

HAWAI'I'S BUDGET IN BRIEF

Fiscal Biennium 2024–2025



JULY 2023



HAWAI'I BUDGET
& POLICY CENTER



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The [Hawai'i Budget & Policy Center](#) (HBPC) is a program of the Hawai'i Appleseed Center for Law & Economic Justice. HBPC's mission is to ensure that our state and local economic policies increase opportunity for all residents. Our work is guided by the belief that government at all levels should play an active role in helping people reach their full potential.

EXECUTIVE SUMMARY

The legislature's single most important policy decision is agreeing on the state's budget. The budget is the blueprint that describes how public funds are to be allocated, and it is a concrete demonstration of what we, as a society, value—and by how much.

In every odd year, Hawai'i's legislature approves a biennial budget for the up-coming two fiscal years. This budget supports operations, capital improvements and one-time spending for the executive and judiciary branches, as well as a subsidy for the Office of Hawaiian Affairs (OHA). (The legislature's budget is appropriated one year at a time.)

The two-year budget passed by the 2023 legislature approves nearly \$44 billion in spending and provides unprecedented support for housing and homelessness, early learning, and health—all much-needed investments in the wellbeing of Hawai'i's people, both now and for future generations.

This year's budget also included some unusual provisions: notably, exceeding the constitutional budget ceiling, giving the governor flexibility to spend up to \$200 million, and providing an unprecedented amount of short-term general funds to finance capital projects that are typically carried out over several

years and funded by bonds. Post session, the governor announced plans for a line-item veto to reduce spending by \$1.1 billion.

This brief offers an overview of the Fiscal Biennium (FB) 2024–25 budget and analyzes the spending—and reductions—planned for the Fiscal Year (FY) that starts July 1, 2023.

Besides the budget, other legislation can be life-changing for families. [House Bill 954](#) passed in 2023 fits this description. It will double the amount of tax relief available to working families through the state's Earned Income Tax Credit (EITC) and it will provide help with Hawai'i's high cost of food by doubling the refundable food/excise tax credit and raising the income ceiling to allow more low-wage households to qualify. This legislation is considered a “tax expenditure” because it reduces taxes paid by eligible families rather than offering support through the budget

BUDGET HIGHLIGHTS

As a statement of the legislature’s priorities, this budget advances a number of laudable investments in Hawai‘i. Budget highlights for the two-year period, as reported by the budget ([House Bill 300](#)) conference committee, include:



\$827.6 million for housing and homelessness

- \$65 million for a new **Office of Housing and Homelessness** with eight positions in the Department of Human Services;
- \$340 million over the biennium for **teacher housing** (reduced to \$220 million by the Governor’s veto);
- \$100 million in FY24 and \$180 million in FY25 added to the **Rental Housing Revolving Fund**;
- \$50 million more for the **Dwelling Unit Revolving Fund**;
- \$6 million added to the **State Rent Supplement Program** and \$1.6 million more for **First to Work Housing Assistance**; and
- \$85 million to assist people at risk of or experiencing homelessness through **Family Assessment Centers, Housing First, Rapid Re-Housing, Homeless Outreach, ‘Ohana Zones, Kauhale Projects** and a **Homeless Services Database**.



\$175.9 million for healthcare and wellness

- \$80 million for the state **Emergency Medical Services (EMS)** system, including \$3.2 million for Molokai;
- \$60 million to increase **Medicaid reimbursement rates**;
- \$10 million in FY24 and \$20 million in FY25 for the **State Loan Repayment Program** for Healthcare Professionals;
- \$5 million for additional **public school student mental health services**; and
- \$900,000 and 6 positions for the Governor’s **Office of Wellness and Resilience**.



\$52.4 million for early learning

- \$39 million to expand **Preschool Open Doors** to include 3-year-olds (in FY25) and \$500,000 to improve the IT system that supports the program;
- \$11.5 million for **early learning classroom positions** and \$660,000 for an **early childhood educator stipend program**; and
- \$700,000 for **Healthy & Ready to Learn**.

