

STAND. COM. REP. NO.

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Honolulu, Hawaii

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

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

Sir:

Your Committee on Ways and Means, to which was referred H.B. No. 1900, H.D. 1, 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 July 1, 2006, through June 30, 2007.

I. General Overview

Hawaii's economy is well and thriving. But, even with record revenue growth and a generous budget surplus, your Committee has not lost sight of the economic hardship of the last decade. With memories of lean times and limited resources fresh in our minds, your Committee cannot help but remember the many deserving programs and services that were overlooked to provide funding to the most critically in need, including programs related to the health, safety, and welfare of the State, as well as those fulfilling court mandates.

With "famine-like" experiences fresh in our minds, your Committee avoided adopting a "feasting" approach in crafting this supplemental budget. Instead of spending funds simply because they were available, with little or no concern for the future



fiscal requirements of the State, your Committee concentrated on prudent spending and meeting the needs of the community.

The Supplemental Operating Budget

The supplemental operating budget for fiscal year 2006-2007, is a balanced, financially sound, and fiscally responsible approach to the State's financial needs and the budget surplus. More importantly, your Committee believes this budget represents a galvanizing effort by your Committee to establish budgetary priorities for supporting public education, restoring and providing much needed repair and maintenance of the State's aging and neglected infrastructure, and providing the necessary resources to address the needs of the community with respect to health and human resource related services and programs. A discussion of these and other program areas are discussed in part II of this report.

Your Committee continues to make Hawaii's public schools the highest 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. Your Committee has appropriated forty-six per cent of the new general fund appropriations for fiscal year 2006-2007, or \$112,502,283, to the Department of Education for a total of \$1,945,595,878 in general funds for the Department for the fiscal biennium.

Your Committee has also remained dedicated to providing for the basic needs of our citizens with increases in general fund appropriations of \$62,737,479 for the Department of Human Services, \$29,576,088 for related programs at the University of Hawaii, \$16,629,075 for the Department of Health, and \$14,840,050 for the Department of Public Safety.

Overall, your Committee has recommended an increase of the Executive Supplemental Operating Budget in fiscal year 2006-2007, from \$4,523,692,075 to \$4,769,387,180, an increase of \$245,695,105, or 5.4 per cent. For all means of financing, your Committee has proposed a total expenditure level of \$9,574,611,571 for fiscal year 2006-2007, or \$56,095,260 below 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 million in the general fund. The Council also revised their growth rate in fiscal year 2006-2007, to 6.5 per cent, 1.5 per cent lower than their 7.5 per cent earlier prediction. This adjustment accounts for anomalies such as one-time court settlements and higher than anticipated delinquent tax collections that may plateau or decline.

Federal Reserve

Although the Council on Revenue's future outlook for the State's economy is promising, your Committee cannot ignore the possibility of fiscal uncertainties, such as looming inflationary pressures, the slowing 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 follows:

Inflation

"...to 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 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 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 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 shifting costs to the states, of which sixteen were enacted. Your Committee 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 continues 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 the 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.

Additionally, 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.

Fiscal and Budgetary Programs in Other States

According to the National Conference of State Legislatures' *State Budget Update: November 2005*, there are strong signs of recovery in virtually every state. However, this recovery is tempered by increases in spending demands. In the current year, the following issues are identified as primary cost drivers:

- Medicaid and other health care concerns dominate legislative discussions, as they did last year. At least twenty-three states will address these issues. Medicaid accounted for twelve per cent of general fund budgets in fiscal year 1995-1996, but grew to nearly seventeen per cent by fiscal year 2005-2006. Some of the cost drivers behind Medicaid, like medical cost inflation will also affect other state-provided health care programs;
- Fifteen states expect education to be a top fiscal priority in their 2006 legislative sessions;
- Taxes will top discussions in fourteen states;
- General budget issues will be a high priority in eleven states;
- Ten states will consider funding for transportation and other infrastructure projects;



- Tax and expenditure limits will top discussions in six states;
- Corrections funding will top agendas in five states; and
- Other issues with cost implications for the states include pensions and retirement issues, gambling expansion, hurricane recovery, a new gas pipeline, housing, and new sports stadiums.

