

BUDGET REPORT – FY 2016-2017

Post Conference Draft Budget Report

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Pursuant to the Executive Budget Act, the Governor is required to submit a six-year financial plan to the legislature along with a biannual budget proposal. The legislature, on the other hand, is not required to publish a financial plan upon conclusion of the final budget deliberations. Because not all appropriations are included in the budget bill, it is important that the legislature and the public understand what the aggregate general fund appropriations are for the upcoming fiscal biennium.

The following report provides a final reconciliation of all the general fund appropriations that were approved during this legislative session.

1. Without any revenue or expenditure adjustments the current general fund deficits can only be sustained till FY 2019.

The conference committee report for the operating budget suggest that the conference draft budget includes \$97 million less appropriations than the initial governor's budget. This does not include the \$148 million and \$141 million in general fund appropriations for FY 2016 and 2017 that were passed as separate appropriation bills.

If all general fund appropriations are aggregated, the conference draft budget actually includes \$15.7 million less general fund appropriations than what the governor asked for. The total general fund appropriations for FY 2016 and 2017 amount to \$6.8 billion and \$7.1 billion. This includes the executive, legislative, Office of Hawaiian Affairs, and Judiciary final budgets as well as the \$148 million and \$141 million in general fund appropriations for FY 2016 and 2017 that were passed as separate appropriation bills.

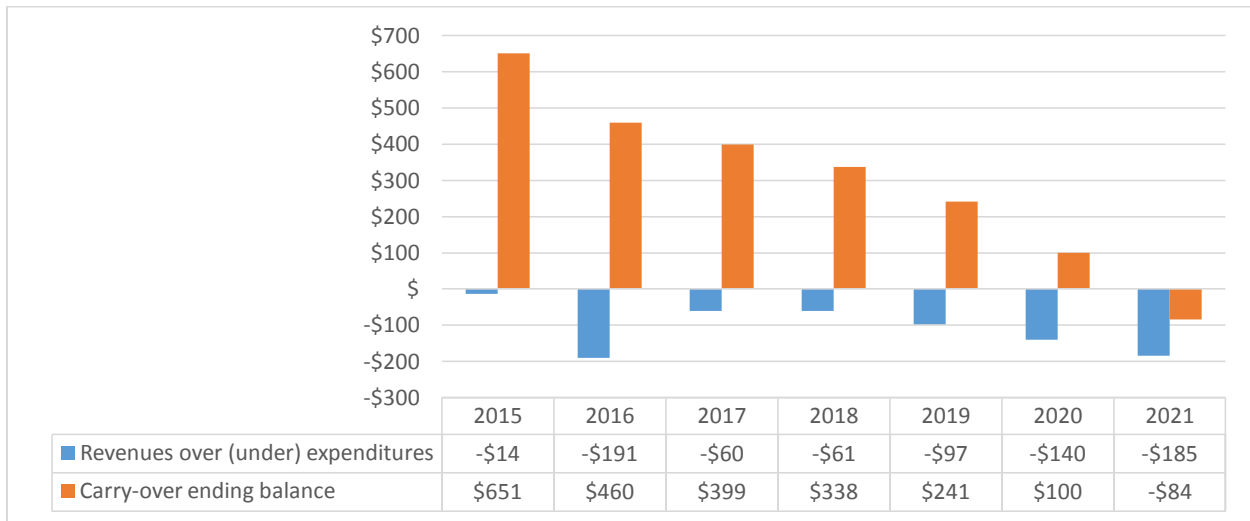
Table 1. General Fund Appropriations FY 2016-2017 (Millions)

	Governor	Conference Draft	Difference
FY 2016	\$6,786.6	\$6,844.3	\$57.7
FY 2017	\$7,162.5	\$7,089.1	-\$73.4
Total Biennium	\$13,949.1	\$13,933.4	-\$15.7

Under the latest Council on Revenues projections, the current general fund appropriations exceed the available revenues. The projected deficits for FY 2016 and 2017 amount to -\$191 million and -\$60 million. The state is currently relying on a positive general fund carry-over ending balance to fund government operations. However, with the current deficits, the carry-over ending balances are projected to decline to \$399 million in FY 2017, leaving the state in a potentially vulnerable position.

If general fund appropriations continue to grow at the current annual average of 5%, the state is projected to deplete its carry-over ending balance by FY 2021.

