

Honolulu, Hawaii

Ag: 128, 2006

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

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

Honorable Robert Bunda
President of the Senate
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Conference on the disagreeing vote of the House of Representatives to the amendments proposed by the Senate in H.B. No. 1900, H.D. 1, S.D. 1, entitled:

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

having met, and after full and free discussion, has agreed to recommend and does recommend to the respective Houses the final passage of this bill in an amended form.

I. General Overview

Hawaii's economy is well and thriving. But, even with record revenue growth and a generous budget surplus, your Committee on Conference is mindful of the hardships other states endured as a result of the way their budget surpluses were handled. During the late 1990s, many states enjoyed an economic boom that provided unprecedented revenue streams. In response, these states both increased their spending as well as reduced their taxes. These actions created structural deficits in these



states' budgets, and when recession hit the nation in 2001, these states were faced with making tough choices, which included raising taxes and cutting programs.

In Hawaii's own history, there is evidence to warn against structural deficits. In 1989, Governor Waihee proposed large spending increases in the budget while simultaneously offering a large tax rebate in addition to tax reductions. Once the economic boom topped out, however, Hawaii was left with tough choices for many years.

In light of these lessons, your Committee on Conference feels that a more prudent approach is warranted. To dramatically reduce taxes and implement new costly programs at the same time would ignore history's teachings. In this context, your Committee on Conference is proposing a responsible fiscal approach, which includes a modest increase in expenditures, with the majority of these being investments in our schools and infrastructure. Our emergency shelter infrastructure was also aided by the state surplus. In addition, while tax reform is important to the people of Hawaii, your Committee on Conference proposes that the State pursue a more controlled and targeted form of tax relief this year. While the tax relief endorsed by your Committee on Conference may not be to the level that others may wish to pursue, your Committee on Conference feels that it is wiser to institute a long-term sustainable tax relief plan to smooth economic peaks and valleys, rather than take a drastic short-term approach.

The Supplemental Operating Budget

Your Committee on Conference continues to make Hawaii's public schools its top budget priority and the centerpiece of this supplemental budget. Although funding has been increased for virtually all state departments, none approaches the level of funding afforded to the Department of Education (DOE). Your Committee on Conference has appropriated forty-seven per cent of the new general fund appropriations for fiscal year 2006-2007, or \$106,100,000 to the DOE for a total of \$1,900,000,000 in general funds for the fiscal biennium.

Your Committee on Conference has also remained dedicated to providing for the basic needs of our citizens with increases in general fund appropriations of \$39,900,000 for the Department of



Human Services, \$26,300,000 for related programs at the University of Hawaii, \$19,500,000 for the Department of Health, and \$15,700,000 for the Department of Public Safety.

Overall, your Committee on Conference has recommended an increase of the Executive Supplemental Operating Budget general fund expenditures in fiscal year 2006-2007, from \$4,500,000,000 to \$4,700,000,000, an increase of \$221,500,000 or 4.9 per cent. For all means of financing, your Committee on Conference has proposed a total expenditure level of \$9,600,000,000 for fiscal year 2006-2007, virtually identical with what was requested by the Executive Branch. This ambitious financial package is based upon optimistic financial projections by the Council on Revenues, tempered by federal fiscal concerns, as well as careful comparisons and observations of fiscal and budgetary programs in other states and the Government Accounting and Standards Board.

Council on Revenues

At its March 6, 2006, meeting, the Council on Revenues updated its forecast of the general fund tax revenues for fiscal year 2006-2007 and beyond. The growth rate for the current fiscal year was set at 9.5 per cent, an increase from the 8.0 per cent projected at their December 16, 2005, meeting. This 1.5 per cent increase represents an additional \$50,000,000 in general funds. The Council on Revenues also revised their growth rate in fiscal year 2006-2007, to 6.5 per cent, 1.0 per cent lower than their earlier prediction of 7.5 per cent. This adjustment accounts for anomalies such as one-time court settlements and higher than anticipated delinquent tax collections that may plateau or decline.

II. Budget Program Highlights

Public Education

Education remains the State's top priority, and providing the necessary tools to educate Hawaii's children has been the focal point for the 2006 legislative session. To this end, your Committee on Conference reaffirms its support for Hawaii's public school system by crafting a supplemental budget that reflects the priorities of both the Board of Education and the Department of Education (DOE).



To address the physical needs of our schools, your Committee on Conference is providing \$15,000,000 in general funds in this supplemental budget. Your Committee on Conference also notes that additional appropriations for the repair and maintenance of our public schools totaling \$195,000,000 in general funds exist in Senate Bill No. 2956, S.D. 2, H.D. 2, C.D. 1. The use of cash as opposed to bonds for these projects is important to note for two reasons. The first is that the funding is available at the start of the fiscal year, rather than having to wait for bonds to be issued and for state officials to make that money available to the DOE. Fixing our schools can begin on the first day of the new fiscal year. The other important result from using cash and not bonds is the lack of debt service payments. The State is enjoying a cash surplus now. This one-time use of state funds to fix our schools will not saddle future generations with debt.

