State of Hawaii

The FB 2011-13 Executive Biennium Budget

Budget in Brief

Prepared by the Department of Budget and Finance
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EXECUTIVE CHAMBERS
State Capitol
Honolulu, Hawaii 96813

GOVERNOR'S MESSAGE TO THE 26TH STATE LEGISLATURE OF HAWAII MEETING IN THE REGULAR SESSION OF 2011

In compliance with Article VII, Section 8, of the Hawaii Constitution, I hereby submit to the State Legislature the Executive Budget for Fiscal Biennium (FB) 2011-13 and the Program and Financial Plan for the period 2011-17.

OVERVIEW

Our first step toward a prosperous future in Hawaii is to focus all our energies and ideas on accelerating our economic recovery. State government has four key opportunities to make strides right now. First, we will reconfigure, retool, and strengthen our fractured government services to become a better partner with the private economy and to better serve our people. Second, we will create jobs with a significant capital improvement program that simultaneously improves the infrastructure and economic landscape for sustained economic and social advancement. Third, we will pursue every available federal funding and private partnership opportunity to supplement state efforts in all sectors. Fourth, we will consistently invest whatever means we have into those factors that will sustain our long term economic and social well-being - clean energy, food security, technology, education, good health, and other aspects of our human capital.

A TRANSITION BUDGET

The starting point for my Administration is to take the budget as it is - drafted by the previous Administration - with only a few adjustments that we know must be made at this time. To be clear, my submittal of this budget is not an indication of agreement with the policies of the previous Administration. To the contrary, there is a broad call from all segments of the population for a change in direction. However, such dramatic change in these times of severe budgetary constraints requires information gathering, analysis, dialogue and open communications among all affected parties, which cannot be completed in the two-week period between the inauguration of our new Administration and the submittal of the budget.

We must be practical, diligent, and fully committed to working together as we address the challenging issues before us. In the weeks and months ahead, we will forge understandings, develop creative solutions, and make adjustments to the budget in ways that reflect our common values and best serve the people of Hawaii.

I understand that the budget proposed provides for the continuation of State services at their current level, with adjustments to more appropriately reflect program expenditure requirements. I believe that this budget will serve as a starting point from which my Administration can move forward. It shall serve as a transition budget, which will set the base for proposals to be introduced by my Administration at a later date.

Due to the time constraints imposed by the statutory deadline to submit the budget to the Legislature, these recommendations have not had the benefit of review by my Administration.

The Operating Budget

Each department was provided an operating base budget amount, equivalent to their FY 2011 appropriation, minus non-recurring costs and federal stimulus funds and plus restored furlough savings and collective bargaining amounts (University of Hawaii (UH) Professional Assembly only) and State Fiscal Stabilization Fund (SFSF) amounts (Department of Education (DOE) and UH), as applicable. The departments were tasked with the review of their base budget to ensure the following, with the intent of establishing a base budget which was transparent and accountable:

1. Unfunded positions were deleted or funded;
2. Unbudgeted positions were budgeted, if appropriate;
3. Large line item budget adjustments were eliminated; and
4. Budgeted amounts were in the appropriate cost elements (i.e., personal services, other current expenses, equipment and motor vehicles) and programs.

For FB 2011-13, the budget includes $10.867 billion in FY 2012 and $11.082 billion in FY 2013 from all means of financing for operating costs. This represents an increase of 6% and 8%, respectively, over the current level. Of these amounts, the request for general funds is $5.568 billion in FY 2012 and $5.754 billion in FY 2013, resulting in increases of 13% and 16%, respectively.

Although general fund operating budget requests were generally limited to tradeoff and transfers, limited exceptions have been made for non-discretionary costs:

- $2.3 million in FY 2012 and $7.0 million in FY 2013 for Hawaii's public charter schools.
- $248.2 million in FY 2012 and $288.2 million in FY 2013 for Medicaid health care payments ($172.1 million in FY 2012 and $206.3 million in FY 2013 in federal funds also recommended).
- $71.2 million in FY 2012 and $175.4 million in FY 2013 for debt service for capital improvement projects for DOE, UH and other State programs.
- $32.1 million in FY 2012 and $59.3 million in FY 2013 for health premium payments for DOE and UH. However, health premium costs for other State programs are being reduced by $24.2 million in FY 2012 and $9.6 million in FY 2013.
- $23.6 million in FY 2012 and $14.4 million in FY 2013 for retirement benefit payments for DOE, UH and other State programs.

The rising costs of Medicaid will require our continued attention.

The Capital Improvements Program (CIP) Budget

For the CIP budget, a total of $483.6 billion in FY 2012 and $486.2 million in FY 2013 has been recommended. Of these amounts, the request for general obligation (G.O.) bonds is $202.2 million and $201.9 million, respectively.

The recommended CIP budget provides funds to address the backlog of major repair and maintenance projects, long put aside to the detriment of our State facilities. Many of these projects can be implemented quickly to help stimulate Hawaii's economy, while providing much needed improvements.

