

STAND. COM. REP. NO. 952 -06

Honolulu, Hawaii

March 10, 2006

RE: H.B. No. 1900
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Finance, to which was referred H.B. No. 1900 entitled:

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

begs leave to report as follows:

The purpose of this bill is to appropriate supplemental funds for the operating and capital improvement costs of the Executive Branch for fiscal year (FY) July 1, 2006, through June 30, 2007.

Due to a larger-than-anticipated surplus, your Committee, for the first time in many years, began its deliberations without being required to determine what needed to be cut from the budget. With over a decade of pent-up demand for money and services, your Committee found that deciding what to fund was perhaps more difficult and demanding than anticipated. It would have been easy to simply fund as many of the myriad requests as possible, satisfying most, if not all, of the different interests. However, your Committee remained prudent and vigilant in its fiscal deliberations.

Instead, your Committee seized upon this unprecedented opportunity to invest strategically in our future by applying the following guiding principles:

- Investment must be made to ensure that our children will have the skills to compete in the global economy and excel in new industries;

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- Investment must be made to maintain the balance between economic growth and open space, diversified agriculture, and ecological diversity;
- Investment must be made to increase energy efficiency and renewability to ensure the availability of energy resources for the future; and
- Investment must be made to support the expansion and sustainability of a diversified economy.

Ten years ago, the Department of Business, Economic Development, and Tourism (DBEDT) issued a report entitled "Restoring Hawaii's Economic Momentum, 1996." The report envisioned a robust economy, an unrivaled natural environment, an educated citizenry, and a unified island state. To attain a robust economy, the report identified the fundamental impediments to Hawaii's growth potential and proposed specific solutions to:

- Promote a positive business environment;
- Encourage new investment to reinvigorate the economic base;
- Reach out through science and technology to new areas of economic growth;
- Focus on Asia and the Pacific;
- Reinforce Neighbor Island economic growth; and
- Invest in education and human resources.

The diverse recommendations made and implemented in 1996 were followed by the initiatives of the Economic Revitalization Task Force in 1997. The centerpieces of those fiscal and non-fiscal initiatives were several major income tax and general excise tax cuts that have saved the people of Hawaii more than \$2,400,000,000 in the intervening years. The cumulative effect of those solutions, in addition to the emergency legislation enacted in response to the terrorist attacks of September 11, 2001, set Hawaii on the path toward economic expansion and the healthy surplus the State currently enjoys.



Despite taxpayers' savings of \$2,400,000,000 in general excise and income taxes, it would have been easy to rescind these tax cuts when the economy was pummeled by the events of September 11, 2001. Instead, the Legislature chose to stay the course and place the state on more solid ground. Necessity required budget cuts that soon found government agencies doing more with less--and being asked to do everything with nothing. Sacrifices were made to ensure our current prosperity.

The magnitude of the current surplus provides the State with a unique chance to make tremendous strides in improving infrastructure that has long suffered from neglect. At the same time, there is an historic opportunity to enhance and invent a continuum of services to ensure long-term economic growth. To that end, your Committee has worked long and hard to create a supplemental budget that:

- Invests in the Department of Education (DOE) and the University of Hawaii (UH) system to fix our public schools and university facilities;
- Provides resources to assist the homeless population and ensure the availability of affordable housing now and in the future;
- Fixes broken irrigation systems and provides incentives to private landowners to enter into partnerships with the State to ensure the long-term viability of diversified agriculture;
- Creates workforce development programs to ensure the state's ability to meet the demands created by a robust job market;
- Reduces the state's reliance on fossil fuels by providing resources to design state buildings using renewable technologies for their energy needs;
- Increases healthcare coverage by increasing efforts to insure more residents and providing critical funding to rural health clinics and hospitals; and
- Protects the people of Hawaii by retrofitting public facilities to serve as emergency shelters during disasters.



Public expectations are high, but the Legislature must remain vigilant and scrutinize how taxpayer dollars are spent. More than a decade of budget cuts has revealed several vulnerabilities in essential services provided by government. Prudence requires that a balanced approach be adopted to:

- Strengthen effective existing programs;
- Retool programs that may have become ineffective; and
- Create new programs to serve the critical evolving needs of the state.

The structural changes made to the tax system, budgeting policies, and critical priorities supported in prior years by the Legislature continue to strengthen the state economy. Your Committee continues to take a prudent and fiscally responsible approach to balancing competing demands for resources in the development of this supplemental budget.