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. The Board's standards guide the preparation of external financial reports of those entities.

Statement 45 requires the states to provide future cost reporting and accounting regarding financial obligations that governments incur when they provide post-employment benefits other than pensions at or after separation from employment 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. The Executive Budget has over 44,000 full-time equivalent employees.

Though Statement 45 will help the states to identify relevant costs and prepare budgetarily for the future, its fiscal impact could be enormous.



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 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.

In October 2005, the Board of Education approved the Department of Education's Executive Supplemental Budget requests of \$105,005,888 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 \$82,504,214, creating a shortfall of \$22,501,674 in general funds.

Due to an improved budgetary projection, your Committee was able to provide for the shortfalls created by the Executive Branch with an additional \$30,839,509 in general funds (totaling \$113,343,723 in operating funds) to further support students with the necessary resources for higher achievement. In doing so, your Committee 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
- \$1,193,669 for the English as a Second Language Learners program.

Another important issue for your Committee with respect to education was the Reinventing Education Act of 2004. The Act included various mandates that required the Department of Education 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 Department of Education; and
- Upgrade the technology infrastructure to support a data-driven public education system.

Your Committee believes that carrying out these mandates is essential and has provided \$30,000,000 in general funds for the transition to the weighted student formula to ensure that no school will lose more than ten per cent of its operating budget. In addition, your Committee approved the transfer of 12,876.1 permanent positions and \$912,326,295 in general funds between programs in the Department of Education to align the budget with the weighted student formula.

In addition, your Committee provided \$24,380,143 in general funds for a one-time salary payment adjustment for 10-month employees to convert from a traditional calendar to a single school calendar. Your Committee also provided \$1,510,371 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 Department of Education. Finally, your Committee 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 provided additional funding as follows:

- \$1,634,594 for Special Education teachers;
- \$1,741,092 for Occupational Therapy services;
- \$653,186 for Physical Therapy services;
- \$2,680,356 for Speech-Language Pathologist services;



- \$430,000 for skilled nursing services for the medically fragile;
- \$1,708,355 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 provided \$13,128,901 in general funds to address the rising cost of electricity and \$9,438,615 in general funds to address shortfalls in student transportation costs.

The supplemental budget also addressed the physical condition of public schools by allocating a total of \$302,505,000 for capital improvements and repair and maintenance for facilities across the State. Your committee used a combination of general obligation bond funds and general funds to finance an aggressive program to both meet the needs of current public school students and plan for the future demands of succeeding generations, including the following appropriations:

- \$160,000,000 to complete the whole school classroom renovation program;
- \$50,000,000 for major repair and maintenance projects;
- \$10,000,000 for the Project Adjustment Fund; and
- \$5,000,000 for noise and heat abatement projects.

Your Committee believes that these appropriations will provide Hawaii's 183,000 public school students with the necessary resources to effectuate positive changes in their education.



Higher Education

Your Committee recognizes that the University of Hawaii is the State's only public institution for higher learning. One of the missions of the University of Hawaii is to serve the public by creating, preserving, and transmitting knowledge in a multi-cultural environment. As Hawaii's labor market continues to prosper, the University of Hawaii will be looked upon to educate and prepare students to meet workforce demands. To address these issues, your Committee approved \$7,975,230 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 acknowledged these concerns and provided seventeen permanent positions and \$695,071 in general funds for the School of Nursing and Dental Hygiene to produce healthcare professionals who will address the medical needs of Hawaii. Your Committee 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.

Your Committee also approved twelve permanent positions and \$1,414,671 in general funds to establish a School of Pharmacy at the University of Hawaii 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.