The conference committee’s other identified spending priorities included:

- Increasing the **Emergency Budget Reserve**, or rainy day fund (\$1 billion);
- Funding **deferred maintenance** at state facilities (\$200 million); and
- Addressing **climate change and ecosystem degradation** (\$284 million)

Many of these investments are critical for Hawai‘i’s future, particularly investments made in housing, and early learning. However, the legislature missed a significant opportunity by failing to approve an inflation adjustment for nonprofit service providers. These community-based organizations deliver essential state services through contracts with the Department of Health and Department of Human Services. As costs for providing these services have escalated in recent years, the contractors need an adjustment to maintain their ability to provide adequate and resilient services. Although the senate added \$48 million for this need in its draft of the budget, those funds were eliminated in the final version.

PECULIARITIES IN THE BUDGET (AS-PASSED)

The budget passed this year was unusual in several ways. First, it exceeded the budget ceiling for the up-coming year by more than \$1 billion. The budget ceiling is a provision in the Hawai'i State Constitution intended to curb excessive spending. It limits increases in general fund expenditures to the same percentage as overall state economic growth.

The budget ceiling has been breached a number of times over the years, but not by so much or for such a vague reason as "...appropriations made in this Act are necessary to serve the public interest..." It should be noted that half of the FY24 overage is the \$500 million directed to the rainy day fund.

A second unique aspect of this budget—and one that contributed to exceeding the budget ceiling—is its use of general funds to support capital improvement projects (CIPs). General funds, which are largely made up of tax revenue, are typically used almost exclusively to fund operating budgets and one-time program expenditures, while CIP projects are largely financed by money borrowed through general obligation and revenue bonds.

The recently passed biennium budget, however, uses more than \$600 million in general funds to support capital projects that are identified as CIP, plus nearly \$700 million more for items in operating budgets

that should reasonably be classified as capital improvement project expenditures.

A third peculiarity of the budget is that it allows the governor to move \$200 million in general funds to any government program. While this amount is less than 1 percent of all general funds in the biennium budget, it's more than the general fund totals for 10 of the state's 19 departments.

Finally, it was unusual for the legislature to defer a significant amount of spending approved for the FY23 budget to FY24, as it did in [House Bill 1018](#). This was done because federal COVID funds coupled with higher than expected tax revenues encouraged the 2022 legislature to approve an unprecedented \$2.7 billion in one-time appropriations. However, "maintenance of effort" (MOE) provisions attached to certain federal COVID relief funds made it imprudent for Hawai'i to spend all of these appropriations in FY23.

To avoid being locked in by MOE requirements, HB1018 amends 2022 session law so that a total expenditure of \$674.5 million can be delayed until FY24. The expenditure covers \$49.5 million for Aloha Stadium, \$300 million for public worker pensions, \$300 million for the Rental Housing Revolving Fund, and \$25 million for the retirement savings special fund (a new program to help private sector workers save for retirement).

GOVERNOR'S LINE-ITEM VETO

The Council on Revenues was created by the Hawai'i State Constitution to prepare estimates of expected tax and other revenues available to support public spending. The council's report in May was too late to influence the legislature's final budget bill. It is now the governor's responsibility to reduce spending to maintain a balanced budget, and he has announced plans to veto certain specific items of approved spending, including many of the capital projects included as operating expenses. Funded projects on the [veto list](#) for FY24 total \$554.7 million with another \$533 million for FY25. Items include:

- \$500 million for the rainy day fund in the second year of the budget (the \$500 million for FY24 remains);
- \$123 million in various projects allocated to the Hawai'i Community Development Authority (HCDA);
- \$120 million of the \$340 million appropriated for teacher housing;
- \$89 million of \$94 million budgeted for irrigation infrastructure; and
- \$72 million spread across several departments to develop a first responder and law enforcement training campus.