Departmental Highlights

Department of Education

Over the past several years, the Legislature has worked diligently to ensure that our public schools receive the money they need to provide a quality learning experience for the state's greatest resource--our children. To this end, your Committee provided \$160,000,000 to complete whole school renovations at 96 schools statewide in addition to \$50,000,000 for major repairs and maintenance. These two appropriations will create a learning environment more conducive to student achievement and will help address the backlog of repairs and maintenance at our schools, which amounts to an estimated \$525,000,000. Also included in your Committee's budget is an additional \$1,600,000 to ensure that every public elementary school in the state is furnished with playground equipment to help keep our children active and healthy. In total, your Committee approved an additional \$256,204,000 for improvements to public school facilities.

Besides the additional \$256,204,000 provided for FY 2006-2007 for capital improvements, your Committee also provided \$110,675,197 in operating funds for DOE. This sum represents a \$28,170,983 increase to the Governor's operating budget request



for DOE. Together, these amounts total \$366,879,197 in additional support to our public school system.

The Reinventing Education Act of 2004 (Act 51, Session Laws of Hawaii 2004 (Act 51)) mandated a new method of educational funding using the Weighted Student Formula (WSF), which is based on each student's unique characteristics and which follows each student. The WSF is an important departure from the previous method of allocating positions to schools based on enrollment and programs at each school. However, such a fundamental change in funding policy can cause uncertainty and discomfort for the schools and their communities. Thus, your Committee has provided an additional \$20,000,000 to help ease the transition. Your Committee hopes that through the continuing legislative process, all stakeholders can collaboratively determine the best method by which the additional funding will assist in the change.

Your Committee wishes to clarify that this appropriation does not indicate a lack of support for Act 51. Rather, it is an affirmation of the transition period and is provided to assist DOE in effectively implementing this reform of the public school system. Your Committee expects a full accounting by principals to their school community council about how these additional resources will be used.

Your Committee implemented other initiatives to provide students with access to resources that will guide them on the road to higher achievement:

- \$2,000,000 was allocated for more science textbooks and classroom science equipment. These textbooks and equipment must conform with a comprehensive science curriculum to ensure that students across the state will learn according to similar criteria and goals;
- \$175,000 was included to fund the Preliminary SAT (PSAT) for all 10th graders. The SAT is crucial for entry into higher education, and the PSAT prepares students for that test. The PSAT also serves as DOE's measure of cumulative academic standing statewide;
- \$500,000 was provided for Advanced Placement (AP) to encourage higher student achievement. These funds will go toward AP teacher training, test costs, and classroom materials; and



- \$1,193,669 for English as a Second Language learners to receive instruction, transitional bilingual support, and multicultural education services. These funds will help Hawaii's immigrant students attain the necessary level of English proficiency required under the No Child Left Behind Act of 2001.

Special education also received additional funding. Updated enrollment projections necessitated a greater number of special education services. Your Committee decided to adequately fund these support services for special education needs, including:

- \$1,951,380 for Occupational Therapists (OT) (\$210,288 more than the Governor's request);
- \$831,894 for Physical Therapists (PT) (\$178,708 more than the Governor's request);
- \$1,634,594 for Special Education (SPED) teachers;
- \$3,839,644 for Speech Language Pathologists (SLP) (\$1,037,244 more than the Governor's request);
- \$430,000 for nursing for the medically fragile; and
- \$1,708,355 for School-Based Behavioral Health (SBBH) services (\$1,356,842 more than the Governor's request).

Even with additional funding for many important areas, there are still some very basic needs that must be addressed. Although these needs are more mundane, they are vitally important:

- Our schools must be able to pay their electricity bills. However, rises in oil prices have increased electricity costs, so your Committee provided \$13,129,901 to sufficiently fund electricity costs for DOE facilities, an amount \$7,749,355 more than the Governor's request;
- Our student transportation system must have the resources to get our children to school, particularly on the Neighbor Islands, where there are no public transportation systems. To ensure adequate transportation services, your Committee



provided additional funding of \$9,438,615, \$1,000,000 more than the Governor's request;

- Many public school teachers spend their own money to purchase classroom supplies. Your Committee agrees that individual teachers are most aware of classroom needs and should be provided a method to buy what is needed quickly but not at their own expense. Therefore, your Committee funded a program to provide each teacher with a \$200 debit card to purchase classroom supplies. Based on an estimated 12,000 classroom teachers, your Committee provided \$2,400,000; and
- In an effort to better coordinate the operations of DOE, a decision was made to switch from school calendars that differed from school-to-school to a single uniform school calendar. This conversion required a one-time salary payment adjustment, resulting in traditional 10-month school employees' receiving double paychecks on August 20, 2006, and September 5, 2006, which total \$24,380,143. Your Committee found it imperative to pay this one-time cost of conversion, ensuring that employees are paid for their work.