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 understands the concerns of the construction industry and provided forty six permanent positions and \$5,402,182 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.

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, the University of Hawaii must take advantage of the latest technology and develop its own technological systems to enhance the productivity of students and faculty. Your Committee acknowledged the need to utilize technology and provided fourteen



permanent information technology positions and \$740,718 in general funds to support system-wide projects. Your Committee further approved the conversion of thirty eight temporary information technology positions to permanent status to improve the productivity of the University of Hawaii's students and faculty.

Providing quality student services is an essential part of creating a productive academic environment. Your Committee understands the importance of accessible student services and approved nineteen permanent positions and \$645,345 in general funds to increase financial aid services, disability services, and various other necessary student services offered system-wide. Your Committee also approved an additional \$2,000,000 in general funds for the B Plus program, which provides tuition for low and middle-income students who attend the University of Hawaii's community colleges.

In addition to devoting resources to improve the University of Hawaii's workforce development programs, technological support, and student services, your Committee also provided \$86,285,000 for capital improvements system-wide. This included \$20,000,000 for capital renewal and deferred maintenance and \$7,469,000 for health, safety, and code compliance requirements.

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 believes that it would be prudent to take a proactive approach and address concerns reported in the exit interview. To this end, your Committee provided a total of twenty-six permanent positions and \$1,547,386 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. In order to help alleviate this situation, your Committee employed both temporary and long-term strategies. To address the immediate situation, your Committee provided an additional \$10,961,662 in general funds for fiscal year 2006-2007, to send six hundred twenty-six additional inmates to the mainland, including two hundred fifty inmates who will be displaced during fire safety equipment repairs at Halawa Correctional Facility. In order to address the long-term physical condition of our existing



correctional facilities, your Committee provided \$14,635,000 for various repair and maintenance programs to enable the Department to proceed with projects that will directly affect the health and safety of inmates and staff.

Your Committee 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 allows Hawaii inmates to return to the State as expeditiously 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 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 authorized ten positions to monitor all contracts and provide case management for all Hawaii inmates situated on the mainland.

Health

Your Committee remains fully committed to ensuring that essential health related services remain a 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 ensure appropriate services for high-priority health programs in the State.

With regard to maintaining the health and safety of the public, your Committee provided funds to meet the statewide needs of the Emergency Medical Services ambulance services. Your Committee provided \$8,683,373 in general funds and \$1,693,658 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 Service's operational needs are met, but more importantly, in 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 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 \$7,730,224 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 provided \$578,144 in general funds for the Hawaii State Hospital to cover the increasing costs of pharmaceutical drugs. Your Committee 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 Hospital. The tie-in 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 fully funded the Developmental Disabilities Division by providing the additional \$5,000,000 in general funds to meet the state matching requirements under the federal Title XIX. Your Committee also provided \$51,559,936 in interdepartmental transfer funds to establish the ceiling for the Medicaid Home and Community-Based Services Waiver Program to allow the Title XIX program to collect federal funds received as reimbursements. Further, your Committee provided \$144,000 in general funds for on-going maintenance and grounds support for the Waimano facility in both recurring and non-recurring costs.

Your Committee 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, which authorized the State to draw down up to \$15 million in federal funds, to reimburse Hawaii's hospitals for uncompensated care. Your Committee also provided an additional \$1,360,000 in general funds to fund primary care services for the uninsured throughout the State.

Your Committee believes in the importance of preserving and enhancing environmental quality as it relates to human and ecological health in Hawaii. To this end, your Committee supported the Department of Health's environmental programs with new permanent positions and funds for various projects. Your Committee believes that the creation of four new permanent positions and \$76,357 in general funds will provide the necessary clerical support for the Department's Wastewater Branch. These funds will improve efficiency in processing the individual wastewater system applications and building permits to provide relief to the Department's engineers.



