

Honolulu, Hawaii

April 27, 2007

RE: H.B. No. 500
H.D. 1
S.D. 1
C.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Sir and Madam:

Your Committee on Conference on the disagreeing vote of the House of Representatives to the amendments proposed by the Senate in H.B. No. 500, 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.

GENERAL OVERVIEW

Through this measure, your Committee on Conference has made meaningful investments in the State's health and human services programs, education system, and environment to lay the foundation for a sustainable Hawaii, with strong families and communities, a workforce prepared to compete in the global marketplace, and a healthy economy and environment. Your Committee on Conference crafted a budget that invests in our State's greatest resource - its people.



These investments must be targeted and mindful of the future - government cannot be all things to all people. Spending in the executive budget has increased forty-four per cent over the last four years. It is without question that this growth rate is unsustainable over the long term. Indications that Hawaii's economy is slowing provide additional incentive to exercise fiscal conservatism when determining the level of additional funding for government programs.

While Hawaii's economy continues to grow, signs point to a slower growth rate in the near term. As a result, your Committee on Conference has crafted a balanced budget that responds to the needs and demands of our communities, with a focus on increasing the quality of life for Hawaii's residents, while remaining fiscally responsible.

STATE OF THE ECONOMY

After several years of strong economic growth - peaking with double-digit growth rates in fiscal year 2005 (sixteen per cent) and 2006 (10.9 per cent) - Hawaii's economy slowed sharply in 2006. In January 2007, a distinguished local economist commented that, after subsiding for nearly two years because of rising consumer price inflation, real personal income growth in Hawaii was approximately zero in mid-2006. The economist further noted that recent personal income growth rates should increasingly translate back toward the two per cent real growth that he believes is a sustainable path for Hawaii through the remainder of the decade.

In addition, the University of Hawaii Economic Research Organization's March 2, 2007, forecast also noted that "there are no warning signs on the horizon of an outright end to Hawaii's economic expansion" and "[j]ob and income growth will slow further, but not cease, and the unemployment rate will gradually ease upward from recent record-low levels."

COUNCIL ON REVENUES

At its March 13, 2007, meeting, the Council on Revenues decided to retain its December forecast of the general fund tax revenues for fiscal year 2007-2008 through fiscal year 2012-2013. The growth rate remains at six per cent for the current fiscal year, and 4.1 per cent for the second year of the biennium.

However, the preliminary comparative statement of state general fund collections for March 2007 indicates that revenue growth is



only at 2.9 per cent over the corresponding period last year. This leaves a gap of 3.1 per cent growth that must be overcome if state revenues are to meet the Council's projections.

Essentially, the forecast of the Council on Revenues and the most recent collection data underscore the need to adopt a fiscally prudent, sustainable budget for the State of Hawaii.

FEDERAL RESERVE - NATIONAL ECONOMIC OUTLOOK

According to the March 28, 2007, forecast on the United States economy by the Chairman of the Board of Governors of the Federal Reserve, economic growth in the United States has slowed. The slowdown is attributed to a correction in the housing market, which has transitioned from the rapid expansion of previous years to a more sustainable pace.

Overall, the Federal Reserve believes that the United States economy appears likely to continue moderate expansion over the coming quarters. Real gross domestic product rose at an annual rate of about two per cent in the second half of 2006 and is presently expanding at a similar rate. The moderate expansion could change substantially, however, if the correction to the housing market is more severe than is currently anticipated or if the recent weakness in business investments persist.

Finally, the Chairman noted the troubling specter of inflation. Core consumer price index inflation over the twelve months ending in February was 2.7 per cent, up from 2.1 per cent a year earlier. In addition, the price index for personal consumption expenditures - another measure of core inflation monitored closely by the Reserve - trends similarly upward.

BUDGET HIGHLIGHTS

In total (all sources of funding), this measure appropriates \$10,370,709,982 in fiscal year 2007-2008 and \$10,539,570,447 in fiscal year 2008-2009. Specifically regarding general fund appropriations, this measure appropriates \$5,185,780,822 in fiscal year 2007-2008 and \$5,273,531,614 in fiscal year 2008-2009. Compared with the budget submitted by the Governor in December 2006, as adjusted by the seven Governor's Messages throughout this legislative session, this budget represents an amount of \$4,707,738 in fiscal year 2007-2008 and \$12,672,889 in fiscal year 2008-2009 that is lower in general fund appropriations. In new general fund appropriations, health and human services account for approximately twenty-eight per cent, lower education accounts for approximately



thirty-five per cent, and higher education accounts for approximately thirteen per cent for fiscal year 2007-2008 and nineteen per cent for fiscal year 2008-2009 of the change to the State's general fund budget.

Health and Human Services

In total, this budget provides an additional \$124,230,748 for fiscal year 2007-2008 and \$138,384,849 for fiscal year 2008-2009 in general fund appropriations in the areas of health and human services.

Your Committee on Conference provided \$6,753,704 in general funds for each year of the biennium for infants and toddlers with developmental delays, ensuring that children with special health needs receive continued care coordination and early intervention services. Your Committee on Conference added five new positions and \$236,928 in general funds for the upcoming biennium to continue the preschool developmental screening of gap group participants in the Children with Special Health Needs program. Two additional permanent positions and \$87,965 in general funds for fiscal year 2007-2008 and \$112,953 in general funds for fiscal year 2008-2009 were also added by your Committee on Conference for the Family Health Services Administration and the Children and Youth Wellness program.