Your Committee on Conference believes that investing in our schools' infrastructure will provide Hawaii's 183,000 public school students with the necessary resources to effectuate positive changes in their education.

With regard to the operational budget for the DOE, the Board of Education approved the DOE's Executive Supplemental Budget requests of \$105,000,000 in general funds for fiscal year 2006-2007 to address many important areas in the public school system. The budget was subsequently revised downward by the Executive Branch to \$82,500,000, creating a shortfall of \$22,500,000 in general funds for the DOE.

Due to an improved budgetary projection, your Committee on Conference was able to mitigate the shortfalls created by the Executive Branch with an additional \$24,500,000 in general funds (totaling \$107,000,000 in operating funds) to further support students by providing them with the necessary resources for higher achievement. In doing so, your Committee on Conference provided:

- \$2,000,000 for additional science textbooks and other science learning materials;



- \$175,000 for Preliminary Standards Achievement Testing or PSAT for all tenth graders;
- \$500,000 for Advanced Placement teacher training, classroom materials, and test costs; and
- \$1,100,000 for the English as a Second Language Learners program.

Another top issue for your Committee on Conference with respect to education was the Reinventing Education Act of 2004. This Act included various mandates that required the DOE to:

- Devise a new budget allocation system using the weighted student formula;
- Convert from a traditional ten-month public school calendar to a single twelve-month statewide calendar;
- Transfer responsibilities from other state agencies to the DOE; and
- Upgrade the technology infrastructure to support a data-driven public education system.

Your Committee on Conference believes that carrying out these mandates is essential and has appropriated \$20,000,000 in general funds to assist schools in transitioning to the use of the weighted student formula by providing these additional funds directly to schools that will provide a foundation funding (a uniform amount to each school depending on school level). This foundation funding amount will prevent any school from losing funds for school year 2006-2007 and will, in fact, provide additional funds to every school. It is important to remember that a major premise of Act 51 was to have funding decisions made by the school principal working with the school community councils. The funding approach in this budget supports that premise and does not prescribe the funding for specific types of positions.

Furthermore, your Committee on Conference provided \$24,300,000 in general funds for a one-time salary payment adjustment for ten-month employees to convert from a traditional



calendar to a single school calendar. Your Committee on Conference also provided \$1,500,000 in general funds for the transfer of responsibilities from the Department of Accounting and General Services and the Department of Human Resources Development to the DOE. Finally, your Committee on Conference provided \$5,000,000 in general funds for technology infrastructure in the areas of human resources, student information, and network and data processing.

Student support services also received additional funding due to increasing enrollment projections and the rising costs in providing these needed services. To ensure that the services are sustained, your Committee on Conference provided additional funding as follows:

- \$1,600,000 for Special Education teachers;
- \$1,700,000 for Occupational Therapy services;
- \$653,186 for Physical Therapy services;
- \$3,700,000 for Speech-Language Pathologist services;
- \$430,000 for skilled nursing services for the medically fragile;
- \$1,700,000 for School-Based Behavioral Health services;
- \$6,900,000 for services for students with Autism Spectrum Disorders; and
- \$275,770 for students serviced in the Comprehensive School Alienation Program.

In addition, your Committee on Conference provided \$13,100,000 in general funds to address the rising cost of electricity and \$9,400,000 in general funds to address shortfalls in student transportation costs.

With the previously mentioned budget surplus available, your Committee on Conference strived to ensure that the surplus



was spent wisely by investing in our schools and our infrastructure.

Higher Education

Using recommendations from the Higher Education subject matter committee chairs, your Committee on Conference provided the University of Hawaii (UH) with the flexibility to use Tuition and Fee Special Fund revenues to offset part of their costs. UH is predicting increased revenues from their tuition and fees in excess of \$24,000,000. To aid the UH system in its goal of continuing autonomy, your Committee on Conference has appropriated \$10,000,000 of this increase to defray costs. In addition to providing UH with the flexibility to utilize special fund moneys for operational purposes, your Committee on Conference provided \$26,300,000 in general funds for operational costs.

Your Committee on Conference recognizes that UH is the State's only public institution for higher learning. One of the missions of UH is to serve the public by creating, preserving, and transmitting knowledge in a multi-cultural environment. As Hawaii's labor market continues to prosper, UH will be called upon to educate and prepare students to meet workforce demands. To address these issues, your Committee on Conference approved \$8,700,000 in general funds for various workforce development programs.