Your Committee 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 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 affirmed its support of the Wastewater Branch by providing a \$38,043,669 ceiling increase for 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 also provided the Safe Drinking Water Branch with an \$8,000,000 revolving fund ceiling increase for the Drinking Water Treatment Revolving Fund that reflects the proper ceiling required by the program. The ceiling increase will also allow funds to be made available to the counties for the upgrading of their water systems.

Your Committee also supported Department of Health programs that respond to infectious disease outbreaks or other public health emergencies. The federally funded Bioterrorism Preparedness and Response Branch of the Disease Outbreak Control Division plays an integral role in ensuring national security in Hawaii. To this end, your Committee reviewed the June 22, 2005, correspondence between the former Director of the Department of Human Resources Development and the Director of Health relating to the Bioterrorism Preparedness and Response Branch.

In the memorandum, the former Director expressed concern that the Bioterrorism Preparedness and Response Branch had been an on-going program since 1999 and that its activities no longer appeared to have the characteristics of a special project. One of the findings in the memorandum recommended that continued exemptions outside of the civil service class might therefore be inappropriate. To address the concern raised by the Department of Human Resources Development, the Department of Health subsequently replaced former exempt clerical positions with civil service positions to effectuate a smooth transition into this new classification.

Your Committee also addressed concerns regarding section 167 of Act 178, Session Laws of Hawaii 2005, relating to unauthorized positions. Your Committee supports the Bioterrorism Preparedness and Response Branch transition of the remaining exempt positions.



Your Committee has also converted the first of twelve temporary federally funded positions authorized within the Bioterrorism Preparedness and Response Branch to full-time permanent civil service status effective July 1, 2006. Your Committee believes that the permanent classification will provide these positions with stability and assurances of continuity within the Branch.

Your Committee also traded-off \$500,000 in federal funds from personal services, other personal services, and from other current expenses to equipment costs for fiscal year 2006-2007. Your Committee believes that this trade-off will provide the Branch with greater flexibility and enable the Branch to procure necessary laboratory equipment and supplies it deems fit during fiscal year 2006-2007.

Finally, in order to further support the Department of Health's efforts to provide essential health related services to the residents of Hawaii, your Committee provided a total of \$18,394,000 for several necessary repair and improvement projects for Department of Health facilities.

Human Services

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

Your Committee 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 \$6,947,379 in federal funds for the State. As such, your Committee has provided \$6,836,106 in general funds for fiscal year 2006-2007 to cover this decrease in funding.

Your Committee 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 people from the Compacts of Free Association who have come to Hawaii



seeking medical treatment. The Department 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 has provided \$9,999,193 in general funds to cover the higher than expected enrollment rate for QUEST and \$13,000,000 in general funds for a one-time payment of the current Medicaid carry-over debt.

Additionally, on January 23, 2006, the Governor stated in her State of the State address that one of her priorities was to promote access to medical care for Hawaii's low-income families. Your Committee concurs with the Governor and has increased the federal fund ceiling for health care payments by \$12,151,650 to allow the Department to draw down funding for the implementation of the QUEST Adult Coverage Expansion. Your Committee has also appropriated \$3,166,632 in general funds and \$4,462,887 in federal funds for fiscal year 2006-2007 for the restoration of the Adult Preventive Dental Benefit for the Aged, Blind and Disabled and the QUEST populations.

With respect to affordable housing, your Committee finds that, in this current economic boom, it has become increasingly difficult for the homeless to find permanent housing. In response to this dilemma, your Committee has provided \$19,064,932 in general funds for fiscal year 2006-2007 for the repair and maintenance of current homeless shelters and for supportive services for the homeless population, including an expansion of the State Homeless Outreach Program and the State Homeless Stipend Program.

Finally, in February of 2006, a settlement was reached with the 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 provided \$2,852,744 in general funds for fiscal year 2006-2007 for additional personnel, equipment, and other current expenses necessary for compliance with the Agreement.