Your Committee on Conference added \$1,248,750 in general funds for each year of the biennium to purchase family planning services for women to address a critical shortage of needed services.

Your Committee on Conference is dedicated to ensuring that a system of care is provided for Hawaii's seriously mentally ill population and has designated a total of \$20,000,000 in general funds over the biennium for the Adult Mental Health Division for purchase of service contracts, as well as the provision of core services in each county.

Recognizing that substance abuse still plagues our communities, your Committee on Conference provided \$735,833 in general funds for fiscal year 2007-2008 and \$1,817,500 in general funds for fiscal year 2008-2009 to continue funding adolescent school-based substance abuse treatment services at all public middle and intermediate schools statewide.

To accommodate the increasing number of individuals with developmental disabilities admitted to the Medicaid Home and



Community-Based Services waiver program, your Committee on Conference provided full funding, requiring an additional \$8,764,412 in general funds and \$8,558,196 in interdepartmental transfer funds transferred from the Department of Human Services for fiscal year 2007-2008 and \$11,479,791 in general funds and \$12,239,470 in interdepartmental transfer funds for fiscal year 2008-2009 to meet the state matching requirements under Title XIX.

Your Committee on Conference continued funding of agency-operated developmental disabilities domiciliary homes and apartment complexes operating with a twenty-four-hour, seven day a week staff, by providing \$1,800,000 in general funds for each year of the biennium. Your Committee on Conference believes that this additional \$600,000 general fund subsidy over the executive branch's biennial request is necessary to preserve residential alternatives for the developmentally disabled and mentally retarded population. A total of \$115,255 in general funds over the biennium was also added to the Developmental Disabilities Council to establish and support a statewide self-advocacy network for persons with developmental disabilities.

Your Committee on Conference, however, is concerned that the Developmental Disabilities Division has yet to implement its long awaited reorganization that has been pending since the closure of Waimano Training School and Hospital. Such inaction is detrimental to sound public policy and programming and further impedes the overall efficiency of the division. To this end, your Committee on Conference urges the division to focus on remedying these deficiencies to meet on-going challenges.

Your Committee on Conference provided strong support over the next biennium to ensure and strengthen the continuum of care for individuals, families, and communities, statewide. Improving access to health care services, especially in rural areas, is an important priority for your Committee on Conference. To ensure the provision of comprehensive medical and health care services to the rural communities of Hana, Molokai, Wahiawa, and Waianae, your Committee on Conference provided an additional \$3,800,000 for each year of the biennium.

Emergency medical treatment and the stabilization and transportation of patients are critical to maintaining public health and safety. Your Committee on Conference provided \$4,089,269 in general funds for fiscal year 2007-2008 and \$3,762,622 in general funds for fiscal year 2008-2009 to meet increased operational



requirements for various ambulance service contracts on the islands of Oahu, Hawaii, Kauai, and Maui.

Your Committee on Conference also provided \$1,783,000 in general funds for fiscal year 2007-2008 and \$1,645,000 in general funds for fiscal year 2008-2009 for the statewide maintenance of the Emergency Medical Services Medical Communications system. To cover the additional cost for aeromedical services for rural O'ahu, your Committee on Conference provided \$800,000 in general funds for each year of the biennium. Furthermore, your Committee on Conference provided an additional \$3,000,000 in general funds for fiscal year 2007-2008 and 2008-2009 for the City and County of Honolulu's Emergency Medical Services. Your Committee on Conference also added \$388,000 in general funds for fiscal year 2007-2008 and \$397,000 for fiscal year 2008-2009 to purchase two ambulances and two Lifepak 12 defibrillators for each year of the biennium to address the needs of Oahu's emergency medical services.

To ensure the availability of comprehensive quality health care and to alleviate the health care workforce shortage in Hawaii, especially on the neighbor islands, your Committee on Conference added a total of \$400,000 in general funds and \$250,000 in special funds over the biennium for the State Health Planning and Development Agency, in conjunction with an appropriate agency such as the John A. Burns School of Medicine, to develop and maintain a statewide comprehensive health care workforce map and database. Your Committee on Conference believes that this data is essential to understanding Hawaii's workforce needs and distribution, given the pending retirement in the near future of many members of the workforce who belong to the baby boom generation.

Hawaii Health Systems Corporation and Kahuku Hospital

Your Committee on Conference determined that it is necessary to subsidize the operation of Kahuku Hospital to ensure its continued operation as it affiliates with the Hawaii Health Systems Corporation. Thus, your Committee on Conference provided \$1,500,000 in general funds for each year of the biennium for that purpose. Your Committee on Conference, however, believes that the cost to subsidize Kahuku Hospital should remain separate from the rest of the Hawaii Health Systems Corporation's funding and thus created a new program - Kahuku Hospital (HTH 211) to ensure transparency and accountability.

Further, to maintain the current level of services for the Hawaii Health Systems Corporation, your Committee on Conference also



provided a special fund ceiling increase of \$46,983,063 for fiscal year 2007-2008 and \$70,789,063 for fiscal year 2008-2009 for that purpose. This increase will allow the Hawaii Health Systems Corporation to qualify three hospitals, Kula, Ho'ola Hamakua, and Samuel Mahelona Memorial Hospitals for critical access hospital status and increased reimbursement rates for services. Your Committee on Conference also appropriated an additional \$3,000,000 in general funds for fiscal years 2007-2008 and 2008-2009 for trauma center services.