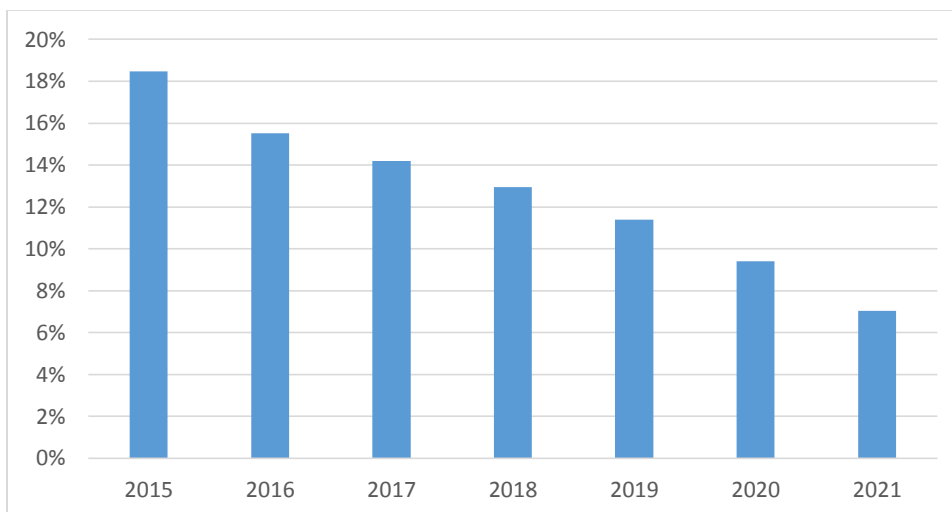
Table 1. General Fund Revenues over Expenditures (in Millions)



2. Deteriorating fiscal reserves are alarming.

Fiscal reserves are defined as funds that are set aside for contingency purposes. The State of Hawaii has two fiscal reserve funds, which are the Hurricane Relief Fund and the Emergency Budget Reserve Fund. Combined with the current general fund carry-over balance, the state currently has about 18% of general fund revenues set aside as fiscal reserves. This is slightly higher than the 15% that is recommended by the Government Finance Officers Association (GFOA). However, because of the proposed deficit spending the fiscal reserves are projected to decline to 13% in FY 2018.

Table 2. Fiscal Reserves as a % of General Fund Revenues



Rapidly deteriorating fiscal reserves are a sign of fiscal distress, and could negatively affect the state's bond rating if no corrective actions are taken by the legislature or the Governor. Fiscal reserves are also important because they protect the state during economic downturns. Since the 2009 recession, the state's economy has been growing steadily over the last six years. Like any economy, the state's economy is cyclical in nature and it would be prudent for the state to prepare for a downturn. Maintaining a healthy level of fiscal reserves is, therefore, a reflection of sound fiscal policy.

It is difficult to project at what specific point in time a recession might occur. However, it should be assumed that because the state economy has enjoyed growth for such an extended period, that we are getting closer to the potential of a recession. Considering the current projections, the state is not fiscally prepared to withstand an economic recession during the 2018-2021 period.

3. Expiring collective bargaining agreements will make the next fiscal biennium very challenging.

The expenditure growth projections that are used as part of the financial plan assume that expenditures will grow by the current growth rate, which is 5%. The growth rate is significant, because it determines whether the current budget could be sustained in the long-run. The current projections indicate that without revenue or expenditure adjustments the state is expected to remain in a deficit position.

The current positive carry-over ending balance allows the state to remain in a general fund deficit position until FY 2020, which is when the carry-over ending balances are projected to be depleted under the current scenario. The 5% expenditure growth is somewhat conservative, because of two factors. First, all collective bargaining contracts expire in FY 2017, and the 5% figure fails to account for the costs associated with restructuring those expiring contracts. Second, under Act 268, Session Laws of Hawaii 2013, the state is required to provide prefunding to pay down the accumulated \$8.5 billion in unfunded liability for the Employer Union Trust Fund (EUTF).

The current budget for FY 2016-2017, includes almost \$800 million in general funds for collective bargaining. In addition, to satisfy the prefunding requirement of Act 268, Session Laws of Hawaii 2013, the state's prefunding mandate is expected to increase by \$82 million annually until FY 2019. Both the collective bargaining and the prefunding requirement alone are estimated to account for a 6.7% increase in expenditures, which is slightly higher than the 5% assumption that is currently used. This means that there are absolutely no funds available for discretionary budget requests. And even without the presence of discretionary budget increases, it is clear that the current budget cannot be balanced in the long term without significant revenue and/or expenditure adjustments.