The healthcare professional shortage affecting Hawaii raises concerns regarding the State's ability to provide quality medical care in a timely manner. Your Committee on Conference acknowledged these concerns and provided twenty permanent positions and \$945,071 in general funds for nursing and dental hygiene programs statewide to produce healthcare professionals who will address the medical needs of Hawaii. Your Committee on Conference also approved three permanent positions and \$463,306 in special funds for the Hawaii State Center for Nursing to monitor issues that affect Hawaii's nurses.

Hawaii's construction industry has seen major growth in recent years. Numerous projects have been undertaken, while many more projects remain dormant due to a lack of skilled laborers. Your Committee on Conference understands the concerns of the construction industry and provided forty-six permanent



positions and \$5,400,000 in general funds to create a Statewide Construction Academy that will address the shortage of skilled laborers by providing students with essential job skills for the construction industry.

Your Committee on Conference also approved twelve permanent positions and \$1,400,000 in general funds to establish a School of Pharmacy at the UH-Hilo campus. Producing locally educated pharmacists will provide excellent career opportunities for students, address Hawaii's need for pharmacists, and provide improved healthcare for Hawaii's residents.

Rapidly developing technologies play an important role in all operations at major academic institutions. In keeping with the vision of creating a world-class institution of higher learning, UH must take advantage of the latest technology and develop its own technological systems to enhance the productivity of its students and faculty. Your Committee on Conference acknowledged the need to utilize technology and provided seventeen permanent information technology positions and \$863,980 in general funds and \$36,000 in special funds to support system-wide projects. Your Committee on Conference further approved the conversion of thirty-eight temporary information technology positions to permanent status to improve the productivity of UH's students and faculty.

Providing quality student services is an essential part of creating a productive academic environment. Your Committee on Conference understands the importance of accessible student services and approved forty-one permanent positions and \$1,500,000 in general funds and \$93,753 in special funds to increase financial aid services, disability services, and various other necessary student services offered system-wide. Your Committee on Conference also approved an additional \$2,000,000 in special funds for the B Plus program, which provides tuition for low and middle-income students who attend UH's community colleges.

In addition to devoting resources to improve UH's workforce development programs, technological support, and student services, your Committee on Conference also provided an additional \$95,100,000 for capital improvements system-wide. This included \$30,000,000 for capital renewal and deferred



maintenance and \$7,469,000 for health, safety, and building code compliance requirements.

Defense

The efforts of all members of our armed forces are greatly appreciated as they defend our freedom and liberties. The sacrifices they make for our nation serve as examples of selflessness and true patriotism. According to a recent United States Pentagon survey, more than one-third of the United States soldiers returning from the war in the Middle East received psychological counseling soon thereafter. With the anticipated return of 2,920 troops from the war, the state Department of Defense will be unable to fully meet its obligation of offering comprehensive services to Hawaii's veterans on a timely basis. To address this concern, your Committee on Conference provided \$39,648 in general funds to hire an additional counselor who will serve veterans across the State.

Your Committee on Conference also finds that the importance of homeland security and disaster preparedness has become magnified due to recent events abroad and locally. To address this issue, your Committee on Conference provided \$4,000,000 to retrofit public buildings with hurricane protective measures and raised the federal funding ceiling by \$50,000,000 to support Hawaii's homeland security and disaster preparedness requirements in the event of a manmade or natural disaster.

Health

Your Committee on Conference remains fully committed to ensuring that essential health related services remain as a top legislative priority. This commitment is affirmed by providing continued support to those most in need of health services. The health related appropriations made by your Committee on Conference ensure appropriate services for high-priority health programs in the State.

With regard to maintaining the health and safety of the public, your Committee on Conference provided funds to meet the statewide needs of the Emergency Medical Services' ambulance services. Your Committee on Conference provided \$8,600,000 in general funds and \$1,600,000 in special funds to continue the improvements for the Emergency Medical Services and its



contracting agencies on the islands of Oahu, Hawaii, Kauai, Maui, Molokai, and Lanai. This level of funding not only ensures that the Emergency Medical Services' operational needs are met, but more importantly, it ensures that the infrastructure support is provided for by appropriating the necessary funding to purchase replacement ambulances and additional medical equipment and supplies.

Your Committee on Conference continues to provide full support for the State's mentally ill population and has provided the Department of Health's Adult Mental Health Division with full funding totaling \$7,700,000 in special funds for fiscal year 2006-2007. These funds will provide for community-based contract services and for central services and administrative cost assessments. In addition, your Committee on Conference provided \$578,144 in general funds for the Hawaii State Hospital to cover the increasing costs of pharmaceutical drugs. Your Committee on Conference also provided \$60,000 in general funds for an overhead paging system to allow a tie-in between the Guensberg and Cooke buildings with the rest of the Hawaii State Hospital, which should allow for a single paging system throughout the Hawaii State Hospital.