Housing and Homelessness

Your Committee on Conference believes that we can and must do a better job of providing basic shelter for those who cannot afford to buy or rent housing in Hawaii. For those already homeless or in danger of becoming so, your Committee on Conference provided \$4,392,348 for fiscal years 2007-2008 and 2008-2009 to operate homeless shelters, provide necessary services, and where possible, provide intervention services to prevent families from becoming homeless.

Your Committee on Conference recognizes that the number of affordable rental units needed is approximately three thousand four hundred, with the demand over the next five years reaching seventeen thousand units. To further the development of affordable rental housing units, your Committee on Conference provided \$15,000,000 for fiscal year 2007-2008 to be deposited into the Rental Housing Trust Fund, enabling additional gap equity low interest loans or grants to be available to developers of affordable rental housing units.

In order to increase the availability of, and safety in, public housing, your Committee on Conference provided \$5,835,000 for fiscal year 2007-2008 and \$4,430,000 for fiscal year 2008-2009 for security improvements, energy efficient appliances, and to expedite repairs and the rental of vacant units in public housing developments.

The Department of Hawaiian Home Lands continues to develop and deliver land to native Hawaiians and provide native Hawaiians with an opportunity at homeownership. In support of this effort, your Committee on Conference has provided \$486,668 in special funds for fiscal year 2007-2008 and \$638,336 in special funds for fiscal year 2008-2009 for costs related to the Department's move to Kapolei and \$1,100,000 in special funds for debt service expenses for the construction of its new facility.



Development of larger multi-home project sites in the Kapolei area is creating more opportunities for lease awards, and the facility move will allow the Department to be closer to the many families that receive lease awards. As growth in Leeward Oahu continues, the Department will have a permanent presence to better serve the native Hawaiian population.

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

Of those in need, the children are the most vulnerable. Child Protective Services has made commendable progress toward improving their services for the abused and neglected children of this State. In the "Child and Family Services Review, Program Improvement Plan," required by the federal government, measures of efficiency in dealing with the immediate and on-going needs of these children have increased considerably. Encouraged by this progress, your Committee on Conference has approved an additional \$2,500,000 in general funds and \$2,275,000 in federal funds in each year of the biennium for improved services, including essential training for foster homes and adoptive parents. This amount is \$500,000 more than the Administration's budget request, which would not have taken full advantage of federal matching for this critical need.

Treatment of incarcerated youths in Hawaii has also been the subject of recent federal scrutiny. After years of unacceptable conditions at the Hawaii Youth Correctional Facility, the United States Department of Justice entered into a Memorandum of Agreement with the State on February 7, 2006. The Memorandum of Agreement requires the Hawaii Youth Correctional Facility to protect incarcerated youth from harm, provide them with proper access to medical and mental healthcare, and provide special education services as needed. The Memorandum of Agreement was designed to mandate a high level of training for all youth corrections officers and their supervisors, while protecting high-risk youth from self-inflicted harm or harm from others.

While the Committee recognizes the progress cited in the Department of Justice's report dated November 15, 2006, there are still concerns with the Hawaii Youth Correctional Facility's inability to hire and retain qualified employees and utilize the already extensive funding approved last legislative session. Your Committee on Conference is therefore providing the Hawaii



Youth Correctional Facility with \$229,100 in additional general funds for essential training, as well as contracts to help alleviate abusive employee sick leave practices, and requiring that a progress report be submitted prior to the next legislative session. It is our hope that the Office of Youth Services will continue in the positive direction they have taken and make great strides toward their improvement goals for the Hawaii Youth Correctional Facility.

During the 2006 session, the Legislature approved a request for \$1,300,000 for the Safe House Program on the island of Hawaii. This program offers the courts an alternative for youth in need of residential placement that is more structured than a traditional group home but less severe than incarceration at the Hawaii Youth Correctional Facility. Your Committee on Conference has learned that the most urgent need for an additional Safehouse is on Maui. Maui judges send the largest number of minor offenders to the Hawaii Youth Correctional Facility due to the lack of an alternative residential program. Therefore, your Committee on Conference is providing an additional \$900,000 in fiscal year 2007-2008 and \$700,000 in fiscal year 2008-2009 to fund a Safehouse on Maui that is projected to provide fourteen co-ed beds for troubled youth.

This program was funded for the past two years with the understanding that federal funding would become available. Your Committee on Conference has learned that difficulties with Family Court approvals have hindered the process. Your Committee on Conference encourages the Department of Human Services to work diligently with the courts to overcome these barriers so that in the near future this very valuable program can receive the Title IV-E federal funding which will enable further expansion.

An improved economy, successful work placement strategies, and the federal time limit for benefits have reduced the number of Hawaii families who rely on Temporary Assistance to Needy Families cash benefits. Under federal rules, Temporary Assistance to Needy Families funds may also be used for programs and services to strengthen families and youth who are at risk. Your Committee on Conference provided \$4,536,713 for fiscal year 2007-2008 for various purchase of service contracts that will strengthen families, teach life skills, and improve the employability of low income families throughout Hawaii. Your Committee on Conference expects that the Department will ensure that these services reach the families that so desperately need assistance.



Sex Abuse and Domestic Violence

Unfortunately, violence within families still exists in the State. Your Committee on Conference recognizes that sexual violence, domestic abuse, and related concerns are not only law enforcement issues but also social issues that must be addressed in multiple ways. To this end, your Committee on Conference provided \$1,076,217 in general funds for fiscal years 2007-2008 and 2008-2009 for the Statewide Sexual Violence Services program through the Department of the Attorney General.

Your Committee on Conference also provided a much needed increase in funding for domestic violence shelters throughout the State by authorizing an additional \$762,500, statewide, for each year of the biennium.