HOW THE BUDGET IS SPENT

Figure 1. Distribution of biennium budget by branch of government

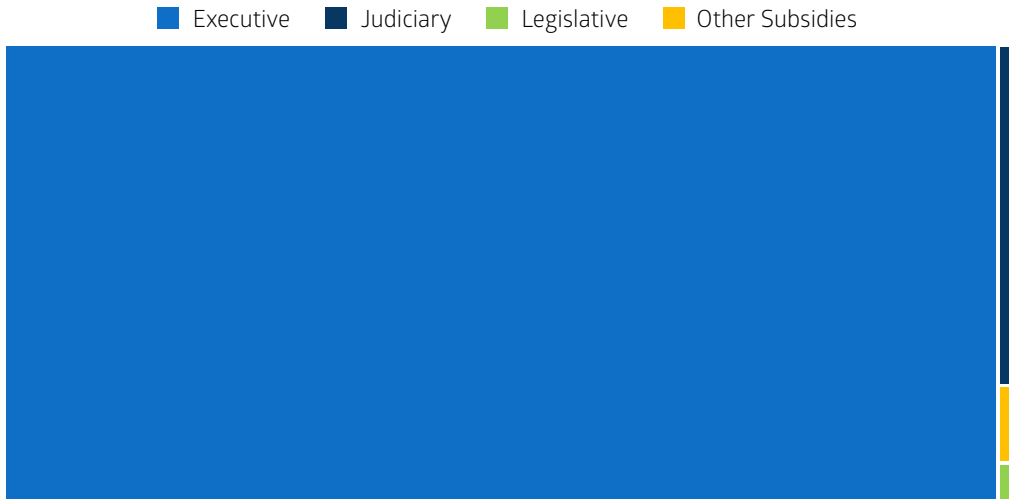


Figure 1. After proposed reductions of \$1.1 billion for line-item vetoes, the Executive Branch budget for all costs totals \$42 billion for the biennium. It will account for 99 percent of all spending. The Judiciary Branch will get \$423 million (1 percent), and the Legislative Branch budget (for only one year) is \$47 million. Another \$97 million was appropriated for subsidies to the counties (\$84.5 million) and to OHA (\$12 million).

Figure 2. Distribution of biennium budget by spending category, after accounting for veto reductions

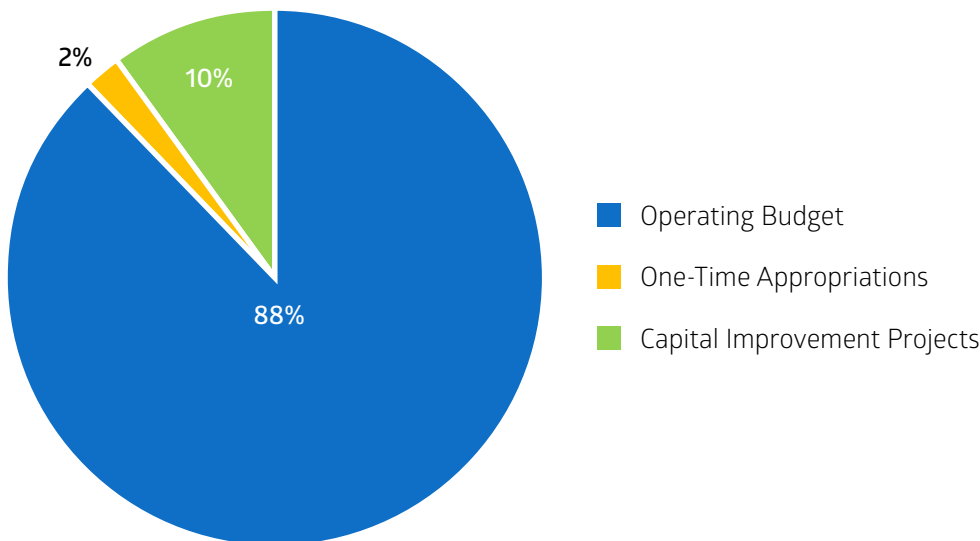


Figure 2. Over the 2-year budget period, operating expenses for all branches are expected to account for 88 percent of the budget (\$38 billion). Operating expenses were reduced by 2 percent by planned line-item vetoes. Capital improvements make up 10 percent (\$4 billion) and another 2 percent (\$687 million) was budgeted for one-time appropriations.