University of Hawaii

UH is an important component of our public education system and is instrumental in charting Hawaii's course for the future. Your Committee approved an additional \$119,646,000 in general funds and general obligation (G.O.) bond funds for UH, including approximately \$84,000,000 to address UH's deferred repairs and maintenance. These amounts will address most of the current backlog of repairs and maintenance at UH's facilities, estimated to be \$165,000,000. Furthermore, your Committee approved:

- Over \$12,000,000 to perform necessary health and safety measures system-wide;
- Funds for key UH initiatives, such as:
 - \$37,500,000 for UH's Center for Disease Control facility;
 - \$2,000,000 for the Institute for Astronomy and Advanced Technology Research Center in Kula; and



- \$5,000,000 for completion of the Science and Technology Building at UH-Hilo (UHH);

and

- \$2,590,000 for plans and design for a library and learning center at Windward Community College (WCC).

Beyond the additional \$119,646,000 provided for capital improvements in FY 2006-2007, your Committee provided an additional \$39,133,050 in operating funds for UH. The amount of \$158,779,050 demonstrates your Committee's firm commitment to our higher education system.

UH should be our state's greatest resource for job creation and economic development. To that end, your Committee created a supplemental budget designed to promote assets predicated on Hawaii's geographic necessities and advantages. Your Committee bundled the UH budget into three distinct categories: Workforce Development, Economic Development, and Student Support.

The first area of focus is workforce development, and in keeping with the overall theme of education, teacher development is the first priority. Your Committee has provided \$521,000 for this initiative. By encouraging more people to view teaching as a viable career option, your Committee hopes not only to alleviate the current teaching shortage but also to cultivate a renewed culture of learning in Hawaii.

To help train the next generation of educators, your Committee is providing \$120,000 for the implementation of the Teach for America teacher recruitment program. This program will allow 50 more teacher candidates to be added to the workforce every two years. Following graduation from the program, each teacher will be required to stay and teach in Hawaii for at least two years.

Your Committee provided over \$4,700,000 for the establishment of a Construction Academy as a partnership among the UH community colleges, Hawaii high schools, labor unions, and the construction industry to alleviate the state's current shortage of construction workers. Recent increases in federal military spending to modernize facilities and the surge in private developments greatly increase the need for construction workers statewide. The



Construction Academy will play an integral role in providing the essential training our people need to fill these voids.

Your Committee recognizes the urgency of being able to address our statewide nursing shortage and facilitate the care of our aging population. Additional resources were provided for nursing programs at Hawaii, Leeward, Maui, and Kauai community colleges. Support was also provided for a Respiratory Therapy and Long-Term Care Program to an already-thriving nursing program at Kapiolani Community College. Moreover, your Committee has added four positions at UHH for nursing education. In total, your Committee provided \$2,162,500 to help address the nursing shortage statewide.

The Travel Industry Management School (TIM) at UH-Manoa (UHM) has been provided \$250,000 to focus on timeshare and fractional mixed-use management, real estate development, resort development, and sales and marketing. A portion of this funding is intended to initiate a comprehensive outreach program to ensure that the benefits of tourism can thrive in all parts of Hawaii. Given the success and national recognition TIM enjoys, your Committee has provided support to one of our greatest geographical advantages, tourism.

Because UH is a major economic engine of the state, your Committee focused on creating and supporting those programs that help develop jobs and new industries for Hawaii.

Your Committee has provided \$1,414,671 for a College of Pharmacy at UHH. This new College of Pharmacy is intended to prevent a potential healthcare crisis by training local residents to become licensed pharmacists. Given our distance from the continental United States and the potentially cost-prohibitive nature of attending and completing a pharmacy program, an investment in the College of Pharmacy is critical.

Due to our state's geographic isolation, it is imperative that Hawaii possess and maintain a first-class medical school. With the recent completion of the new John A. Burns School of Medicine (JABSOM) facilities in Kakaako, the state now boasts facilities that are on par with some of the best on the mainland. Your Committee has provided a one-time appropriation of \$3,000,000 to allow the school some flexibility to deal with the unexpected needs of a new facility and the rising utility costs that could not have been foreseen. This level of support has the potential



to reap significant rewards, because JABSOM will be able to attract increased research funding.

The Cancer Research Center of Hawaii (CRCH) is currently one of 61 National Cancer Institute (NCI) designated cancer centers in the nation. It is, therefore, a magnet for research dollars for cancer care in the regions they serve. CRCH barely meets the funding support needed to maintain its NCI designation. Because NCI designation is so important, your Committee has provided \$1,000,000 to aid CRCH in maintaining its status.