Business, Economic Development, and Tourism

Your Committee recognizes the importance of providing funds for promoting Hawaii abroad to support economic development. Your Committee has therefore provided \$65,000 in general funds for marketing support for fiscal year 2006-2007. Your Committee does not believe, however, that full funding for the Strategic Marketing and Support program is justified based upon the current rate of its return on investment. Moreover, your Committee believes that the Program's trade shows and mission trips are provided with adequate financial support from other public and private sources.

With respect to the Hawaii Convention Center, your Committee 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 further understands the importance of tourism for the State and has provided \$250,000 in special funds for the Economic Planning and Research program to conduct visitor surveys that provide the State with vital information on visitor statistics.

Concerning the Natural Energy Laboratory of Hawaii Authority, your Committee has provided for one temporary position and \$990,850 in special funds to cover increased electricity costs, additional laboratory equipment, and increased security on the Authority's property.

Finally, in order to implement Act 196, Session Laws of Hawaii 2005, your Committee provided for the transfer of forty five temporary positions from the Department of Human Services and transferred \$3,000,000 in federal funds, \$5,608,261 in revolving funds, and \$19,008,563 in trust funds to the Department of Economic Development and Tourism.

Accounting and General Services

Your Committee finds that the past several years has provided numerous examples of the devastation that fires and natural disasters can cause both in Hawaii and across the nation. To prepare for such disasters, your Committee has provided \$6,500,000 in revolving funds, \$1,221,600 in general funds, and \$278,200 in special funds to increase Hawaii's flood insurance coverage, as well as to provide for increases to property and flood insurance premiums.



Your Committee recognizes the important role that the Department of Accounting and General Services serves in providing centralized services, including the upkeep of state buildings and grounds. The Department is responsible for electricity costs for numerous buildings statewide and has experienced the impact of rising energy costs. Thus, your Committee has provided \$687,567 in general funds to cover the Department's anticipated deficit for fiscal year 2006-2007. An additional \$508,176 in general funds was provided for groundskeeping and tree-trimming to keep state grounds both safe and attractive.

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 appreciates the need for continued maintenance and support of the current operating system of the Employer-Union Trust Fund, however, your Committee feels that providing \$600,000 in trust funds for the 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 has provided \$2,000,000 in trust funds for fiscal year 2006-2007, for an upgrade of the Employer-Union Trust Fund operating system.

Your Committee finds that, over the past five years, the number of cases handled by the Office of the Public Defender has increased statewide causing many problems, including understaffing at the Office's Kona Branch. Your Committee strongly believes in providing legal services to the citizens of Hawaii and has authorized an additional Deputy Public Defender and provided \$92,152 in general funds for fiscal year 2006-2007. Your Committee also allocated \$3,055,000 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.

Commerce and Consumer Affairs

The primary impetus behind the Department of Commerce and Consumer Affairs' supplemental budget request focused on promoting a business environment that fostered best practices in commerce for the State while protecting the rights of consumers. In



support of this objective, your Committee provided four permanent positions to strengthen the Department's enforcement and investigative capabilities in the areas of insurance fraud and regulated industries. Your Committee further believes that providing adequate staffing will enable the Department to carry out its mandate to conduct examinations in the captive insurance industry--a rapidly evolving industry in the State that has recently seen competition from twenty five other states in the nation. Your Committee also provided the necessary staffing to support critical information technology functions for the Department's various divisions.

Land and Natural Resources

Over the past few bienniums, the Department of Land and Natural Resources 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, the Department proceeded as best as it could under the circumstances. To rectify this situation, your Committee has responded to the Department's top priority by restoring thirteen permanent positions and funding \$565,020 in general and special funds.

One of the main concerns of your Committee is the protection of the State's natural area reserves, not only for the benefit and enjoyment of the people of Hawaii but also for future generations. To carry out this objective, your Committee believes that the Department should be provided with adequate personnel to perform fieldwork, conduct research and studies, perform necessary repair and maintenance, and monitor the use of private and public land, water resources, and geological features.