BUDGET DETAILS FOR THE YEAR AHEAD

Since so much can change in the budget for the second year of the biennium, it makes sense to focus on Fiscal Year 2024, which begins this July, 2023. Some takeaways for the budget with proposed veto revisions are:

- Total spending for FY24 is less than for FY23, but that obscures the fact that operating budgets grew by a substantial \$2.1 billion (12 percent). However, \$300 million or more in “operating funds” are for one-time projects that might otherwise have been approved as one-time appropriations.
- Most of the drop in spending is because the legislature agreed to a relatively modest \$432 million for one-time appropriations in FY24 compared to a whopping \$2.7 billion for such projects in the FY23 budget. But, as noted above, another \$300 million approved in the operating budget are for one-time projects.
- Spending on CIP, which includes subsidies for county capital projects, also declined by \$900 million compared to FY23.

Changes in the budget by spending category are shown in **Figure 3**, while **Figure 4** shows the relative size of Hawai‘i’s 19 executive departments. **Figure 5** shows that increases in operating budgets were uneven across executive departments, in some cases because projects were moved from one department to another. All figures reflect post-line-item veto budgets.

Figure 3. Spending by category, FY23 compared to FY24, in millions of dollars

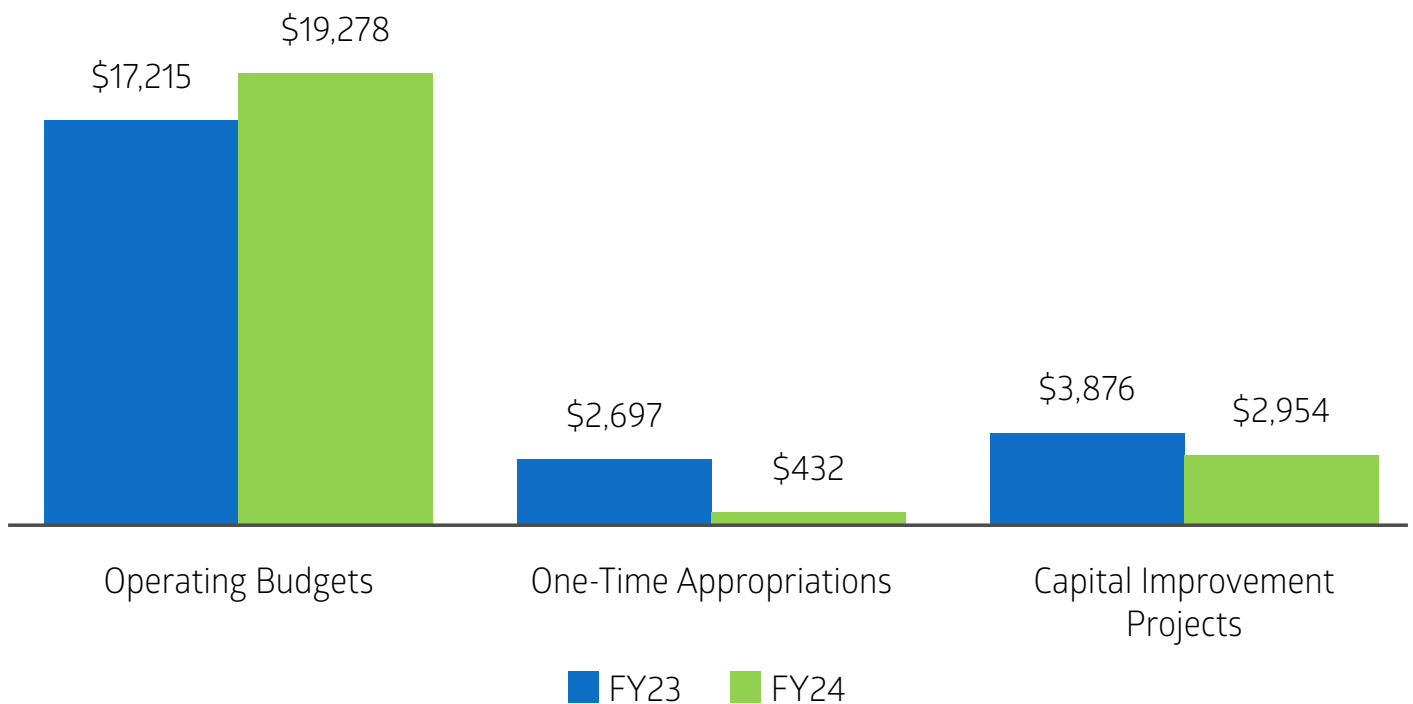


Figure 3. Funds allocated to on-going operations will increase by \$2.1 billion between FY23 and FY24, while appropriations for one-time projects and Capital Improvement Projects will decrease.



