropriate funds for the  
operating and capital improvement costs of the Executive Branch  
for fiscal year (FY) 2023-2024 and FY 2024-2025.

The prior Administration submitted an operating budget that  
totaled:

	<u>FY 2023-2024</u>	<u>FY 2024-2025</u>
General Funds	\$9,850,278,662	\$9,656,913,916
All Means of Financing	\$18,023,207,644	\$17,861,503,573

On February 13, 2023, the new Administration submitted  
changes to the operating budget that added:

	<u>FY 2023-2024</u>	<u>FY 2024-2025</u>
General Funds	\$743,146,927	\$677,976,795
All Means of Financing	\$866,843,710	\$750,095,280

The Administration submitted a capital improvement budget  
that totaled:

2023-2478 HB300 HD1 HSCR HMSO



	<u>FY 2023-2024</u>	<u>FY 2024-2025</u>
General Funds	\$324,855,000	\$295,397,000
General Obligation Bonds	\$462,249,000	\$358,640,000
All Means of Financing	\$2,106,776,000	\$1,459,911,000

Testimony received on this measure may be found on the Legislature's website at <https://www.capitol.hawaii.gov/>.

Your Committee on Finance finds that unprecedented revenue growth in FY 2021-2022 of 29.1 percent catapulted tax collections and provided the State with an opportunity to provide support to critical programs, invest in infrastructure and natural resources, and provide tax relief to the most vulnerable in the State.

In 2022, the strategy in creating the FY 2022-2023 budget was to restore funding to critical programs that were cut during the pandemic, tackle long standing large one-time funding priorities, and enhance the State's ability to withstand an economic downturn by shoring up its reserve funds. The Legislature appropriated a total of \$1,884,000,000 as non-recurring, one-time expenditures, allocated as follows:

- (1) \$200,000,000 to provide infrastructure and classrooms for early learning and pre-kindergarten facilities;
- (2) \$256,000,000 to reduce the repair and maintenance backlog at schools;
- (3) \$328,000,000 for the Kalima legal settlement;
- (4) \$500,000,000 to strengthen the Emergency and Budget Relief Fund; and
- (5) \$600,000,000 to provide the Department of Hawaiian Home Lands with the ability to tackle their beneficiary waitlist.

National data confirms that what is happening in Hawaii is happening in the majority of states. In general, various factors drove these higher-than-expected revenue collections and projections, including:

- (1) Unprecedented federal aid that helped support businesses and unemployed workers;
- (2) Quicker-than-anticipated recoveries in the stock market and employment;
- (3) States' relatively recent authority to collect sales taxes from out-of-state online sellers; and



- (4) Job stability in higher-wage professions that were able to pivot to remote work.

Record funding levels of rainy-day funds and historic federal aid to state governments gave state budgets extra breathing room. Abundant federal aid staved off what could have been drastic cuts to state programs. Since 2020 and the start of the pandemic, the CARES Act, Consolidated Appropriations Act, and American Rescue Plan Act provided Hawaii with over \$23,900,000,000 that included support like enhanced unemployment insurance benefits, Supplemental Nutrition Assistance Program (SNAP) food assistance to all children in public schools, paycheck protection program benefits for businesses and employees, and economic impact rebate payments for low-income families.

The 2022 Infrastructure Investment and Jobs Act is set to provide additional support well into 2026. Hawaii is projected to receive over \$2,700,000,000 for infrastructure and programs that include cybersecurity, broadband and digital equity, energy and grid resilience, highways, airports, electric vehicle programs, and clean water and drinking water programs.

Article VII, section 9, of the Constitution of the State of Hawaii provides, "Notwithstanding any other provision to the contrary, the legislature shall establish a general fund expenditure ceiling which shall limit the rate of growth of general fund appropriations, excluding federal funds received by the general fund, to the estimated rate of growth of the State's economy as provided by law. No appropriations in excess of such ceiling shall be authorized during any legislative session unless the legislature shall, by a two-thirds vote of the members to which each house of the legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor."

Your Committee on Finance finds that during the 2022 Regular Session, the Legislature adopted a budget that exceeded the general fund expenditure ceiling by \$839,710,089 or 8.14 percent. This was a direct result of funding \$1,884,000,000 in high priority non-recurring items. Such an approach balanced immediate needs with ongoing, recurring costs meant to be curbed by the expenditure ceiling.



The budget submitted by the Administration, if adopted in whole, would cause the expenditure ceiling to be exceeded by approximately \$230,900,000, or 2.2 percent, in FY 2023-2024 but is within the expenditure ceiling for FY 2024-2025.