- East Hawaii \$315,936
- Kauai \$405,385
- Maui \$411,538
- Molokai \$250,475
- Leeward Oahu and Honolulu \$733,514
- Windward Oahu \$431,487
- West Hawaii \$322,833

Your Committee on Conference believes that the additional funding for domestic violence shelters and sex assault services is necessary to assist victims of such abuse, whether adults or children. Your Committee on Conference notes that funds for legal support services, as well as intrafamilial sex abuse and domestic violence services, are contained in the Judiciary budget.

Education

For both higher and lower education combined, this measure provides an additional \$212,057,676 for fiscal year 2007-2008 and \$285,058,441 for fiscal year 2008-2009 in new general fund appropriations.

Lower Education

With the proper education, Hawaii's students can actively participate in shaping the world they will live in, become the skilled workforce desired by employers, and enable Hawaii to attract new businesses and industries that offer living wage jobs.



Education is the key to creating and sustaining a healthy and diversified economy.

To assist Hawaii's children in unlocking their potential, your Committee on Conference continues to make public lower and higher education its top priority. Providing the necessary programs, equipment, materials, and technology for Hawaii's children will support our children's ability to participate and compete in the global economy. Toward this end, your Committee on Conference has reaffirmed its continued support for Hawaii's public schools by providing for the critical needs to improve student achievement, as determined by the priorities of the Board of Education and the Department of Education.

Your Committee on Conference has provided for the Department of Education's highest priority items, including several items that were not included by the Governor in the December submittal, although they were approved by the Board of Education. Your Committee on Conference is providing for the following programs and materials necessary to support our children:

- \$20,105,474 to continue Weighted Student Formula funding under Act 160, Session Laws of Hawaii 2006;
- \$10,000,000 in federal funds for impact aid;
- \$8,748,056 in fiscal year 2007-2008 and \$7,270,623 in fiscal year 2008-2009 to meet the requirements of the No Child Left Behind initiative and for English for Second Language Learners proficiency testing;
- \$4,287,401 for special education teachers and educational assistants for current Individualized Education Plan requirements;
- \$2,940,950 in fiscal year 2007-2008 and \$2,577,132 in fiscal year 2008-2009 for instructional equipment and furnishings for schools;
- \$1,000,000 for the Early Education Task Force for schools;
- \$1,100,000 to continue the Superintendent's fund to support the Weighted Student Formula implementation;
- \$1,162,565 in fiscal year 2007-2008 and \$1,521,007 in fiscal year 2008-2009 for energy efficiency projects for public libraries;



- \$1,000,000 for books and library materials for public libraries;
- \$800,000 for the continuation of funding for substitute teacher compensation;
- \$250,000 for a recruitment and retention support center for schools;
- \$79,891 for agricultural programs in schools;
- \$427,308 for educational interpretation for mainstream hearing-impaired students and \$38,610 for equipment and furnishings;
- \$400,000 in general funds in both fiscal years and \$596,801 for fiscal year 2007-2008 and \$1,096,801 for fiscal year 2008-2009 in special funds for non-school hour programs at schools;
- \$328,508 in fiscal year 2007-2008 and \$835,436 in fiscal year 2008-2009 for athletic health care trainers and supplies for school athletic programs;
- \$175,000 for PSAT testing for schools; and
- \$5,636,680 for the transfer of two hundred fifty-eight permanent and 17.8 temporary school health aid positions from the Department of Health to comply with the requirements of Act 51, Session Laws of Hawaii 2004, as amended by Act 225, Session Laws of Hawaii 2006.

Your Committee on Conference provided for increased funding for technology and accountability through the following appropriations for equipment, positions, infrastructure, and programs:

- \$3,571,956 in fiscal year 2007-2008 and \$2,782,414 in fiscal year 2008-2009 for information technology improvements, including an Electronic Comprehensive Student Support System, an Electronic Student Information System, and a Wide Area Network upgrade; and
- \$3,073,932 in fiscal year 2007-2008 and \$2,792,932 in fiscal year 2008-2009 for investments to improve fiscal accountability, including providing fifteen complex area business managers and three accountants, creating a new facilities asset management plan to support renovations and maintenance of public schools, and redeveloping a new



financial management system that will integrate the existing financial and human resource systems.

Your Committee on Conference provided relief for the increasing cost of maintaining facilities and services by providing the following additions to the Department of Education budget:

- \$12,358,139 in fiscal year 2007-2008 and \$13,118,345 in fiscal year 2008-2009 for school food services;
- \$1,365,962 in fiscal year 2007-2008 and \$3,182,543 in fiscal year 2008-2009 for essential utility services;
- \$9,991,030 in fiscal year 2007-2008 and \$14,029,731 in fiscal year 2008-2009 for increasing school bus transportation contracted costs; and
- \$1,278,000 for increases in property insurance.

Your Committee on Conference believes that these appropriations will provide Hawaii's public school students with the resources needed to support increased student achievement.

Higher Education

An economy based on knowledge, ideas, and risk-taking is the reality our State must embrace, and the University of Hawaii, system-wide, is critical to achieving this reality. New technologies and new industries are just two of the opportunities available to a skilled and literate workforce. College graduates are likely to change jobs several times over a lifetime of work, and to get ahead, incumbent workers will learn new skills and gain additional knowledge at the University of Hawaii.