To provide for the increase in the number of individuals with developmental disabilities admitted to the Home and Community-based Waiver Services, your Committee on Conference fully funded the Developmental Disabilities Division by providing an additional \$5,000,000 in general funds to meet the state matching requirements under the federal Title XIX (Home and Community-based Waiver Services). Your Committee on Conference also provided \$51,500,000 in interdepartmental transfer funds to establish the ceiling for the Medicaid Home and Community-based Waiver Services Program to allow the Title XIX program to collect federal funds received as reimbursements. Further, your Committee on Conference provided \$169,000 in general funds for on-going maintenance and grounds support for the Waimano facility.

Your Committee on Conference commends the Hawaii Health Systems Corporation for its continued collaboration with the Department of Human Services. Their work resulted in the final approval from the Centers of Medicare and Medicaid Services, to allow the State to draw down up to \$15,000,000 in federal funds under the federal Medicaid 1115 Waiver Program (Hawaii QUEST



Demonstration Project) to reimburse Hawaii's hospitals for uncompensated care. Your Committee on Conference also provided an additional \$1,500,000 in general funds to fund primary care services for the uninsured throughout the State.

Your Committee on Conference expresses concern over the proposed retooling of the Healthy Start Program within the Family Health Services Division. During the last legislative session, your Committee on Conference included a budget proviso containing specific directives to assist the Healthy Start Program in retooling its delivery of services, which appeared to be outdated and in dire need of change. However, your Committee on Conference found that, rather than retooling the Healthy Start Program, only minor, superficial changes were made to the program. Specifically, service providers were asked, for example, to cut expenditures by withholding billing services. This effort by the Healthy Start Program appears to be a short-term solution and only serves to frustrate the providers. To this end, your Committee on Conference has included another budget proviso in this supplemental budget requesting that the Healthy Start Program focus its efforts on reevaluating, from the ground up, its entire program, with a focus on revamping its current delivery of services.

Your Committee on Conference also supported the Deposit Beverage Container Program attached to the Department of Health's Solid and Hazardous Waste Branch by converting the six temporary special-funded positions to permanent status. Your Committee on Conference also established four new special-funded permanent positions to provide the Deposit Beverage Container Program with adequate support to improve the overall effectiveness of the program as well as to safeguard against fraud. Your Committee on Conference affirmed its support of the Wastewater Branch by providing \$38,000,000 to the Water Pollution Control Revolving Fund to allow the program to process its loans without delays or interruptions, as required by Title VI of the Water Quality Act of 1987. Your Committee on Conference also provided the Safe Drinking Water Branch with \$28,700,000 for the Drinking Water Treatment Revolving Fund. The ceiling increase will also allow funds to be made available to the counties for the upgrading of their water systems.



Human Services

Your Committee on Conference recognizes the efforts of the Department of Human Services to provide critical services to those least able to provide for themselves.

Your Committee on Conference finds that a sign of the strength of Hawaii's economy is the Federal Medical Assistance Percentage rate, which annually compares the State's average per capita income with the national average income and adjusts the federal reimbursement rate accordingly. States with a higher per capita income receive a lower reimbursement. In the upcoming fiscal year, the rate for Hawaii will decrease from 58.81 per cent to 57.55 per cent, resulting in a loss of \$6,900,000 in federal funds for the State. As such, your Committee on Conference has provided \$6,800,000 in general funds for fiscal year 2006-2007 to cover this decrease in funding.

Your Committee on Conference also finds that, despite the growth of Hawaii's economy, the number of individuals who lack adequate medical coverage has increased. In particular, the QUEST program has seen a dramatic increase in enrollment with its actual 2006 enrollment exceeding its budgeted projections. One reason for this spike in enrollment is an increase in the number of persons from countries subject to a Compact of Free Association who have come to Hawaii seeking medical treatment. The Department of Human Services projects a 29.6 per cent increase in QUEST expenditures over the budgeted base amount for these clients for fiscal year 2006-2007 and expects the increase in enrollment to continue. Recognizing the seriousness of this problem, your Committee on Conference has provided \$10,000,000 in general funds to cover the higher than expected enrollment rate for QUEST and \$7,000,000 in general funds for a one-time payment of the current Medicaid carry-over debt.

Your Committee on Conference is concerned with the State's Temporary Assistance for Needy Families (TANF) program. These concerns stem from changes made by the federal government as well as the Administration's implementation of the TANF program. Recent changes by the federal government will establish more stringent qualifications on the work participation requirements of the TANF program. In addition, states will be required to comply with these new qualifications by October 1, 2006. The



Congressional Budget Office estimates that this will cost states approximately \$3,200,000,000.