According to the PEW Charitable Trusts' (PEW) Fiscal 50: State Trends and Analysis, despite surprising strength in revenues, most economic experts expect state tax revenue growth to temper substantially in fiscal 2023. Although higher-than-expected tax revenue growth and record financial reserves have improved budget conditions, states must navigate several looming challenges, including:

- (1) Slowing revenue growth as the economy weakens and monetary policy tightens;
- (2) Historically high inflation; and
- (3) Tapering of federal COVID-19 aid.

The clamor to spend is great, and there is an extraordinary amount of demand for expansion of state services and the creation of new programs. Your Committee on Finance appreciates and shares the concerns expressed by PEW, and believes that a judicious, cautious, targeted approach is needed in planning for a sustainable future for Hawaii.

The State's Council on Revenues (COR) met on March 7, 2023. Their updated revenue forecast is a crucial reminder of how quickly conditions can change. PEW's caution of slowing revenue growth was prophetic as the COR reduced the FY 2022-2023 revenue forecast from 5.5 percent to 2.0 percent and the FY 2023-2024 revenue forecast from 5.0 percent to 4.0 percent.

The annual impact to tax revenue is as follows:

- (1) FY 2022-2023: loss of \$327,800,000;
- (2) FY 2023-2024: loss of \$439,700,000; and
- (3) FY 2024-2025: loss of \$455,100,000.

The cumulative change in revenue for financial plan purposes is as follows:

- (1) FY 2022-2023: loss of \$327,800,000;
- (2) FY 2023-2024: loss of \$767,500,000; and
- (3) FY 2024-2025: loss of \$1,222,600,000.



Your Committee on Finance finds that the ending balances in the six-year financial plan have been dramatically impacted by the change in revenue projections. The judicious, cautious, targeted approach of your Committee aims to provide ongoing funding for critical programs, while at the same time infusing the budget with one-time expenditures designed to systematically tackle long neglected needs and provide long term structural stability in the budget.

Investments being made across the State in information technology and database systems, including the financial management system for all agencies, bring with them the promise of greater efficiency and transparency. According to the Office of Enterprise Technology Services' Independent Verification and Validation Reports for the financial management systems of the Department of Education and Department of Transportation - Highways Division, lessons learned as these systems were developed provide valuable insight to ensuring successful statewide development and implementation.

The promise of a system that will finally enable effective implementation of performance-based budgeting is critical to accomplishing long standing goals, such as eliminating homelessness rather than continuing to treat it as an emergency.

During periods of economic downturn, one weapon in the government arsenal to jump start the economy is to increase spending on capital projects. This time, however, such an approach would not yield positive results for the State. Pre-Session budget briefings by economists indicated that inflation and supply chain issues are already artificially increasing the cost of construction due to the volume of activity brought on by federal and military infrastructure spending, the ongoing mass transit rail project, and other public and private sector projects.

Recently, a state agency tasked with building affordable housing indicated that it would need an additional \$50,000,000 to complete ongoing projects. In other words, the State would have to pay \$50,000,000 more for zero additional affordable housing units. Cost escalation is making everything less affordable and impacting availability.



1222

The budget submitted by the Administration in December 2022 indicated a general fund deferred maintenance backlog of \$1,281,116,008. This budget proposes to set aside \$1,000,000,000 to eliminate the backlog in deferred maintenance identified by state agencies over the next five years.

Deferred maintenance in state facilities is not the only infrastructure need. Your Committee on Finance finds that the State's natural resources are also in need of repair and maintenance and long-term support. To that end, this budget sets aside \$376,000,000 for the Department of Land and Natural Resources to invest in parks, ocean resources, aquatics, forestry, and wildlife.

The goal is not to spend all this money right away, but to strategically tackle these projects to ensure that the State gets the best value possible.

Although this budget has not included full funding for initiatives identified in the February 13, 2023, submittal to the Legislature, there are important recurring expenses that must be addressed before Adjournment Sine Die. Medicaid, health care, kupuna care, homeless services, climate change, and affordable housing continue to be priority issues.

Your Committee has amended this measure by appropriating the following for the operating budget:

	<u>FY 2023-2024</u>	<u>FY 2024-2025</u>
General Funds	\$11,415,362,901	\$9,291,279,330
All Means of Financing	\$19,901,440,959	\$17,827,543,062

Your Committee has further amended this measure by appropriating the following for the capital improvement budget:

	<u>FY 2023-2024</u>	<u>FY 2024-2025</u>
General Funds	\$364,095,000	\$278,047,000
General Obligation Bonds	\$847,952,000	\$324,940,000
All Means of Financing	\$2,509,563,000	\$1,389,655,000

As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 300, as amended herein, and recommends that it pass Second Reading



1222

in the form attached hereto as H.B. No. 300, H.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on  
behalf of the members of the  
Committee on Finance,



KYLE T. YAMASHITA, Chair