The University of Hawaii Board of Regents approved a detailed biennial operating budget request of \$67,950,071 in fiscal year 2007-2008 and \$116,644,851 in fiscal year 2008-2009 which included the creation of positions vital to the expansion of programs such as Workforce Training and Development (i.e. nursing, construction, teaching, and social work), Economic Diversification Initiatives, Native Hawaiian Studies, Student Services Enhancement and Expansion, and Distance Learning Initiatives. For these initiatives, the Governor requested \$46,702,713 in fiscal year 2007-2008 and \$83,880,216 in fiscal year 2008-2009 in a scaled down University of Hawaii budget. Your Committee on Conference has provided the



University of Hawaii with \$62,297,570 in fiscal year 2007-2008 and \$101,811,884 in fiscal year 2008-2009 for programs including:

- Restoring \$250,000 in each year of the biennium to support Western Interstate Commission for Higher Education programs for students interested in the fields of veterinary medicine, dentistry, optometry, and occupational and physical therapy that currently are not offered at the University of Hawaii;
- Addressing the growing shortage of nurses with appropriations of \$1,322,270 in fiscal year 2007-2008 and \$2,568,276 in fiscal year 2008-2009 for Statewide Nursing Workforce Development at the community colleges, University of Hawaii-Hilo, and University of Hawaii-Manoa and funds for staffing and operational support, including \$400,000 for the Quentin Burdick Rural Health Professions program;
- \$3,634,725 in fiscal year 2007-2008 and \$3,953,817 in fiscal year 2008-2009 in general funds to support further expansion of the John A. Burns School of Medicine to address the shortage of medical specialists and fulfill its potential to become a world-class leader in health, biomedical, and biotechnology research, training, and teaching;
- \$834,084 in general funds and \$1,710,000 in special funds in fiscal year 2007-2008 and \$750,000 in general funds and \$3,454,903 in special funds in fiscal year 2008-2009 for the establishment of a College of Pharmacy for the University of Hawaii Hilo campus;
- \$800,000 in general funds and \$400,000 from the research and training revolving fund in each fiscal year for support of AIDS research to assist Asian-Pacific Islanders; and
- \$11,000,000 in each fiscal year in special funds to establish the Cancer Research Special Fund created by Act 316, Session Laws of Hawaii 2006.

Your Committee on Conference remains committed to the vision of creating a world-class institution of higher learning and provided approximately \$26,170,000 in fiscal year 2007-2008 and \$38,570,000 in fiscal year 2008-2009 in continued support of University of Hawaii programs, workforce, curriculum, and student educational development, including approximately \$5,193,925 in fiscal year 2007-2008 and \$9,967,997 in fiscal year 2008-2009 for the University of Hawaii-Hilo and \$8,218,973 in fiscal year 2007-2008 and \$16,665,608



in fiscal year 2008-2009 for community college programs and \$1,767,288 in fiscal year 2007-2008 and \$2,905,350 in fiscal year 2008-2009 for staffing development and the expansion of programs and curriculum for the long-anticipated West O'ahu campus in Kapolei.

Your Committee on Conference finds that the economic capital of the State can be expanded only if there exists a solid foundation upon which to build. Thus, your Committee on Conference provided \$1,500,000 in fiscal year 2007-2008 and \$2,000,000 in fiscal year 2008-2009 for the "B Plus" state scholarship program and \$510,000 in fiscal year 2007-2008 and \$605,000 in fiscal year 2008-2009 for the Graduate Professional Access and Health Careers Opportunity Programs. Your Committee on Conference believes that funding these programs is necessary to foster student interest in post-secondary education and provide the means for additional students to pursue their own career paths, thus adding to our State's economic well-being.

Another area of concern for the University is the sharp increase in fuel, utilities, and other costs related to energy consumption. The University is one of the highest single consumers of these resources and has had to explore options to fund its energy cost shortfalls. The new tuition schedule approved by the Board of Regents in September 2006 will positively and significantly impact the revenues of the system. Additionally, a sizable portion of its projected tuition revenues are earmarked for utilities. Your Committee on Conference commends the University for taking this proactive step in providing for its own energy consumption. Thus, your Committee on Conference provided \$15,150,000 in fiscal year 2007-2008 and \$35,950,000 in fiscal year 2008-2009 in special funds to enable the University of Hawaii at Manoa to address these expected shortfalls in operating and utility costs, as well as to fund faculty, staffing, and student employee costs, collective bargaining costs, and routine facility maintenance costs campus-wide. Your Committee on Conference remains confident that the tuition fee schedule adjustment proposed by the University will provide the needed additional funds despite an anticipated drop in attendance due to the increase in tuition.

Your Committee on Conference is steadfast in its belief that higher education is the foundation of the future economic growth and stability of the State. Your Committee on Conference provided a budget for the University that addresses increases in utilities and employee compensation, medical and scientific research, workforce shortages, critical program shortfalls in student development and growth, Native Hawaiian studies and program development, current and



planned expansion of the University statewide, and supporting diversity and lifestyle initiatives to provide the best opportunities for the students, faculty, and employees of the University - present and future.