In addition to the external pressure of the impending federal changes, the local administration of the State's TANF program also lacks accountability. In Auditor's Report 06-02, the State Auditor found that:

[T]he department's decision-making is guided by the availability of federal funding rather than a comprehensive plan and coherent strategies.

In an effort to curtail the spending of taxpayer dollars without plans, strategies, or measures of effectiveness, both the House and Senate did not fully concur with the Department of Human Service's request to increase funding by \$35,000,000. Instead, an increase of approximately \$10,000,000 was included in both drafts.

When the amounts for TANF programs were revealed in the House and Senate drafts of the budget, the Department of Human Services issued memorandums indicating that it was going to cut funding to providers. Your Committee on Conference is puzzled as to why the Department of Human Services would cut funding when both the House and Senate versions of the budget contained an additional \$10,000,000 for the Department of Human Services. After lengthy discussions with providers, your Committee on Conference has decided to provide a temporary increase in federal TANF expenditures. This increase will mean that, in addition to the \$70,000,000 in general funds spent on TANF programs every year, over \$131,000,000 in federal funds will be provided in fiscal year 2006-2007.

However, your Committee on Conference cautions that this sum of money will not be available indefinitely. Assuming that Hawaii avoids penalties, the federal government provides \$98,000,000 a year in federal TANF funding. The State is able to spend more than its annual allotment because it currently has a reserve of approximately \$113,000,000, as of October 2005. By spending more than the \$98,000,000 that Hawaii receives every year from the federal government, the TANF program is eating into its reserve. Fiscal prudence dictates that spending from the reserve should be closely monitored before it disappears.



Your Committee on Conference urges the Department of Human Services and all TANF service providers to consider the dwindling reserve as well as the changes to the program on the federal level. Drastic changes will need to be made to the State's TANF program, and those changes will have to occur sooner rather than later. The federal government is mandating that all states shift their focus toward work participation to move the population from welfare assistance recipients to gainfully employed members of society. The level of TANF spending provided for in the Conference Draft of the budget is intended to be one-time only, to aid the Department of Human Services and providers in transitioning to the new federal requirements, as well as to wean them from spending TANF reserve funds.

Finally, in February of 2006, a settlement was reached with the United States Department of Justice regarding the Hawaii Youth Correctional Facility. The State entered into a Memorandum of Agreement to address the key issues related to the facility, such as more comprehensive training for youth correctional officers and improved access to medical and mental health care for youth in the facility. Recognizing the time-sensitive nature of this issue, your Committee on Conference provided \$4,100,000 in general funds for fiscal year 2006-2007 for additional personnel, equipment, and other current expenses necessary for compliance with the Memorandum of Agreement.

With respect to affordable housing, your Committee on Conference finds that, in this current economic boom, it has become increasingly difficult for the homeless to find permanent housing. Although your Committee on Conference did not provide the \$20,000,000 requested by the Governor and present in both the House and Senate drafts of the budget to address services and transitional housing for the homeless in the supplemental budget, your Committee on Conference notes that these appropriations are present in House Bill No. 2176, H.D. 2, S.D. 2, C.D. 1.

Land and Natural Resources

Over the past few fiscal bienniums, the Department of Land and Natural Resources (DLNR) has seen a decline in funding due in large part to scarce state revenues. As the State focused its meager resources on the most critical of services, DLNR



proceeded as best as it could under the circumstances. To rectify this situation, your Committee on Conference provided a department-wide total of 36.50 permanent and 36.50 temporary positions and providing \$3,300,000 in general, special, and federal funds.

Your Committee on Conference also finds that, with a more stable source of funding provided by the Legacy Lands Act, DLNR has additional leverage to act upon opportunities to acquire interests or rights in land having value as a resource to the State. To this end, your Committee on Conference provided \$4,000,000 in special funds. Your Committee on Conference, however, also wants to ensure transparency in the process of acquiring lands and recommends support for Senate Bill No. 3077, in conjunction with the increase in the spending ceiling for the Land Conservation Fund. Senate Bill No. 3077 proposes to create a Legacy Land Conservation Commission to assist the Department and the Board of Land and Natural Resources in administering the Land Conservation Fund.

Your Committee on Conference finds that illegal activities, including drug activities, vandalism, drinking, and theft at various state parks and small boat harbors strains DLNR's already limited human resources. Although security is needed at these facilities, your Committee on Conference finds that earlier proposals to contract with private security services to prevent these kinds of illicit activities may not be as effective as hiring an actual Division of Conservation and Resources Enforcement (DOCARE) Officer. In light of this, your Committee on Conference authorized the hiring of eleven additional enforcement officers statewide and \$389,664 in general funds in lieu of funding private security contracts. In addition, your Committee on Conference provided \$91,680 in general funds for two positions for the Conservation and Resources Enforcement Division to collect and retrieve data and information that are critical to enforcement functions. Furthermore, your Committee on Conference provided:

- \$88,000 in general funds for eight all-terrain vehicles to increase the Conservation and Resources Enforcement Division's ability to patrol difficult-to-reach areas in state parks;



- \$155,000 in general funds for repair and maintenance, fuel, and supplies for patrol boats; and
- \$70,000 in general funds for survey materials, services for measures of effectiveness, planning, and studies to improve the division's functions.