Projects to improve energy efficiency also received support as we move Hawaii towards energy independence. In the area of transportation, airport improvement projects are necessary to maintain the major gateways to our islands, while highway improvement projects provide for the safety and upkeep of our major thoroughfares.

Major G.O. bond funded CIP requests include:

- $7.3 million in FY 2012 and $8.0 million in FY 2013 for safety improvements for irrigation system reservoirs under the Department of Agriculture.
- $5.0 million in FY 2012 and FY 2013 for maintenance of State facilities.
- $6.4 million in FY 2012 and $6.5 million in FY 2013 for health and safety improvements at Aloha Stadium.

- $250,000 in FY 2012 and $1.3 million in FY 2013 ($3.2 million and $5.3 million, respectively, in federal funds also requested) for energy savings improvements and renewable energy projects for Department of Defense facilities.
- $5.0 million in FY 2012 and FY 2013 for health and safety improvements for Hawaii Health Systems Corporation's facilities.
- $5.0 million in FY 2012 and $4.0 million in FY 2013 for improvements to Palolo Valley Homes.
- $5.0 million in FY 2012 and FY 2013 for improvements at various correctional facilities.
- $35.0 million in FY 2012 and $4.0 million in FY 2013 for health, safety and code improvements and $31.0 million in FY 2013 for capital renewal and deferred maintenance at UH campuses, statewide.

Major CIP requests funded by other means of financing:

- $10.0 million in special funds in FY 2012 and FY 2013 for school building improvements and $5.8 million in special funds in FY 2012 and FY 2013 for electrical and infrastructure improvements at DOE schools statewide.
- $6.4 million in other funds and $15.0 million in federal funds in FY 2012 for improvements to Runway 4R at Honolulu International Airport.
- $1.3 million in revenue bond funds and $3.8 million in federal funds in FY 2012 and $37.5 million federal funds and $16.0 million in other funds in FY 2013 for Taxiway Z structural improvements also at Honolulu International Airport.
- $4.2 million in revenue bond funds and $16.8 million in federal funds for rockfall protection and slope stabilization and $1.9 million in revenue bond funds and $7.0 million in federal funds for lighting replacement at various highway locations statewide in FY 2013.

ADDITIONAL FUNDING REQUIREMENTS

The Administration will be requesting emergency appropriations to address FY 2011 funding shortfalls which require immediate attention:

1. Temporary Assistance for Needy Families (TANF) program deficit;
2. Medicaid program deficit; and
3. Operating requirements of the Office of the Governor and Office of the Lieutenant Governor.

Because these funding requirements are for FY 2011, they are not included in the Executive budget request; however, they are accounted for in the general fund financial plan.

Additionally, accommodations have been made in the general fund financial plan to include placeholders for three high priority requirements for FB 2011-13 which were not included in the budget request:

1. TANF program deficit;
2. Increased health benefit costs; and
3. High priority program initiatives to be introduced by my Administration.

Requests for these items will be submitted via Governor's message.

THE ECONOMY

The budget, as proposed with limited increases, reflects the ongoing fiscal impact of the most severe recession since the Great Depression. "The Great Recession," as it has been called, affected governments across the nation, which were forced to deal with its devastating impacts on businesses and employment. The people of Hawaii did not escape unscathed, with unemployment reaching a high of 7.0 percent during the summer of 2009.

The nation's economic recovery has been both unpredictable and sluggish. The national Gross Domestic Product (GDP), which saw no growth in calendar year 2008 and a decrease of 2.6 percent in calendar year 2009, has been increasing through 2010. Home sales have been sidelined, even with mortgage rates at their lowest in decades. There is no doubt that the recession has affected all of Hawaii's families and continues to have an impact on their day-to-day lives.

Working together, we can turn this around. Hawaii's recovery has been slower than anticipated but there are encouraging signs. The unemployment rate has gradually decreased from 7.0 percent to its current rate of 6.4 percent. Total Personal Income (TPI) is expected to increase by 2.0 percent in calendar year 2010 and by 3.0 percent in calendar year 2011, after being nearly flat (0.24 percent increase) in calendar year 2009. Consumer confidence is on the rise, following a recent decline in September.

The visitor and hospitality industry, one of the State's major economic drivers, has seen continuing increases in visitor arrivals and visitor spending, up 13.6 percent and 24.7 percent, respectively, in October. The growth of this industry in recent months has fueled much optimism as it will continue to play a vital role in Hawaii's economic future.

With our four part economic plan of improving government functionality, capital improvements, supplementing State policy with federal and private funding, and investing in long-term prosperity, we will support families and communities across Hawaii and secure a high quality of life for generations to come.

REVENUE PROJECTIONS

On September 8, 2010, the Council on Revenues (COR) revised its FY 2011 general fund tax revenue forecast downward from 6.2 percent to 2 percent and FY 2012 from 5.8 percent to 10.0 percent growth. The change in FY 2011 primarily reflects the delay in payment of individual tax refunds during FY 2010, while the increase in FY 2012 is indicative of the slower recovery period.