The Academy for Creative Media (ACM) is well on its way to establishing itself as a globally competitive media studies program. In its short history, some of its students have won awards at the Hawaii International Film Festival and will even be featured in upcoming *National Geographic* specials about filmmakers of the world. Your Committee has provided ACM with \$240,000 for four new positions to teach Screenwriting and Documentary Film Production, Visual Design and Cinematography, Pre- and Post-Production Technology, and Sound Theory and Design. Given our state's natural beauty and the keen interest of filmmakers to take advantage of this beauty, your Committee recognizes ACM's importance to our state.

Finally, your Committee understands the importance of student services. Nearly one-half of the appropriations for student services are for the continued application of the B-Plus Scholarship and Hawaii Scholars programs, which will receive \$2,500,000 in additional funding. Your Committee also provided \$431,358 for ten positions to increase the number of financial aid officers system-wide. UHM has faced two consecutive years of federal noncompliance audit findings. The requested staff positions are part of a federally negotiated remediation plan that will bring us back into compliance and serve students more efficiently.

According to the chief information officer for UH, the support staff for information technology (IT) throughout the entire UH system is less than half of what comparable institutions have exclusively for their flagship campuses. In response, your Committee provided \$1,226,000 for 20 new positions system-wide to the IT support staff. Your Committee is also converting 38 temporary IT positions to permanent status. These additional resources are meant to put UH on par with its peer institutions.



Your Committee believes students in a university setting should not have to concern themselves with whether the library is open. For this reason, your Committee provided \$100,000 to expand the hours of Hamilton Library by up to 42 hours per week.

Department of Land and Natural Resources (DLNR)

Protecting Hawaii's natural beauty, resources, and environment is critical to our residents' physical and spiritual health and economic success. Your Committee approved an additional \$8,700,000 to acquire or protect valuable lands. Land and water will also be protected and restored by the approval of \$650,000 to collect baseline data on Hawaii's streams; \$110,000 to restore beach areas; and \$1,850,000 to protect whales, restore nearshore fish species, and support fisheries.

Qualified and dedicated natural resource workers are key to resource protection. A total of 29 new positions totaling \$3,078,000 were added for:

- Park, trail, and small boat harbor maintenance;
- Fishery, forest, and wildlife protection;
- Water monitoring and prevention of marine alien species;
and
- Conservation education and enforcement.

The State Auditor recently recommended that DLNR's Division of Conservation and Resources Enforcement (DOCARE) improve its performance through better management, including strategic planning, collaboration with other divisions, development of meaningful performance measurements, and use of technology. DOCARE's 120 employees represent one out of every six DLNR staff. Strategic planning involves how to best stretch limited human resources across 1,300,000 acres of state land, beaches, and 750 miles of coastline. Your Committee provided funds to develop a strategic plan involving all DOCARE employees, considering the enforcement needs of all island branches, and integrating the assistance of other agencies, nonprofit organizations, and community groups. Your Committee also provided six new staff positions, equipment, and resources to improve office-to-field dispatch, field data collection, and field communication systems to enhance officer safety and productivity. Your Committee



expects to see improved resource protection performance and management accountability manifested in part by community feedback through surveys. DOCARE must demonstrate it has implemented the State Auditor's recommendations to manage its existing resources well. At that point, measurable improvements in performance will guide future funding decisions.

Together with the Department of Agriculture (DOA) and the Department of Health (DOH), DLNR is responsible for protecting the state's natural resources. With \$4,000,000 in funding for each of the past two years, the Hawaii Invasive Species Council, a collaborative multi-agency system, is now in place to respond to all invasive species outbreaks through prevention, response and control, research and applied technology, and public outreach. Coqui frog infestations on Kauai, Oahu, and Maui are not projected to exceed controllable levels, because funds were allocated when the degree of infestation was still manageable.

On the Big Island, however, coqui frog infestations continued to grow for years because of the lack of resources to control them. Without attempting a major funded effort, it is unacceptable to claim that controlling and eradicating coqui frogs on the Big Island is no longer feasible. Therefore, your Committee has approved \$50,000 for statewide education on coqui frog and invasive species control and eradication and \$1,950,000 for Big Island coqui frog control and eradication by three agencies with distinct responsibilities:

- The County of Hawaii (on residential, business, and county lands);
- DLNR (on state lands); and
- DOA (on agricultural lands and nurseries).

In addition to the intrinsic benefits of controlling coqui frogs, this partnership among government, community, and business will advance the development of models for similar cooperative efforts to address potential future infestations by other invasive species.