In order to help DOCARE improve its performance through better management and strategic use of resources, your Committee on Conference has provided funds to develop strategic plans at the island branch level involving all DOCARE employees, consider the enforcement needs of all divisions, and integrate the assistance of other agencies. In addition to eleven new conservation officers, your Committee on Conference expects to see DOCARE demonstrate implementation of the recommendations made by State Auditor in Auditor's Report 06-01 with measurable improvements in performance.

Your Committee on Conference finds that Hawaii's rich cultural resources and unique ecosystems are constantly besieged by invasive species, wildfires, soil erosion, predatory and feral animals, and public overuse. To prevent the further degradation of the State's fragile environment, your Committee on Conference provided full funding for one permanent and twenty temporary positions and \$4,700,000 in special funds for this purpose.

Coqui frog infestations on the Big Island have grown to five thousand acres, and the community has requested assistance to support volunteer efforts to rid the island of these disruptive pests. Infestations are under control on Maui (one hundred fifty acres), Oahu (fourteen acres), and Kauai (fifteen acres), where complete eradication is now the target. Without significantly reducing Big Island infestations, however, reinfestations of the other island and future restrictions on Hawaii's agricultural exports are likely. Your Committee on Conference has approved \$2,000,000 for statewide control and eradication, with the focus on the Big Island. In addition to the intrinsic benefits of controlling coqui frogs, this partnership between government, community, and business entities will develop models for cooperative efforts against future invasive species infestations.



Agriculture

Controlling and eradicating invasive species after infestation is time-consuming and much more costly than prevention. The federal government employs an inspection staff of four hundred fifty to examine goods shipped from Hawaii to the mainland. In contrast, Hawaii's Department of Agriculture (DOA) only employs seventy-five inspectors to protect Hawaii from invasive species that may arrive via domestic and foreign imports. Based on recent experimental risk assessments at Kahului and Honolulu airports, the DOA currently detects only one out of every one hundred invasive species that would be detected 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, or biting midges are allowed into our State.

Based on clear scientific evidence collected by the DOA and its track record of successfully partnering with other entities, your Committee on Conference has approved a total of \$2,953,412 to hire an additional fifty-eight inspection positions. The department's Hawaii biosecurity plan envisions building an adequately staffed joint state/federal inspection facility to intercept more invasive species at airports and harbors and to rapidly respond if infestations occur.

Public Safety

In 2005, the United States Department of Justice evaluated the mental health services at Oahu Community Correctional Center. Although the report's findings are not yet public, your Committee on Conference believes that it would be prudent to take a proactive approach and address concerns reported in the evaluator's exit interviews. To this end, your Committee on Conference provided a total of twenty-six permanent positions and \$1,500,000 in general funds to ensure that inmates suffering from mental illnesses receive appropriate mental health treatment.

The overcrowded and deteriorated condition of the State's correctional facilities continues to be an important issue for your Committee on Conference. In order to help alleviate this situation, your Committee on Conference employed both temporary and long-term strategies. To address the immediate situation,



your Committee on Conference provided an additional \$11,700,000 million in general funds for fiscal year 2006-2007 to send six hundred seventy-six additional inmates to the mainland, including two hundred fifty inmates who will be temporarily displaced during fire safety equipment repairs at Halawa Correctional Facility. In order to address the long-term physical condition of the State's existing correctional facilities, your Committee on Conference provided \$38,985,000 for various capital improvements to enable the Department of Public Safety to proceed with projects that will directly affect the health and safety of inmates and staff.

Your Committee on Conference strongly believes that housing inmates on the mainland should be undertaken only as a short-term solution and urges the Executive Branch to develop a plan that provides for the in-state incarceration of all inmates convicted and sentenced to imprisonment as soon as possible. In the meantime, 1,829 inmates are currently housed in mainland facilities, and the State anticipates sending more inmates in the next fiscal year. Accordingly, your Committee on Conference feels an obligation to ensure that the terms of our prison contracts are upheld and enforced and that prisoners receive appropriate treatment. As such, your Committee on Conference authorized ten positions to monitor all contracts and provide case management for all Hawaii inmates situated on the mainland.