Environment

Land and Natural Resources

Much of what makes Hawai'i a great place to live or to visit is its natural resources. Preserving, protecting, and providing for our islands' resources for the future and present benefit is of utmost importance. Hawai'i is a prime visitor destination for world leaders, businesspeople, and families, as well as a prime location for movie producers and film crews. Families statewide can continue to enjoy our island lifestyle through the protection of our natural environment. For residents and visitors alike, your Committee on Conference has provided support to:

- Combat invasive species, including the coqui frog, by providing an additional \$1,000,000 in general funds and special funds for both fiscal years 2007-2008 and 2008-2009, for the Hawaii and county invasive species councils;
- Enhance the State Parks Interpretive program by appropriating approximately \$485,000 in special funds for visitor education, tours, and trails assistance;
- Expand conservation and resource enforcement with fifteen additional personnel and equipment, by appropriating \$1,894,169 in fiscal year 2007-2008 and with twenty-five positions and \$1,969,240 in fiscal year 2008-2009;
- Encourage prevention of wildfires by creating a full-time Firewise Communities program coordinator for community outreach and education and providing additional ongoing state support of interdepartmental firefighting efforts with overtime pay, replenishment of outdated equipment, vehicles, and communications and life-saving apparatus by appropriating approximately \$330,000 in fiscal year 2007-2008 and \$340,000 in fiscal year 2008-2009; and
- Assist in reforestation, land and road restoration, and hazard control efforts for the over two thousand three hundred acres of public forest lands in the Kula Forest Reserve, Upper Waiohuli, Maui destroyed in the January 2007



wildfire by appropriating \$3,115,000 in special funds over the biennium for these purposes.

To protect wildlife and ensure the safety of residents and homes, your Committee on Conference has also appropriated \$500,000 in general funds for fiscal year 2007-2008 and \$420,000 for fiscal year 2008-2009 for Kawai Nui Marsh, which is an important wetland habitat for endemic and endangered native Hawaiian birds as well as a significant flood control reservoir.

To support the safe enjoyment of our natural resources, your Committee on Conference has also provided \$606,534 in general funds for fiscal year 2007-2008 and fiscal year 2008-2009 for lifeguard services, and \$312,921 in special funds for lifeguard equipment costs in fiscal year 2007-2008 at Makena beach on Maui and Ke'e beach on Kaua'i.

Agriculture

Invasive pests threaten not only Hawai'i's native plants and wildlife, but agricultural crops and livestock as well. Hawai'i's agricultural industry contributes to our economy and remains an integral part of our State's character. With the continual threat of invasive pests that can damage our local consumption and export industry, the control and eradication of such pests is essential. Your Committee on Conference has therefore provided:

- \$196,014 for fiscal year 2007-2008 and \$236,352 for fiscal year 2008-2009 in general funds for five permanent positions to meet state mandates for bio-control research of natural enemies of invasive species;
- \$179,240 for fiscal year 2007-2008 and fiscal year 2008-2009 in general funds to continue the brown tree snake prevention program to defend against a threat that could potentially cost the State \$485,000,000 annually;
- \$500,000 in interdepartmental transfer funds for the Invicta manifest system to help efficiently allocate the Department of Agriculture's resources; and
- \$220,192 in federal funds for fiscal year 2007-2008 and fiscal year 2008-2009 for three temporary positions to assist the Plant, Pest, and Disease Control Division.



Your Committee on Conference finds that the *Varroa destructor* is a mite that feeds off of honeybees and is spread to other bees through direct contact. These parasites have destroyed more than half of some beekeepers' hives in the continental United States, and have essentially wiped out all wild honeybees there. The mite was discovered in Makiki in early April and has since been confirmed in hives around the island of Oahu. The local beekeeping industry is particularly concerned that the mite has the potential to devastate the burgeoning commercial queen bee export industry on the Big Island.

Your Conference Committee is gravely concerned with the mite's impact on our local beekeepers and has appropriated \$650,000 for fiscal year 2007-2008 to study the level of mite infestation in the State and to work toward controlling this latest invasive specie.

Business, Economic Development and Tourism

Your Committee on Conference has remained steadfast in its support of Hawaii's existing business and economic engines. Specifically, in recognition of the importance of tourism to the State's economy, your Committee on Conference provided \$14,595,156 in special funds for fiscal year 2007-2008 and fiscal year 2008-2009 for the Hawaii Tourism Authority in support of our State's efforts to preserve Hawaii's ranking as a pre-eminent visitor destination.

With respect to energy, your Committee on Conference finds that sustainable communities in Hawaii's future must attain greater energy efficiencies and reductions in our reliance on fossil fuels. Your Committee on Conference provided two temporary positions and \$130,000 in general funds and \$500,000 in federal funds for fiscal year 2007-2008 and fiscal year 2008-2009 to implement the energy efficiency and renewable energy programs in the State. Additionally, recognizing the importance of the Hawai'i Renewable Hydrogen Program, your Committee on Conference provided \$4,742,500 in special funds for fiscal year 2007-2008 and \$2,609,375 for fiscal year 2008-2009 for venture capital investments in private sector and federal projects that support this initiative.

Defense

Your Committee on Conference provided the necessary support to the Department of Defense to carry out its mission to ensure the safety of the public and to ensure that recovery efforts following the occurrence of natural or man made disasters are expeditiously executed. Your Committee on Conference approved:



- \$1,136,202 for fiscal year 2007-2008 and for fiscal year 2008-2009 as a reserve for public assistance and damage recovery in case of a disaster;
- \$111,483 for fiscal year 2007-2008 and \$148,645 for fiscal year 2008-2009 to provide a core disaster recovery staff;
- \$191,129 for fiscal year 2007-2008 and \$234,335 for fiscal year 2008-2009 to install and maintain a state siren warning system;
- \$1,836,611 for fiscal year 2007-2008 and \$1,896,753 for fiscal year 2008-2009 for the Hawaii National Guard Environmental Office; and
- \$25,000 for both fiscal years of the biennium to provide an additional subsidy to the Civil Air Patrol;

The efforts extended by our armed forces are greatly appreciated by the State. Your Committee on Conference provided the following program support for our armed forces veterans:

- \$37,500 for a quarterly veterans' benefit and entitlement newsletter;
- \$33,230 for a Clerk Typist I to assist in clearing the backlog of unprocessed discharge documents;
- \$8,000 for travel expenses for an Office of Veterans' Services Counselor; and
- \$144,180 for fiscal year 2007-2008 and \$152,192 for fiscal year 2008-2009 for maintenance of veterans' cemeteries.