Department of Agriculture

As the coqui frog infestation demonstrates, invasive species' gaining a foothold in Hawaii can endanger our health and economic



viability. More importantly, invasive species severely affect Hawaii's endemic species as well as Hawaii's most precious resource, our environment. Controlling and eradicating invasive species after infestation is time-consuming and costly. While keeping invasive species out of our state is a top priority, DOA is understaffed to do the job properly. For example, the federal government employs an inspection staff of 450 to keep the mainland safe from goods being shipped from Hawaii, whereas the State employs 75 inspectors to protect Hawaii from mainland and foreign invasive species. Based on two recent experimental risk assessments at Kahului and Honolulu airports, Hawaii currently is able to detect only one out of 100 invasive species that should be detectible with strategic use of additional resources. The potential harm to Hawaii ranges in the hundreds of millions of dollars if species such as the red imported fire ant, brown tree snake, and biting midges are allowed into our state.

Therefore, your Committee approved a total of \$953,412 to hire 17 additional inspectors to intercept more invasive species at Hawaii's airports and harbors. Your Committee also recommends a continued dialogue with DOA to determine whether more inspectors, facilities, and innovative protocols are needed.

Department of Defense (DOD)

Your Committee extends its appreciation to all members of our armed forces for their service to our nation. They have made many sacrifices to preserve the freedom that we all cherish. Unfortunately, because of the deployment of key staff, your Committee encountered difficulty in obtaining timely responses for many DOD requests.

According to a recent Pentagon study, nearly one in ten American soldiers who served in Iraq was diagnosed with post-traumatic stress disorder (PTSD). More than one-third of U.S. soldiers received psychological counseling soon after returning from Iraq. PTSD can lead to family strife, alcohol and substance abuse, and unemployment. To assist our returning soldiers, your Committee has appropriated \$33,648 for an additional counselor position to aid recent veterans.

Understanding the importance of homeland security and disaster preparedness, your Committee has approved DOD's request for an additional \$50,000,000 in the federal fund ceiling to address these concerns. However, your Committee expresses reservations, because DOD has not been able to provide a detailed



strategic plan for these proposed expenditures. Although secrecy is important to maintain security, accountability for taxpayer dollars must still be preserved. Your Committee is looking forward to working with DOD through the legislative process to develop a method by which accountability can be ensured without sacrificing security.

Department of Human Services (DHS)

Your Committee expresses its appreciation for the steps taken to improve the quality of life for many of Hawaii's low-income residents. Efforts are being made to help this population achieve self-sufficiency and independence by providing healthcare, work opportunities, and affordable housing.

Your Committee allocated \$3,166,632 in general funds and \$4,462,887 in federal funds for the reinstatement of dental services for many low-income residents. More families will be able to take advantage of medical services as a result of federal funds granted to the State through the expanded QUEST Medicaid Section 1115 waiver program.

Recognizing the homeless crisis in Hawaii, your Committee approved \$20,000,000 to improve homeless shelters and increase services to the homeless population. Efforts are also being made to increase the number of available affordable housing units. An additional \$10,400,000 has been appropriated in H.B. No. 2176 for repair and modernization of vacant units in federal and state public housing projects as well as interim construction loans for self-help ownership housing.

With ongoing difficulties in the child welfare system, your Committee approved additional Temporary Assistance to Needy Families (TANF) funding for child welfare services and \$565,230 for the Child at Risk Evaluation Program. Your Committee anticipates positive results regarding the increased effectiveness of DHS in protecting Hawaii's foster children and helping them find safe homes to live in, either on a temporary or permanent basis.

Department of the Attorney General (AG)

Your Committee recognizes the importance of high-quality and timely data in the State's Sex Offender Registry (Registry). The data is essential to ensuring that law enforcement knows the location of individuals who have been convicted of sex crimes and



crimes against minors. The Registry provides a vital service to the public, informing them about individuals who may reside in their communities. Your Committee also recognizes that new mandates have placed added burdens on those tasked with maintaining the Registry. As such, your Committee added two positions and \$28,832 to provide the Registry with the personnel necessary to ensure this essential mechanism to protect the public is maintained.

Department of Health

In an effort to ensure that emergency and preventive medical services are provided in rural communities, your Committee increased DOH's base appropriation by \$2,000,000 for purchase of service contracts--\$500,000 each for the Waianae Coast, Kahuku, Hana, and the island of Molokai. Due to the geographic isolation and socioeconomic composition of these rural areas, additional funding is needed to allow residents to seek medical care in their own communities.