Business, Economic Development, and Tourism

Your Committee on Conference provided \$182,322 in special funds for two temporary positions for the Aloha Tower Development Corporation in order to work with the Department of Transportation on the Hawaii Harbors Task Force Project. However, these positions and funds are intended to be provided for fiscal year 2006-2007 only.

With respect to the Hawaii Convention Center, your Committee on Conference provided \$1,000,000 in general funds and \$2,000,000 in special funds in order to address much-needed repair and maintenance concerns. Your Committee on Conference further understands the importance of tourism for the State and has provided \$250,000 in special funds for the Department of Business, Economic Development, and Tourism's Economic Planning and Research Program to conduct visitor surveys that provide the State with vital information on visitor statistics.



Budget and Finance

As a result of the June 2005 merger between PeopleSoft and Oracle, the Employer-Union Trust Fund was left without technical support for its current PeopleSoft operating software. Your Committee on Conference appreciates the need for continued maintenance and support of the current operating system of the Employer-Union Trust Fund. However, your Committee on Conference feels that providing funds solely for the purpose of maintenance and support of the system would only provide a temporary solution to this problem. Thus, to provide a more permanent and long-term solution to this problem, your Committee on Conference has provided \$1,250,000 in trust funds for fiscal year 2006-2007. The funds will provide for continued upkeep of the current system as well as allow the Employer-Union Trust Fund to seek out alternative operating systems.

Your Committee on Conference finds that, over the past five years, the number of cases handled by the Office of the Public Defender has increased statewide. This workload increase has caused many problems, including understaffing at the Office's Kona Branch on the island of Hawaii. Your Committee on Conference strongly believes in providing legal services to the citizens of Hawaii and has authorized an additional Deputy Public Defender position and provided \$92,152 in general funds for fiscal year 2006-2007 for this purpose. Your Committee on Conference also allocated \$3,000,000 in general funds to provide funds to pay for the increased cost of attorney fees for court appointed counsel as mandated by Act 86, Session Laws of Hawaii 2005.

Transportation

In the aftermath of the September 11, 2001, attacks, the United States Transportation and Security Administration and the Federal Aviation Authority have implemented stringent federal laws that placed additional requirements on state airports nationwide. These federal requirements have resulted in funding shortfalls for security services at airports across the State for fiscal year 2006-2007. Although your Committee on Conference provided the Department of Transportation (DOT) with its request of \$6,800,000 in special funds for security services, your Committee on Conference is concerned with the



transfer of this responsibility from the federal to state governments, especially under threat of federal sanctions. Your Committee on Conference believes that the federal government must shoulder the bulk of the cost for federally mandated security measures that are beyond the State's ability to maintain on a long-term basis.

Your Committee on Conference also provided \$6,000,000 in special funds as an interim measure to replace the Wiki-Wiki buses at the Honolulu International Airport. Your Committee on Conference agreed that it would be more cost-effective to replace the entire bus fleet, given the lack of bus parts and the high cost of overhauling the existing decade-old fleet.

Your Committee on Conference finds that the Highways Division of the DOT is undertaking a significant endeavor with its proposed implementation of a new financial management system. Eighty per cent of the funding for the system will be provided by the federal government, while the DOT assumes the remaining twenty per cent cost. Your Committee on Conference supports the Department of Transportation's efforts to strengthen its accountability over public funds and has provided \$1,900,000 in special and federal funds for Phase II of the project.

In addition, the latest surge in fuel costs, coupled with increased consumption, resulted in shortfalls in electricity costs for the DOT. Your Committee on Conference provided \$3,000,000 in special funds to address the funding shortfall in electricity for airports and harbors statewide. Your Committee on Conference also provided \$7,500,000 in federal funds for facility improvements to the ferry commuter system on Maui.

Your Committee on Conference notes that the federal funding increase that the Executive Branch requested for the statewide commuter Van Pool program may not be feasible over the long run. The program was initiated with the intent of eventually transferring it to the counties, but the counties appear unwilling to assume that responsibility, citing other higher transit priorities. Although your Committee on Conference provided \$290,000 in federal funds for the program, your Committee on Conference urges caution and suggests reviewing this issue in the upcoming fiscal biennium.



Finally, your Committee on Conference agreed to the Executive Branch's request of \$5,000,000 in federal funds for non-urban public transportation systems in the counties of Hawaii, Maui, and Kauai.

Federal Reserve

Although the Council on Revenue's future outlook for the State's economy is promising, your Committee on Conference cannot ignore the possibility of fiscal uncertainties, such as looming inflationary pressures, the topping out of the housing market, or increases in energy prices, impacting our economy. On February 15, 2006, Mr. Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve, touched upon each of these potential problems, in his *Semiannual Monetary Policy Report to the Congress*. Selected excerpts follow:

Inflation

[T]o an extent greater than we now anticipate, higher energy prices may pass through into the prices of non-energy goods and services or have a persistent effect on inflation expectations.