Public Safety

Your Committee on Conference notes that Hawaii continues to struggle with the persistent growth of the inmate population and a high rate of recidivism among convicted offenders. The traditional solution to prison overcrowding is to add prison beds by building new facilities or expanding others. With the unlikelihood of any new facilities being built in the near future, your Committee on Conference, working closely with your Committee on Public Safety, recognizes the need for interim measures.

The primary strategy used by this Administration to reduce overcrowding has been to transfer inmates out of State. However,



with a total of over 2,112 inmates (1,939 males and 173 females) housed in out of state facilities, and the escalating costs associated with those inmates, your Committee on Conference finds it necessary to support programs that reduce recidivism, upgrade the physical condition of existing facilities, and develop a transitional housing and release program to keep released inmates from returning to prison.

As previously mentioned, your Committee on Conference supports programs that assist in developing practical skills for inmates so that, upon release, their chances of obtaining gainful employment and becoming productive citizens increase and the propensity for recidivism decreases. Your Committee on Conference notes that important initiatives for community reintegration programs are contained in other legislative proposals. Your Committee on Conference provided for the following correction programs in the hopes of decreasing inmate recidivism:

- \$7,335,451 in revolving funds for fiscal year 2007-2008 and fiscal year 2008-2009 for the Correctional Industries program to provide inmates with experience in working in various trades and to increase their ability to become productive citizens upon release from prison;
- Three positions and \$408,552 in general funds for fiscal year 2007-2008 and fiscal year 2008-2009 to continue traditional substance abuse services for inmates participating in Project Bridge programs;
- \$150,000 in general funds for fiscal year 2007-2008 and fiscal year 2008-2009 for inmate transition and job development programs;
- Four positions and \$143,472 in general funds for fiscal year 2007-2008 and four positions and \$168,576 in general funds for fiscal year 2008-2009 for re-entry case workers to ensure that offenders will have housing and employment upon release from prison;
- \$50,000 in general funds for fiscal year 2007-2008 and fiscal year 2008-2009 for an intensive re-entry program that will serve women offenders within one year to six months of their release from prison to provide them with life skills training;
- \$98,700 in general funds for fiscal year 2007-2008 and \$75,000 in general funds in fiscal year 2008-2009 to establish a culinary arts training program and to fund a



landscape training program at the Women's Community Correctional Center; and

- \$50,000 in general funds for fiscal year 2007-2008 and \$26,000 in general funds for fiscal year 2008-2009 to support a vocational program offered by the mason's union to train inmates to become masons.

Looking to the future, your Committee on Conference has appropriated \$5,000,000 for the planning and design of one or more new correctional facilities on the island of Hawaii to provide no fewer than five hundred beds and appropriate space for drug treatment and other rehabilitative programs. It is hoped that the Administration will recognize the value of this appropriation as each passing day delays the availability of modern and efficient correctional facilities in the State.

Your Committee on Conference notes that there is a growing personnel vacancy problem in the Department of Public Safety. In testimony before the Senate Committee on Ways and Means on January 9, 2007, the Department noted that there were close to three hundred vacant positions, totaling over \$11,000,000 in general fund costs alone. Some of these vacancies date back to 1989. Your Committee on Conference is certain that a portion of the \$11,000,000 in vacancies is being used for purposes other than filling positions (as evidenced by the vintage of some of the vacancies). Therefore, your Committee on Conference eliminated eighteen positions and \$665,160 in general funds for positions that have been vacant for three years or longer. Your Committee on Conference believes that it is in the best interest of the Department to prepare a plan to address the vacancy problem before future vacant positions and funds are removed - potentially impacting items being funded with vacancy savings.

Other Department Highlights

To expand and update the State Institutional Network, your Committee on Conference provided \$2,400,000 for fiscal year 2007-2008. Your Committee on Conference recognizes the critical importance of the network and the numerous departments that utilize its various telecommunication services.

To help expedite the speed of businesses and professionals to obtain their professional and vocational licensing, your Committee on Conference has provided \$258,000 for fiscal year 2007-2008 for a records scanning project that will move all hard documents into



electronic format. With the move away from paper records, the professional and vocational licensing process will become that much more efficient.

Pursuant to Act 143, Session Laws of Hawaii 2006, the Public Utilities Commission reported to the Legislature during the 2007 session on the findings from the organizational review of its operations. Upon recommendation from your Committee on Commerce, Consumer Protection, and Affordable Housing to implement the first phase of the proposed Public Utilities Commission reorganization, your Committee on Conference provided seven positions and \$495,790 in special funds for fiscal year 2008-2009 to implement the restructuring. In addition, your Committee on Conference approved \$609,710 in special funds for fiscal year 2008-2009 to relocate the Commission to new offices.

The Public Utilities Commission also requested permanent staff and funding for the Petroleum Industry Monitoring program it inherited from the Department of Business, Economic Development and Tourism under Act 78, Session Laws of Hawaii 2006. Your Committee on Conference provided three positions and \$213,595 in special funds for both years of the biennium.