Figure 4. Comparative size of Hawai'i's 19 executive branch department operating budgets, FY24

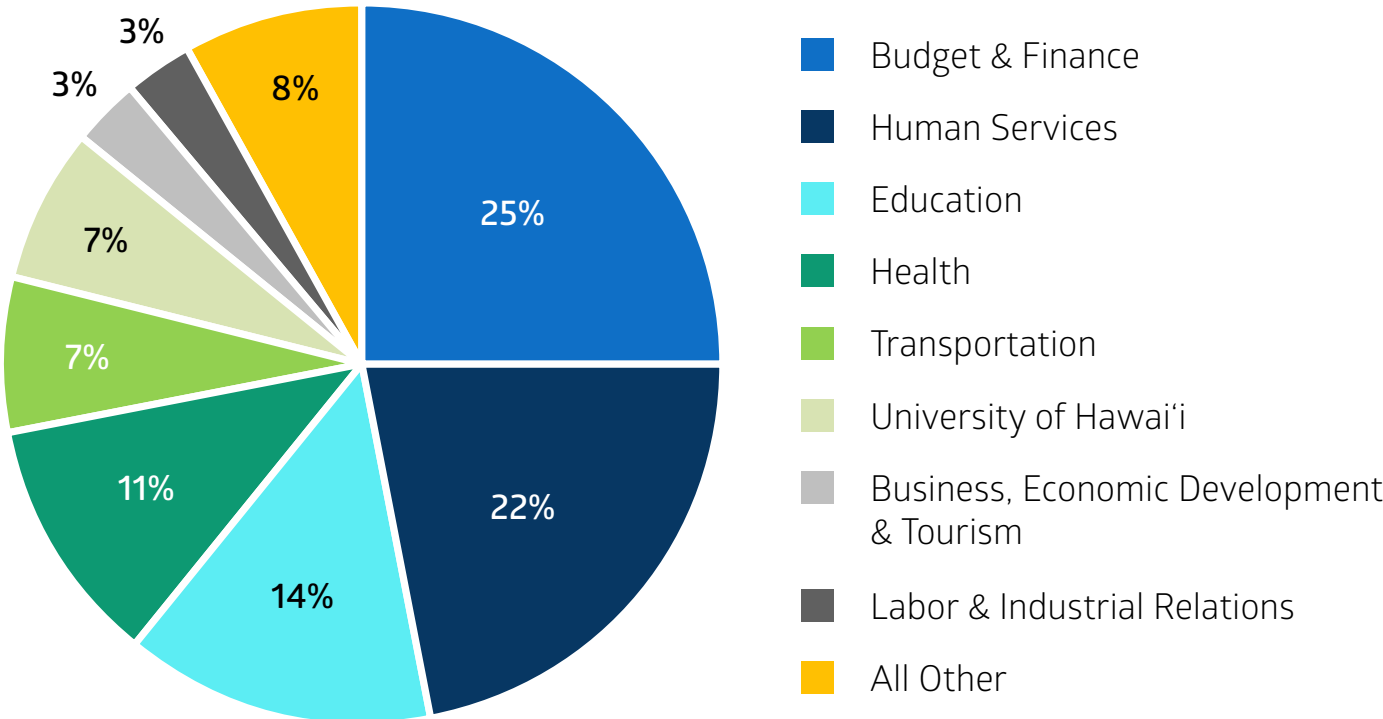


Figure 4. Hawai'i's 19 executive departments are significantly different in size and scope, with nearly half of all state operating funds allocated to just two departments: Budget & Finance and Human Services.