The COR currently forecasts revenues for FYs 2013-17 to grow at a pace of 6.0 percent annually, with revenues not returning to pre-recession levels until FY 2012.

Given current revenue projections, the funding requirements of the Executive budget request, FY 2011 emergency appropriations and other high priority FB 2011-13 items may result in a potential revenue shortfall of $71.6 million in FY 2011, $410.1 million in FY 2012, $361.8 million in FY 2013, $135.5 million in FY 2014 and $4.4 million in FY 2015 as indicated on the general fund financial plan. These are significant amounts that require immediate attention and action. As such, my Administration, working collaboratively with all parties, is actively looking at various proposals to close the revenue gap and will submit suggested actions to the 2011 Legislature during February or March 2011.

MOVING FORWARD

I know that the past few years have not been easy and recovery may take longer than we would like. But, I also know that the people of Hawaii are resourceful, talented, and resilient. We are not standing back in these challenging times. We are not here to merely weather a storm. Working together, we will make strides, beginning now. We are one Hawaii.

With aloha,

Aloha
Neil Abercrombie

NEIL ABERCROMBIE
Governor of Hawaii

A. THE EXECUTIVE BUDGET RECOMMENDATIONS

The Operating Budget

All Means of Financing

For FB 2011-13, total operating budget requests from all sources of funding amount to $10.867 billion in FY 2012 and $11.082 billion in FY 2013.

Means of Financing	FY 11 Appropriation ($million)	FY 12 Request ($million)	FY 13 Request ($million)
General Funds	4,943.3	5,568.2	5,754.0
Special Funds	2,483.9	2,511.1	2,540.6
Federal Funds	1,774.0	1,982.0	2,013.7
Private Contributions	0.4	0.4	0.4
County Funds	0.7	0.7	0.7
Trust Funds	217.2	233.0	237.0
Interdept. Transfers	117.0	111.2	111.2
Federal Stimulus Funds	309.9	56.5	20.9
Revolving Funds	384.2	393.1	393.2
Other Funds	11.3	10.8	10.8
Total*	10,242.0	10,867.1	11,082.4
Increase over FY 11*		625.1	840.5
Percentage increase		6.1%	8.2%

* - Totals may differ due to rounding

The distribution by department is presented on page 6. Highlights of the Operating Budget by department are presented in the sections that follow.

General Fund

Total requests from the General Fund amount to $5.568 billion in FY 2012 and $5.754 billion in FY 2013. This represents an increase of $624.9 million (12.6%) in the first year and $810.6 million (16.4%) in the second year over the current FY 2011 appropriation level.

The distribution by department is presented on page 8.

Decrease in Unfunded Positions

The Executive Budget requests a significant decrease in the number of permanent and temporary position counts to be deleted from various sources. Generally, the positions being deleted were not funded due to prior year budget reductions.

Permanent Positions	FY 12	FY 13
Total net positions to be deleted*	387	387
By means of financing:		
General Funds	318	318
Federal Funds	125	125

* - Total by means of financing offset by addition of 55 special fund positions and 1 revolving fund position.

Temporary Positions	FY 12	FY 13
Total net positions to be deleted*	562	581
By means of financing:		
General Funds	454	454
Special Funds	23	23
Federal Funds	11	11
Trust Funds	7	7
Interdepartmental Transfers	18	18
Federal Stimulus Funds	18	36
Revolving Funds	2	2
Other Funds	29	29

* - Totals may differ due to rounding

The Capital Improvement Program (CIP) Budget

For FB 2011-13, total requests for capital improvements amount to $483.6 million in FY 2012 and $486.2 million in FY 2013, to be funded from the following sources:

Means of Financing	FY 12 Request ($million)	FY 13 Request ($million)
General Funds	-	-
Special Funds	80.7	71.0
G.O. Bonds	202.2	201.9
G.O. Reimbursable	-	-
Revenue Bonds	63.6	32.3
Federal Funds	130.6	165.0
Private Contributions	-	-
County Funds	-	-
Interdept. Transfers	-	-
Revolving Funds	-	-
Other Funds	6.5	16.1
Total*	483.6	486.2

* - Totals may differ due to rounding

The distribution by department is presented on page 12. Highlights of the CIP program by department are presented in the sections that follow.

B. THE GENERAL FUND EXPENDITURE CEILING

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

At the aggregate level, including all branches of government, total proposed appropriations from the General Fund are within the expenditure ceilings for both FY 2012 and FY 2013.

For the Executive Branch, total proposed appropriations from the General Fund (which include the Executive Budget for FB 2011-13 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by $529.3 million (or 10.5%) in FY 2012 and by $96.9 million (or 1.7% in FY 2013). The reasons for these excesses are due to the restoration of furlough savings adjustments and funds supplanted by the federal SFSF program and increase in Medicaid, debt service and fringe benefit costs.

C. THE DEBT LIMIT

Section 13, Article VII of the Hawaii 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 Budget, including State guaranties, will not cause the debt limit to be exceeded at the time of each bond issuance.

BUDGET IN BRIEF
The FB 2011-2013 Executive Biennium Budget

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