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

Your Committee also finds that, with a more stable source of funding provided by the Legacy Lands Act, the Department has found renewed leverage to seek out opportunities and acquire interests or rights in land having value as a resource to the State. To this end, your Committee provided \$4,000,000 in special funds for



this purpose. Your Committee, however, is concerned with 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 is also concerned with the level of maintenance at park and small boat harbor facilities across the State. The lack of funding in prior years in this area has resulted in facilities that pose safety and health hazards to the public and are in urgent need of repair and maintenance. Your Committee provided ten permanent positions and \$320,312 in special funds to address the repair and maintenance needs of small boat harbors and state parks. Your Committee also provided \$486,000 in special funds to power wash and sanitize state park restrooms twice a month.

With respect to the State's efforts to protect and account for streams and stream diversions, your Committee finds that, with over three hundred seventy-six perennial streams and 1,242 registered or permitted stream diversions statewide, there is only one staff person to develop the Instream Flow Standards program. The urgency of establishing the program was hastened by recent Hawaii Supreme Court rulings that held the current interim program to be inadequate for protecting the State's streams and required the Department to take immediate steps to develop a more defensible program for streams statewide. To this end, your Committee provided one permanent position and \$701,600 in general funds to verify and inventory surface-water uses and stream diversions across the State, which are considered necessary first steps towards establishing the program. Your Committee also provided a permanent geologist position and \$51,088 in general funds to facilitate this task.

Your Committee finds that illegal activities, including drug activities, vandalism, assault, drinking, and theft at various state parks and small boat harbors exacerbates the Department's limited manpower. Although security is needed at these facilities, your Committee finds that earlier proposals to contract with private security services to prevent this kind of activity may not be as efficient as, or provide the kind of deterrence as, that which could be provided by a Conservation and Resources Enforcement Officer. To this end, your Committee



provided eleven additional enforcement officers statewide and \$389,664 in general funds in lieu of funding private security contracts.

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 provided the requested \$6,889,556 in special funds for security services, your Committee is concerned with the transfer of this responsibility from the federal to state governments, especially under threat of federal sanctions. Your Committee 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.

As part of this federal mandate, the state Department of Transportation was required to purchase aircraft rescue and fire fighting vehicles for Kona International Airport and the domestic airports at Waimea-Kohala, Hana, Kapalua, and Kalaupapa. These domestic airports have recently been categorized as Class III airports and must acquire on-site emergency vehicles no later than June 2007 in order to comply with federal operational and safety requirements. To this end, your Committee provided full funding of \$1,351,853 in special funds for the purchase of these vehicles. Although the federal government assumed ninety-five per cent of this total cost, your Committee remains concerned regarding the maintenance of this type of vehicle over the long-term.

Your Committee 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 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 finds that the Highways Division of the Department of Transportation is undertaking a significant endeavor with its proposed implementation of a new financial management system. The system will be funded eighty per cent by the federal



government, while the Department assumes the remaining twenty per cent cost. Your Committee supports the Department's efforts to strengthen its accountability over public funds and has provided \$9,864,000 in special and federal funds for this purpose.

Additionally, the latest surge in fuel costs, in addition to increased consumption, resulted in shortfalls in electricity costs for the Department. Your Committee provided \$3,072,513 in special funds to address the funding shortfall in electricity for airports and harbors statewide. To meet the Harbors Administration's debt service requirements, your Committee provided \$2,881,010 in special funds. Your Committee also provided \$7,500,000 in federal funds for facility improvements to the ferry commuter system on Maui.

Your Committee 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 provided \$290,000 in federal funds for the program, your Committee urges caution and suggests reviewing this issue in the upcoming biennium.