Figure 5. Branch and department operating budgets, FY23 compared to FY24, in millions of dollars

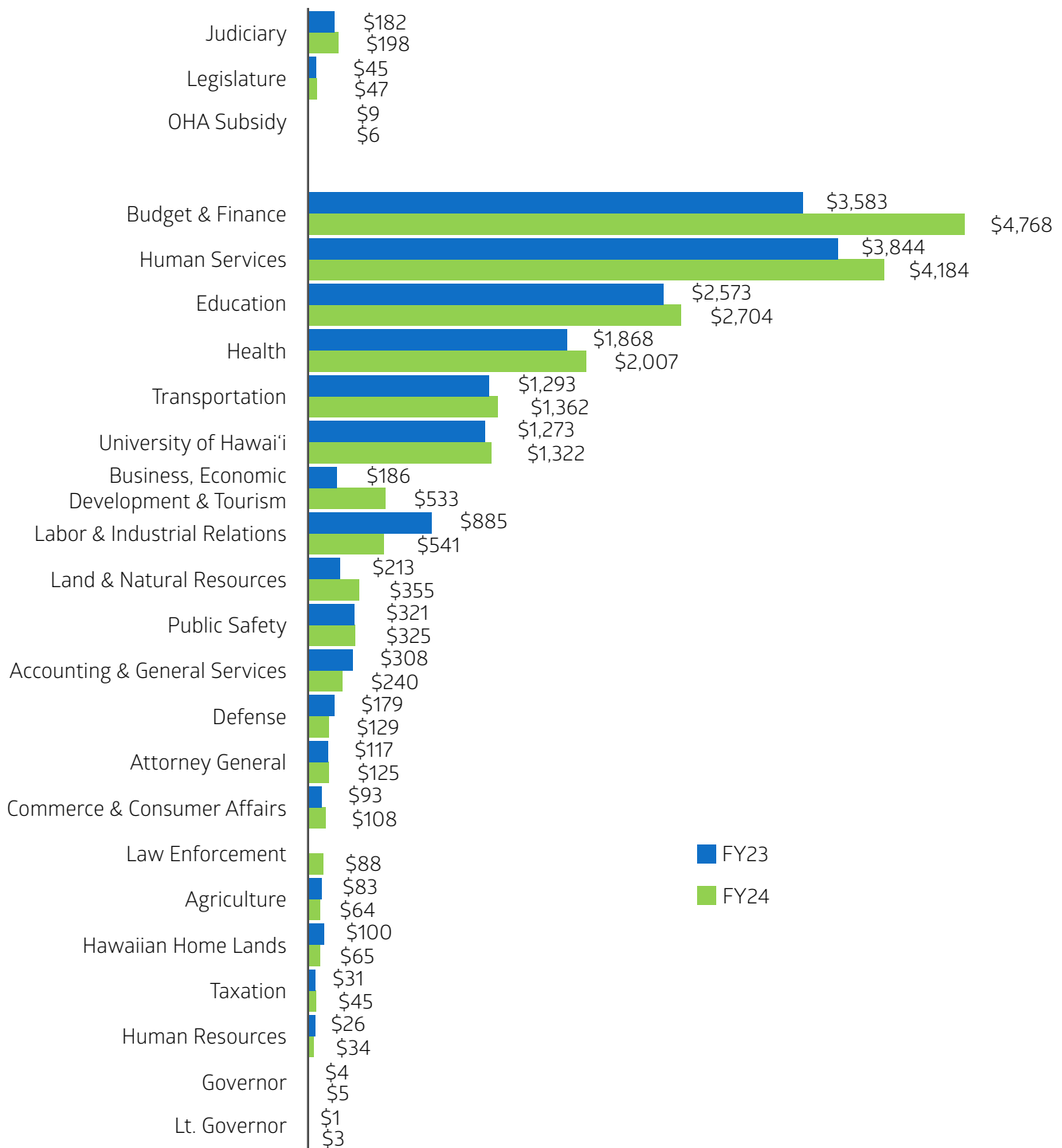


Figure 5. Operating budgets increased overall for branches of government and executive departments. Some grew by much more than others while a few others shrank.