APPENDIX 1: Multi-Year Financial Summary – General Fund FY 2015-21 (\$)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Judicial Branch revenues	35,753,000	36,382,000	37,085,000	37,763,000	38,437,000	39,117,000	39,795,000
Nontax revenues	693,756,000	599,403,000	605,815,000	615,585,000	622,884,000	624,925,000	627,450,000
Other revenues	88,700,000	40,000,000	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000
Tax revenues	5,665,633,000	5,977,243,000	6,305,991,000	6,652,821,000	6,985,462,000	7,334,735,000	7,701,472,000
Total Revenues	6,483,842,000	6,653,028,000	7,028,891,000	7,386,169,000	7,726,783,000	8,078,777,000	8,448,717,000
Executive Budget	-6,070,400,000	-6,584,744,854	-6,834,254,853	-7,175,967,596	-7,534,765,975	-7,911,504,274	-8,307,079,488
Judiciary	-146,981,559	-156,067,039	-158,182,725	-166,091,861	-174,396,454	-183,116,277	-192,272,091
Office of Hawaiian Affairs	-2,741,574	-3,217,504	-2,991,004	-3,140,554	-3,297,582	-3,462,461	-3,635,584
Legislature	-32,212,373	-32,212,373	-32,212,373	-33,822,992	-35,514,141	-37,289,848	-39,154,341
Appropriation Bills	-325,054,191	-148,060,245	-141,477,061	-148,550,914	-155,978,460	-163,777,383	-171,966,252
Estimated Lapses	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000
Total Expenditures:	-6,497,389,697	-6,844,302,015	-7,089,118,016	-7,447,573,917	-7,823,952,613	-8,219,150,243	-8,634,107,755
<i>Expenditure growth</i>		5%	4%	5%	5%	5%	5%
Revenues over (under) expenditures	-13,547,697	-191,274,015	-60,227,016	-61,404,917	-97,169,613	-140,373,243	-185,390,755
Carry-over ending balance	651,352,303	460,078,288	399,851,272	338,446,355	241,276,743	100,903,499	-84,487,256
<i>Fiscal Reserves:</i>							
Emergency Budget Reserve Fund	182,000,000	206,000,000	232,000,000	252,000,000	270,000,000	290,000,000	308,000,000
Hurricane Relief Fund	364,000,000	366,000,000	366,000,000	366,000,000	368,000,000	368,000,000	370,000,000
Total Reserves	546,000,000	572,000,000	598,000,000	618,000,000	638,000,000	658,000,000	678,000,000
<i>Reserves as a % of revenues</i>	18%	16%	14%	13%	11%	9%	7%

Sources:

- State of Hawaii Executive Budget FB 15-17. "Multi-Year Financial Summary General Fund; Revised 1-3-15"
- Council on Revenues, March 12, 2015 General Fund Forecast
- Appendix 2

APPENDIX 2: General Fund Appropriation Bills – 2015 Legislature (\$)

Bill Number	Description	FY 2015	FY 2016	FY 2017
HB930	Emergency Appropriation for the Office of the Governor	670,400		
SB1118 SD1	Emergency Appropriation; Hazard Evaluation and Emergency Response Preparedness.	800,000		
SB1107 HD2	General Support for General Assistance Payments (HMS 204); Emergency Appropriation	2,514,822		
HB775 HD1 SD1 CD1	International Marketing and Recruitment; Higher Education; Appropriation		250,000	
HB896 HD1 SD2 CD1	Appropriations; Claims Against State	4,599,874		
SB1117 SD2 HD1 CD1	Hawaii Health Systems Corporation; Appropriation	15,000,000		
HB126 SD1 CD1	Legislative Officers and Employees; Appropriation		809,167	1,659,139
HB158 SD1 CD1	Department of the Prosecuting Attorney; County of Maui; Appropriation		150,000	
HB573 SD1 CD1	Department of Agriculture; Hawaii Good Agricultural Practices Program; Appropriation		300,000	
HB697 HD1 SD2 CD1	Auditor; Department of Accounting and General Services; Leases; Facility Agreements; Inventory; Appropriation		250,000	
HB850 HD1 SD2 CD1	CTAHR Cooperative Extension Service; Position Funding; Appropriation		350,000	
HB1069 HD1 SD2 CD1	Small Business Innovation Research Awards; Technology; Appropriation		2,000,000	
HB1332 HD1 SD1 CD1	Peekauai Ditch Irrigation System; Appropriation		10,000	
HB1343 HD1 SD1 CD1	Business Recovery Center; Natural Disaster; Appropriation		328,000	
HB1366 SD2 CD1	State Acquisition; Real Property; Appropriation		500,000	500,000
HB1440 HD1 SD1 CD1	Hawaii Keiki: Healthy and Ready to Learn; Department of Education; Appropriation; Matching Funds		1,000,000	1,000,000
HB1471 HD2 SD2 CD1	Invasive Species Study; Appropriation; Lapse	7,569,095		
HB1513 HD1 SD2 CD1	Alternative Energy Research; Grants; High Technology Development Corporation; Office of Naval Research Matching Grant; Appropriation		1,000,000	1,000,000
SB64 SD3 HD1 CD1	School Readiness; Preschool Open Doors Program; Appropriation		6,000,000	
SB104 SD1 HD1 CD1	Efficiency Measures Pilot Project; Appropriation		100,000	100,000