Finally, consistent with your Committee's reservations regarding short-term federal funding that binds the State to long-term financial obligations, your Committee held the Executive Branch's request of \$3,960,000 in federal funds for non-urban public transportation systems in the counties of Hawaii, Maui, and Kauai. Your Committee, however, agreed to the Executive Branch's request of \$1,137,195 in federal funds for the same purpose. Should the Executive Branch still require the \$3,960,000 in federal funds to assist the counties, your Committee notes that the Governor has the authority to raise the federal fund ceiling as the need arises.

Agriculture

The environment is the State's most precious resource. Protecting native plants, animals, and agricultural products from invasive species is an important step towards preserving Hawaii's unique environment. To address this issue, your Committee approved \$293,000 in federal funds and two temporary positions to perform agricultural pest surveys throughout the State to detect



insect pests, weeds, and plant diseases that pose a threat to Hawaii's environment.

Historically, ten to twenty foreign invasive invertebrate organisms establish themselves in Hawaii each year. Many of these organisms have exploited native plants and animals, and agricultural products. Prompt detection, identification, and investigation of these pests are vital to the implementation of control strategies to minimize the loss of native plants and animals and agricultural products. To this end, your Committee also approved four permanent and eleven temporary inspector positions and \$430,000 in interdepartmental transfer funds and \$230,412 in general funds, exclusively for positions that will be stationed at Hawaii's airports and harbors to prevent invasive species from entering Hawaii.

In addition to positions to combat invasive species, your Committee provided \$11,886,000 for the repair and maintenance of irrigation systems across the State. These appropriations address important components necessary for the success of diversified agriculture in Hawaii.

Attorney General

Your Committee finds that illegal drug activity involving methamphetamine or "ice" is a serious problem in the State. In addressing this problem, Act 63, Session Laws of Hawaii 2003, created the Drug Nuisance Abatement Unit in an effort to enforce and prosecute violations of drug nuisance abatement laws. Since its inception, the unit has had tremendous success in closing down drug houses and disrupting the distribution and manufacture of drugs. Your Committee recognizes the importance and need for this unit and has funded one temporary and two permanent positions for this purpose. Your Committee also appropriated \$150,000 in general funds to provide continual support of drug abatement activities.

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 provided \$39,648 in general funds to hire an additional counselor who will serve veterans across the State.

Your Committee 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 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.

III. Conclusion

Despite the strong economic indicators for Hawaii and the Council on Revenues' positive revenue projections, your Committee 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 has studied and learned from the fiscal crises of the past, but looks to the future with optimism, knowing the resources provided in this budget will be administered fairly and expeditiously by the Executive Branch. Your Committee is confident that this supplemental budget will address the needs of the State and provide for the health, safety, and welfare for all of its people.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1900, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1900, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.



Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,

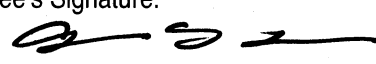


BRIAN T. TANIGUCHI, Chair



The Senate
Twenty-Third Legislature
State of Hawaii

Record of Votes of the
Committee on Ways and Means
(Bills and Resolutions)

Measure:* HB1900 HD1	Committee Referral: WAM	Date: 3/30/06		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is to: <input type="checkbox"/> Pass, unamended (2312) <input checked="" type="checkbox"/> Pass, with amendments (2311) <input type="checkbox"/> Hold (2310) <input type="checkbox"/> Recommit (2313)				
Members	Ayes	Ayes(WR)	Nays	Excused
TANIGUCHI, Brian T. (C)	/			
TSUTSUI, Shan S. (VC)	/			
ENGLISH, J. Kalani	/			
ESPERO, Will	/			
FUKUNAGA, Carol	/			
HOOSER, Gary L.	/			
INOUE, Lorraine R.	/			
KANNO, Brian	/			
KIM, Donna Mercado	/			
KOKUBUN, Russell S.	/			
NISHIHARA, Clarence K.	/			
SAKAMOTO, Norman	/			
HEMMINGS, Fred	/			
SLOM, Sam	/			
TRIMBLE, Gordon				/
TOTAL	14	0	0	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Do not list more than one measure per Record of Votes.