To improve the availability of high-quality emergency medical care throughout the state, your Committee provided an additional \$8,683,373 in general funds and \$1,693,658 in special funds for these essential services. These funds will not only allow the State's emergency medical staff to receive the salaries they deserve, it will be used to purchase replacement ambulances, supplies, and other operational needs. In addition, these funds will cover billing services to ensure that collections will be performed in a timely manner as well as help maintain vital 911 dispatch services.

Department of Business, Economic Development, and Tourism

Your Committee has appropriated \$991,000 in special funds for the Natural Energy Laboratory of Hawaii Authority to support and expand the operations of their leading research, aquaculture, and marine biotechnology facility. The facility provides a venue to expand the state's economy through ocean sciences and ocean technologies. Your Committee recognizes the importance of a diversified economy and believes this appropriation focusing on natural resources advances this effort.

Capital Improvements Program

For FY 2006-2007, your Committee approved \$1,854,876,000 in all means of financing for capital projects in FY 2006-2007,



including \$522,207,000 in G.O. bond-funded appropriations. To address the most pressing needs of the state, your Committee's budget focused on education as the foundation for strong and healthy communities. Your Committee has also appropriated significant funds for important programs that will lead Hawaii confidently into the future, including energy conservation, retrofitting public buildings for use as disaster shelters, and health and safety initiatives statewide.

In light of the devastating effects of Hurricane Katrina, preparedness for natural disasters is of utmost importance, especially for our tourist-dependent island state, which is vulnerable to natural disasters such as tsunamis and hurricanes. To help prepare for these inevitabilities, your Committee provided an additional \$10,000,000 to retrofit public buildings for use as hurricane shelters statewide.

As fuel costs rise around the globe, your Committee is mindful of the state's need to expand its use of alternative energy sources. To this end, your Committee has approved \$10,000,000 for the Department of Accounting and General Services (DAGS) to perform energy conservation improvements at public buildings across Hawaii.

CONCERNS

Although Hawaii's economy continues to grow at a healthy pace, the federal budget proposed by the President continues to be a major concern. Large tax cuts and increased spending for homeland security will increase the federal deficit over both the short and long term. To offset these tax cuts and spending increases, the President's budget proposes to terminate or cut many domestic programs, which primarily affect low- and middle-income Americans. Programs targeted for cuts or termination can be found in areas such as education, environmental protection, and medical research. In all, 141 programs may be cut or terminated in 2007, potentially saving the federal government \$15,000,000,000.

Some of the programs under consideration for termination are:

- The Community Services Block Grant, which funds a wide array of social services for low-income families as well as elderly and disabled individuals;



- The Preventive Care Block Grant, which provides states with resources for health services for the underserved; and
- The Commodity Supplemental Food Program, which for less than \$20 a month, provides food packages to the low-income elderly, the majority of whom are over the age of 75.

In addition, the programs that face severe cuts in the President's budget include:

- The Community Development Block Grant, which will be cut 30 percent in 2007;
- The Child Care and Development Block Grant, which will be cut \$1,003,000,000 over the next five years; and
- The Social Services Block Grant, which will be cut 30 percent in 2007.

Also of concern are the proposed legislative and regulatory changes to Medicaid. These changes will reduce federal Medicaid funding by \$1,500,000,000 and \$12,300,000,000, respectively, over the next five years. Concerning this reduction, the nonpartisan Center on Budget and Policy Priorities notes, "A substantial majority of these Medicaid changes consist of shifting costs to states, which would likely induce many states to reduce eligibility or scale back health benefits for low-income Medicaid beneficiaries."

Because of these factors, the State must continue to be mindful of the budget proposed by the President and be aware of the potential effects that federal decisions may have on our state budget.

On February 8, 2006, the President signed into law the Deficit Reduction Act of 2005, which included a strict set of new provisions related to the federal TANF program. The Congressional Budget Office estimates the new rules will cost states almost \$2,000,000,000 per year.

Your Committee is particularly concerned about the new work participation rates mandated in the TANF reauthorization. Effective October 1, 2006, each state must meet a 50 percent participation rate for all families receiving assistance and a separately calculated 90 percent participation rate for two-parent



families. In its report to the Legislature, DHS indicated that its current participation rate is 35.4 percent, or 2,204 adults out of 6,225. To meet a 50 percent participation rate requirement, an additional 909 adults must find work by October 1, 2006. In a memorandum, the Director of Human Services stated, "We know from the new law that work requirements for TANF recipients will be increased and that a greater percentage of the caseload will need to be engaged in work activities."