SB118 SD1 HD2 CD1	Real Estate Investment Trusts; Dividends Paid Deduction; Income Tax; DBEDT Study; Appropriation		100,000	100,000
SB253 SD1 HD1 CD1	State Debt Management Policy, Debt Affordability Study; Established; Appropriations		100,000	100,000
SB423 SD1 HD1 CD1	Honolulu Prosecuting Attorney Package; Grants-in-Aid; Appropriation		100,000	
SB504 SD2 HD1 CD1	State Historic Preservation Division; Digitization; Special Fund; Appropriation		250,000	250,000
SB524 SD2 HD1 CD1	County of Hawaii; Prosecuting Attorney; Appropriation; Grant-in-Aid		100,000	
SB661 SD2 HD1 CD1	Unmanned Aerial Systems Test Site; Chief Operating Officer; Advisory Board; Appropriation		150,000	
SB892 SD2 HD3 CD1	Hawaii Resilience and Sustainability Strategy; Appropriation		1,000,000	
SB964 SD2 HD1 CD1	Kupuna Caucus; Kupuna Care; Appropriation		3,000,000	
SB996 SD2 HD2 CD1	Ethics; State Ethics Commission; Appropriation		130,000	
SB1001 SD2 HD1 CD1	Manufacturing; Income Tax Credit; Appropriation		2,000,000	
SB1028 SD2 HD1 CD1	Hawaii Health Connector; Appropriation		2,000,000	
SB1072 HD1 CD1	Department of the Attorney General; Emergency Appropriation	1,000,000		
SB1077 SD1 HD1 CD1	Appropriations for Collective Bargaining Cost Items; Unit (2)		1,827,214	3,172,113
SB1078 SD1 HD1 CD1	Appropriations for Collective Bargaining Cost Items; Units (3), (4), (14)		36,070,565	70,216,508
SB1080 SD1 HD1 CD1	Appropriations for Collective Bargaining Cost Items (unit 5)		42,302,407	14,478,832
SB1081 SD1 HD1 CD1	Appropriations for Collective Bargaining Cost Items; Unit (10); Unit (1)		2,809,626	2,454,182
SB1082 SD1 HD1 CD1	Appropriations for Collective Bargaining Cost Items; Unit (11)		70,667	130,619
SB1083 SD1 HD1 CD1	Appropriations for Collective Bargaining Cost Items; Unit (8)		920,444	1,693,226
SB1084 SD1 HD1 CD1	Appropriations for Collective Bargaining Cost Items		3,965,627	8,173,019
SB1211 SD1 HD1 CD1	Major Disaster Fund; Expenditure Ceiling; Increase; Reports; Appropriation		1,500,000	
SB1305 SD1 HD1 CD1	Appropriation; Grants-in-Aid; County of Kauai; Office of the Prosecuting Attorney		50,000	
SB1312 SD1 HD1 CD1	Emergency and Budget Reserve Fund; Appropriation	10,000,000		

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HB321 SD 1 HD 1 CD 1	Medical Marijuana; Patients and Caregivers; Protections; Certifying Physician (\$)		750,000	750,000
SB1345 HD1 CD1	Department of Education; Multi-Track Schools; Appropriation		200,000	
SB1299 HD1 CD1	Disposition of tax revenues		20,975,368	20,975,368
SB101 SD1 HD1 CD1	Hawaii Tobacco Settlement Special Fund; Budget; MSA; Tobacco Settlement		14,141,160	14,224,055
HB1366 SD2 CD1	Acquisition or development of real property		500,000	500,000
TOTAL		42,154,191	148,060,245	141,477,061