Departmental operating budgets that increased by \$130 million or more:

- **Budget and Finance (+\$1.2 billion).** BUF has the state's largest budget and it was increased by the largest dollar amount. The most significant add-ons to its budget in FY24 are \$500 million for the rainy day fund, \$348 million for debt service, and \$126 million for statewide broadband development.
- **Business, Economic Development and Tourism (+\$367 million).** Before the governor's vetoes, DBEDT's FY24 operating budget was set to triple; however, many of the items on the veto list—\$314 million dollar's worth—are for DBEDT projects. Increases that remain include \$146 million to the Hawai'i Housing Finance and Development Corporation (HHFDC) for affordable housing, \$64 million for Hawai'i Community Development Authority (HCDA) infrastructure projects, and \$50 million to fund green infrastructure loans.
- **Human Services (+\$340M).** The bulk (\$276 million) of DHS' budget increase went to Med-QUEST, including \$30 million to increase traditionally low provider reimbursement rates. DHS also got \$31 million for a new Office of Homelessness and Housing, and budget increases of 27 and 17 percent, respectively, for rental assistance and Child Protective Services.
- **Land & Natural Resources (+\$142M).** DLNR's operating budget grew by two-thirds, including \$25 million for programs that amplify Native Hawaiian voices in decisions about preservation and use of natural resources: the Aha Moku Advisory Committee, to bring the voices of Native Hawaiians into public decision-making; the Kaho'olawe Island Reserve, to restore and manage the reserve; the Mauna Kea Stewardship and Oversight Authority, to govern use of the summit region; and a legacy land conservation program.
- **Education (+\$131M).** The increase in the DOE budget is deceptive, as it includes an

appropriation of \$50 million for developing teacher housing, and \$60 million for special education. Facilities aside, the DOE operating budget grew by only 3 percent overall, and core education support in the School-Based Budgeting category decreased by \$44 million.

Departments that experienced a decrease in funding:

- **Labor and Industrial Relations (-\$344 million).** The appropriation for the unemployment insurance trust fund decreased by \$287 million because pandemic employment rates have recovered. In addition, funds for the DLIR Office of Community Services, which administers grants-in-aid to nonprofits among other things, were reduced.
- **Accounting and General Services (-\$68 million).** Funding for Aloha Stadium was moved from DAGS to DBEDT, which accounts for most of the drop in this budget; however, funding for culture and the arts was also reduced by 40 percent.
- **Defense (-\$50 million).** The Hawai'i Emergency Management Agency's (HI-EMA) post-pandemic budget decreased by \$46 million. In addition, the governor vetoed \$12 million for a new HI-EMA facility. DEF's other programs grew, notably a \$6 million gain for addressing physical disasters.
- **Hawaiian Home Lands (-\$35 million).** The legislature reduced DHHL's planning and development capacity in FY24, citing the addition of these funds in the previous year as non-recurring costs.
- **Agriculture (-\$19 million).** The drop in AGR's budget is due to moving the Agribusiness Development Corporation to DBEDT, and reducing AGR's budget for managing feral animals, and transferring responsibility to DLNR. Other AGR programs saw a budget increase of \$11 million.

FUNDS THAT SUPPORT THE BUDGET

Every expense in the budget is tied to the fund that supports it. The largest funds are:

- General funds, most of which come from taxes;
- Special funds such as UH tuition; and
- Federal grant funds.

Normally, state general funds pay for about half the budget, but the proportion increased from 51 percent in FY23 to 57 percent in FY24, an increase of \$2.5 billion. **Figure 6** shows the change in means of finance for the budget.