Housing Market

Given the substantial gains in house prices and the high levels of home construction activity over the past several years, prices and construction could decelerate more rapidly than currently seems likely. Slower growth in home equity, in turn, might lead households to boost their saving and trim their spending relative to current income by more than is now anticipated.

Energy Prices

The possibility of significant further increases in energy prices represents an additional risk to the economy; besides affecting inflation, such increases might also hurt consumer confidence and thereby reduce spending on non-energy goods and services.



Your Committee on Conference has found translating the Federal Reserve's observations into operational decisions both challenging and daunting. This exercise, however, is critical to fashioning a budget that is responsible and cognizant of federal fiscal policies that ultimately influence the State's budgetary programs.

Unfunded Federal Mandates

In addition to the potential slowing of the economy, your Committee on Conference has been mindful of the efforts of President Bush and the Congress of the United States with respect to the federal deficit. As of this writing, the federal deficit is approximately \$371,000,000,000 for fiscal year 2006-2007, and \$335,000,000,000 for fiscal year 2007-2008, according to the non-partisan Congressional Budget Office. Your Committee on Conference recognizes that the deficit may lead to additional cost shifts, including more unfunded mandates for the states.

According to the National Conference of State Legislatures' February 10, 2006, edition of the *Mandate Monitor*, the United States Congress introduced approximately two hundred fifty bills that shift costs to the states, of which sixteen were enacted. Your Committee on Conference anticipates continued cost shifts in education, homeland security, and the Temporary Assistance for Needy Families program. The following are examples of some of these underfunded programs and issues:

- The Individuals with Disabilities Act continues to be underfunded by approximately \$4,000,000,000;
- No Child Left Behind mandates continue to be underfunded;
- The REAL ID Act, a law requiring the Department of Homeland Security to establish standards for state issued driver's licenses and identification cards, contains several intergovernmental mandates. The cost to implement this Act is approximately \$100,000,000 over five years;
- The Deficit Reduction Act cut approximately \$39,000,000,000 from various entitlement and mandatory programs; and



- The Temporary Assistance to Needy Families block grant remains unchanged; however most states will face financial penalties because of changes to work participation requirements.

In addition, there are also a number of federal bills that propose to withhold federal funds from the states if they do not comply with the new requirements for eminent domain, sex offender, and bioterrorism legislation.

The Government Accounting and Standards Board's Statement 45

Another potential cost for all states is the Government Accounting and Standards Board's Statement 45. The Board was organized in 1984 as an operating entity of the Financial Accounting Foundation to establish standards of financial accounting and reporting for state and local governmental entities, and its standards guide the preparation of external financial reports of those entities.

Statement 45 requires all government entities to provide future cost reporting and accounting regarding financial obligations that governments incur when they provide post-employment benefits other than pensions as part of the total compensation for services. Primarily, Statement 45 requires governments to estimate the eventual total costs for providing retiree health insurance benefits on an accrual, rather than a "pay as you go", basis beginning in fiscal year 2007-2008. As a very general example:

Assume that the average employee retires at age 65 and has a 20-year life expectancy. Assume the cost of a family plan for a couple on Medicare is \$10,000 per year. A state will pay and must accrue \$200,000 for that retiree's family plan. If there are 44,000 employees and retirees over that twenty-year span, the liability to that state would be \$8,800,000,000. In Hawaii, the Executive Budget has over 44,000 full-time equivalent employees.

Though Statement 45 will help the states to identify relevant costs and prepare future budgets accordingly, its fiscal impact is expected to be enormous.



III. Conclusion

Despite the strong economic indicators for Hawaii and the Council on Revenues' positive revenue projections, your Committee on Conference recognizes that there may be substantial future costs to the State and has therefore taken a very prudent approach to appropriating financial resources.

Toward this end, your Committee on Conference has studied and learned from the fiscal crises of the past, but looks to the future with optimism, knowing the resources provided in this supplemental budget will be administered fairly and expeditiously by the Executive Branch. While refraining from expending available revenues in a manner that would promote a false ideal of a government that is all things to all people, your Committee on Conference is confident that this supplemental budget will address the needs of the State and provide for the health, safety, and welfare of all its people.

As affirmed by the record of votes of the managers of your Committee on Conference that is attached to this report, your Committee on Conference is in accord with the intent and purpose of H.B. No. 1900, H.D. 1, S.D. 1, as amended herein, and recommends that it pass Final Reading in the form attached hereto as H.B. No. 1900, H.D. 1, S.D. 1, C.D. 1.

Respectfully submitted on behalf
of the managers:

ON THE PART OF THE SENATE

ON THE PART OF THE HOUSE


BRIAN T. TANIGUCHI, Chair


DWIGHT TAKAMINE, Chair