Even if Hawaii fails to meet this requirement, the State still holds a balance of \$113,000,000 in federal TANF reserve money as of September 30, 2005. Practical use of the reserves can mitigate the effect federal changes will have on Hawaii's TANF program. However, DHS submitted a supplemental request for a \$35,000,000 increase in their federal fund ceiling to spend down the reserve. Additionally, the majority of the funds were not earmarked for job training programs or other means to increase the state's work participation rate.

Your Committee notes the January 2006 State Auditor's Report on the TANF program, which recommended that "the Legislature consider using its appropriation authority under federal law to guide the department's TANF spending unless adequate changes are made to its planning and accountability practices." The audit also recommended "the department establish a strategic planning process." Although DHS has recently initiated this process, your Committee notes that with changing federal regulations, it would not be prudent to release additional funding for the TANF reserve funds at this time. The Director of Human Services has stated, "Until the new federal rules and regulations and any guidelines are issued, it will be difficult to incorporate the federal changes into our TANF Strategic Plan."

Considering the changes in federal regulations as a result of TANF reauthorization in conjunction with the recent State Auditor's Report, your Committee is advocating a more prudent approach to TANF expenditures. Accordingly, your Committee denied DHS's request for a \$35,000,000 increase in the federal fund ceiling to spend down the TANF reserve. Your Committee believes sensible use of the TANF federal reserve can help Hawaii transition through its reauthorization process. Given the current budgetary surplus, your Committee proposes spending between \$15,000,000 and \$20,000,000 from the reserve, each fiscal year for four years, to eventually maintain a \$40,000,000 "rainy day reserve."



The situation at the Hawaii Youth Correctional Facility (HYCF) is not encouraging. The United States Department of Justice (DOJ) entered into a Memorandum of Agreement (MOA) with the State on February 7, 2006. The MOA requires HYCF to protect incarcerated youth from harm, give them proper access to medical and mental healthcare, and provide special education services as needed. The MOA was designed to mandate a high level of training for all youth corrections officers and their supervisors while protecting high-risk youth from self-inflicted harm or harm from others. Your Committee has provided an emergency appropriation of \$6,818,884 requested in H.B. No. 2371 to ensure that HYCF will provide Hawaii's incarcerated youth with a positive learning and rehabilitation environment, which will, in turn, allow these young people to re-enter society with beneficial life and work skills.

Additionally, your Committee has approved a request for \$1,300,000 for the Safehouse Program to continue to offer a temporary alternative for youth in need of a residential placement more structured than a traditional group home but less severe than incarceration at HYCF.

While the Department of Public Safety (DPS) plays a vital role in protecting the citizenry of Hawaii, your Committee found it difficult to analyze DPS' requests because of a lack of a timely response to questions posed to DPS. Despite the lack of timeliness, however, your Committee had little choice but to approve nearly all of the requests submitted by DPS.

Your Committee recognizes the necessity of DPS to continue housing inmates in mainland facilities. Thus, your Committee approved a total of \$11,743,065 for FY 2006-2007 to send 676 inmates to the mainland. Your Committee has serious reservations about this practice and strongly encourages the Administration to initiate plans that will ultimately allow for Hawaii to return its inmates to the state.

The Oahu Community Correctional Center was the subject of a DOJ investigation into the state of mental health services at the facility. In light of this investigation, your Committee has allocated a significant portion of DPS' supplemental budget to correct the problems identified by the investigation. Although a formal report is forthcoming from DOJ, your Committee believes it is more cost-effective to take corrective action now than to wait for federal action to force compliance.

Your Committee acknowledges that a critical shortage of nurses exists in our state. Higher wages are necessary to compete with the private sector, which is why your Committee approved \$1,041,880 to provide for contract nurses to meet staffing shortfalls within DPS. Despite approving this request, your Committee has concerns about the large number of nursing vacancies as well as the sharp increase in the hourly rate for contract nurses, which rose from \$36 per hour in FY 2002-2003 to the current rate of \$52 per hour. Your Committee encourages DPS to develop partnerships with nursing programs, such as those approved in UH's budget, to aggressively recruit nurses and minimize future expenditures in this area.

In a report on deployed positions that the Governor transmitted to the Legislature on December 28, 2005, there were several positions being deployed to the Office of the Governor and Office of the Lieutenant Governor. The Governor's Office received one position each from DAGS, DHS, DOH, and DPS. In addition, two positions were given by the Department of Transportation to the Governor's Office. The Lieutenant Governor's Office received four positions from DHS and five from DOH.

In State Auditor's Report No. 05-12, the State Auditor noted that six employees were interviewed and hired by the Governor's Office or Lieutenant Governor's Office, yet the salaries for these employees were not paid by either of those offices. It was with this knowledge that your Committee reviewed requests for additional general funds for personnel costs made by the Office of the Governor for \$215,000 and the Office of the Lieutenant Governor for \$198,475.