Figure 6. Funds supporting operating budgets, FY23 compared to FY24, in millions of dollars

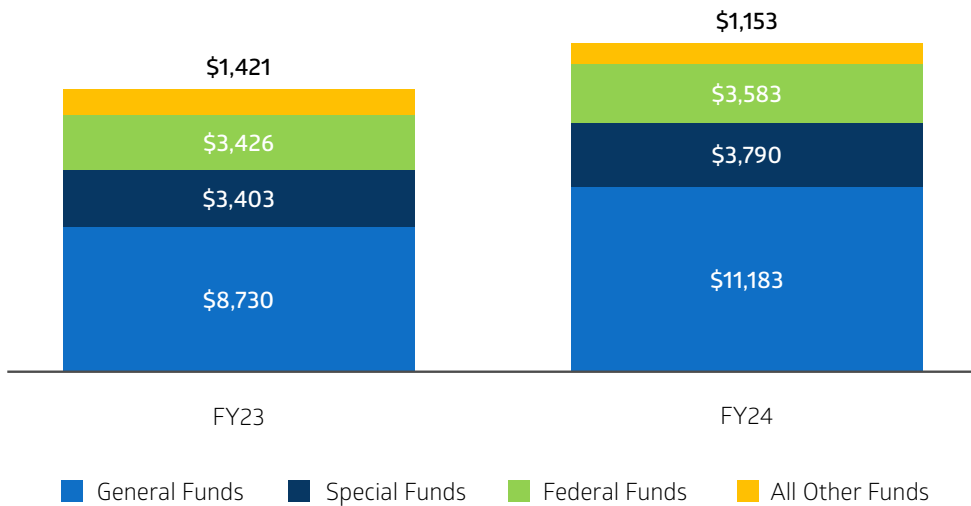


Figure 6. The FY24 budget's reliance on general funds increased by 28 percent, while funding from all other categories grew by just 3 percent. In dollar amounts, general fund support increased by \$2.5 billion while all other sources of funding increased by \$276 million.

Last year, the legislature had a surplus of general funds, so they used that extra money to allocate \$2.7 billion for one-time expenses. However, this year, they decided to use about \$700 million from the general fund for the “operating” expenses related to Capital Improvement Projects (CIPs). Many of the items that the governor vetoed were related to these operating expenses.

One of the reasons for vetoing these expenses is that operating appropriations need to be spent or contracted within a year. This poses a challenge because capital projects involve complex planning, permitting, and contracting processes that may take a longer than a year to complete. If the money is not spent in that time, it has to be returned to the general fund .

Furthermore, the legislature used \$642 million in general funds for CIP, which is significantly higher than the \$22 million allocated over the past decade. These projects typically span several years and are primarily funded through bonds.

It’s worth noting that capital improvement funds must be spent or contracted within three years, or they will be forfeited. By using general funds for CIP, the legislature aimed to reduce borrowing costs. However, it also gave them a reason to limit the amount of general funds they put towards underfunded operating programs and to avoid approving taxpayer refunds.



RECOMMENDATIONS

1. INVEST IN HAWAI'I'S KEIKI

The FB24–25 budget reflects well-chosen priorities with significant investments in housing, early learning, health and the environment. Unfortunately, it missed the opportunity to increase funding for two additional areas critical to Hawai'i's current needs and future potential: K-12 and higher education. In combination, operating support and one-time appropriations for the Department of Education and the University of Hawai'i decreased by nearly a quarter billion in the FY24 budget.

2. OPEN UP THE BUDGET-MAKING PROCESS TO THE PUBLIC

The process and timeline for determining the budget this year received vocal criticism from, among others, legislators themselves. Multiple lawmakers have spoken about the inaccessibility of the process of creating the budget, our most important policy, and the need for a significant overhaul.

Part of the problem is that there is no access to timely specifics about the budget, even for legislators who sit on the money committees. Budget worksheets are the most useful tools to understand budget details, but they can be difficult to understand, and can run up to nearly a thousand pages at times. Most legislators—and the entirety of the public—have no access to the worksheets before the final budget decision. This year, the worksheets for the final executive budget were not posted to the legislative website until May 19, more than two weeks after the legislative session ended.

3. ENSURE THAT THE BUDGET MEETS REAL PUBLIC NEEDS

The 2023 legislative session revealed a great deal of concern over appropriations that were inserted into the budget for projects that failed to garner public, and even legislative, support. The most obvious example this year was \$50 million in funding—now on Governor Green's veto list—to develop a first responder tech park.