The resulting requests for additional funding for the Governor's and Lieutenant Governor's offices would seem to be an effort to validate the need for additional employees in these offices. While past administrations have deployed positions from various departments to the Governor's or Lieutenant Governor's offices, your Committee is not aware of other administrations using this flexibility to justify additional positions.

Furthermore, while researching the budgets of these offices, it appears to your Committee that the salaries of several positions in the Governor's and Lieutenant Governor's offices have increased considerably in the past several years, making it seem that funding for certain positions was increased at the expense of others.



Your Committee acknowledges that with additional information, some of its conclusions may evolve. However, information received to date indicates that serious questions remain. Although it is important for the Office of the Governor to run smoothly and efficiently, it is questionable how substantial pay raises, plus the addition of policy analyst positions, make our government more efficient. At this time, your Committee has provided almost full funding for the requests of the Office of the Governor and Office of the Lieutenant Governor for the purpose of keeping these requests open for discussion.

Your Committee has decided not to provide additional funding for marketing efforts for DBEDT, because the return on investment could not be justified. Marketing efforts, such as trade missions, enjoy tremendous private-sector support, and when done properly, these private-public partnerships can provide the State with adequate means to supplement limited public resources. Moreover, in light of recent questions about the propriety of contributions with regard to these trade missions, your Committee finds it difficult to approve additional funding.

Finally, your Committee has concerns with the operations of the Child Support Enforcement Agency (CSEA). Audits have repeatedly shown CSEA has difficulties in fulfilling its mission to Hawaii's children. CSEA positions authorized in FY 2005-2006 have not been filled despite claims these are "essential" to the improvement of CSEA. Your Committee also believes CSEA requested authorization to spend resources on additional studies rather than addressing issues that have already been identified by earlier studies, which is imprudent. Your Committee earnestly hopes CSEA focuses its attention on issues identified by the State Auditor so that it will be able to serve the keiki of Hawaii.

CONCLUSION

The budget is a complex document, which attempts to balance the different needs and priorities of all the people of the State of Hawaii. Competing needs faced your Committee during its formulation of the budget, requiring difficult decisions to be made. The approach of your Committee is to invest in our future and provide the essential services requested by the community.

Your Committee has proposed a supplemental budget that:

- Improves our schools;




- Aids the homeless;
- Diversifies the economy;
- Increases access to healthcare;
- Strengthens our workforce;
- Preserves the environment; and
- Protects the public.

This draft is just one step in the budget process. Your Committee looks forward to working with the Senate Committee on Ways and Means as well as the Administration to craft the best possible budget for the people of Hawaii.

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. 1900, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1900, H.D. 1, and be placed on the calendar for Third Reading.

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



DWIGHT TAKAMINE, Chair



State of Hawaii
House of Representatives
The Twenty-third Legislature

HSCR 952-06

Record of Votes of the Committee on Finance

Bill/Resolution No.: HB 1900	Date: 3.8.06			
Committee Referral: FIN	<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.			
The recommendation is to: <input type="checkbox"/> Pass, unamended <input checked="" type="checkbox"/> Pass, with amendments <input type="checkbox"/> Hold <input type="checkbox"/> Recommit				
FIN Members	Ayes	Ayes (WR)	Nays	Excused
1. TAKAMINE, Dwight Y. (C)	✓			
2. KAWAKAMI, Bertha C. (VC)	✓			
3. CARROLL, Mele	✓			
4. CHONG, Pono	✓			
5. EVANS, Cindy	✓			
6. LEE, Marilyn B.	✓			
7. MAGAOAY, Michael Y.	✓			
8. NAKASONE, Bob	✓			
9. NISHIMOTO, Scott Y.	✓			
10. TANAKA, Kameo	✓			
11. TSUJI, Clift	✓			
12. WAKAI, Glenn	✓			
13. YAMANE, Ryan I.	✓			
14. YAMASHITA, Kyle T.	✓			
15. MEYER, Colleen Rose	✓			
16. MOSES, Mark S.	✓			
17. PINE, Kymberly	✓			
18. STEVENS, Anne V.	✓			
TOTAL	18			
The recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted If joint referral, _____ did not support recommendation. committee acronym(s)				
Vice Chair's or designee's signature: <div style="text-align: center; font-family: cursive; font-size: 1.2em; margin-top: 10px;"> Bertha C. Kawakami </div>				
Distribution: Original (White) – Committee Duplicate (Yellow) – HMSO Duplicate (Pink) – Clerk's Office				