GOVERNMENT ACCOUNTING AND STANDARDS BOARD - STATEMENT 45

The Government Accounting and Standards Board, was organized in 1984 to establish standards of financial accounting and reporting for state and local governmental entities. These standards guide the preparation of external financial reports of those entities.

In April 2004, the Government Accounting and Standards Board issued its Statement No. 45, which established standards for measuring and recognizing other postemployment benefits that primarily consist of retiree healthcare services. Because many government agencies cover healthcare costs on a pay-as-you-go basis, a large unfunded liability has developed. Recently, consultants reported that Hawaii's liability is approximately \$11,100,000,000. To put this amount in perspective, this is over twice as large as the State's annual general fund budget.

Not addressing this liability may have an impact on the State's bond rating, which would have a long-term effect on the State's ability to issue debt, as well as impact the amount that it pays for its debt. In one scenario proposed by the State's consultant, Hawaii would pay an additional \$340 million per year for its healthcare payments, an amount larger than the total annual budgets



of the Department of Land and Natural Resources and the Department of Business, Economic Development, and Tourism combined.

This is a critical problem with which government will soon have to deal. Your Committee on Conference would be remiss if it did not mention the substantial liability that will affect all government entities in the near future. Your Conference Committee has great concerns and would like to see all stakeholders - the Governor, the mayors, and state and county legislators - come together to determine the best way to address this liability.

CAPITAL IMPROVEMENT PROGRAM HIGHLIGHTS

Investing in our educational system's infrastructure is a top priority of your Committee on Conference, and as such, the Capital Improvement Program budget devotes significant resources toward enhancing and expanding public school and University of Hawaii facilities. Your Committee on Conference provided a total of \$411,231,000 and \$340,150,000, in capital improvements, by all means of financing, for the Department of Education and the University of Hawaii, respectively. The following are a few highlights:

Department of Education (by all means of financing)

- \$155,923,000 for Department of Education statewide support, including the following lump sum items:
 - \$75,000,000 for school building improvements;
 - \$25,000,000 for electrical system improvements;
 - \$9,000,000 for compliance with the Americans with Disabilities Act;
 - \$8,000,000 for noise and heat abatement;
 - \$5,000,000 for compliance with the Clean Water Act;
- \$67,683,000 for Ewa Makai Middle School;
- \$41,377,000 for Wailuku II Elementary School; and
- \$20,000,000 for Kihei High School.



University of Hawaii (by all means of financing):

- \$135,000,000 for the University of Hawaii-West Oahu;
- \$32,067,000 for capital renewal and deferred maintenance;
- \$17,933,000 for health, safety, and various code requirements;
- \$6,837,000 for temporary facilities for nursing programs at community colleges statewide; and
- \$41,579,000 for the new Windward Community College Library and Learning Resources Center.

Other Highlights (by all means of financing)

- \$55,666,000 for various improvements to small boat harbors statewide;
- \$30,780,000 for dam and reservoir safety improvements statewide;
- \$25,000,000 for renovations, repair and maintenance, and elevator improvements for public housing projects statewide;
- \$20,950,000 for various improvements to state parks statewide;
- \$20,000,000 for Hawaii Health Systems Corporation health and safety projects system wide;
- \$19,000,000 for energy conservation improvements in state buildings; and
- \$12,092,000 for repairs and improvements to existing Department of Public Safety facilities.

Conclusion

With relatively modest revenue projections for Hawaii and the nation, as well as the troubling specter of inflation, your Committee on Conference has appropriated resources that reflect prudence and provide for sustainability. Your Committee on



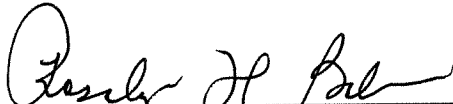
Conference will not soon forget the fiscal crises of the past, but looks to the future with cautious optimism, knowing the resources provided in this budget will address the urgent infrastructure and service needs of the State and provide for the strengthening of our families and communities, thus positioning Hawaii for success in the global economy and the sustaining of Hawaii as a great place to not only visit, but to live.

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. 500, 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. 500, 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



ROSALYN H. BAKER, Chair



MARCUS R. OSHIRO, Chair



Hawaii State Legislature

CCF 93

Record of Votes of a
Conference Committee

Bill / Concurrent Resolution No.: HB 500, HD 1, SD 1	Date/Time: 1-25-07 9:10 am
---------------------------------------------------------	-------------------------------

The recommendation of the House and Senate managers is to pass with amendments (CD).

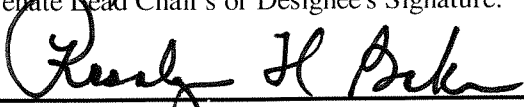
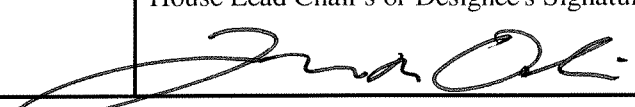
The Committee is reconsidering its previous decision.

<input type="checkbox"/> The recommendation of the Senate Manager(s) is to AGREE to the House amendments made to the Senate Measure	<input type="checkbox"/> The recommendation of the House Manager(s) is to AGREE to the Senate amendments made to the House Measure.
-------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------

Senate Managers	A	WR	N	E	House Managers	A	WR	N	E
BAKER, Rosalyn H., Chr.	✓				OSHIRO, Marcus R., Chr.	✓			
CHUN OAKLAND, Suzanne	✓				BELATTI, Della Au	✓			
ENGLISH, J. Kalani				✓	BROWER, Tom	✓			
FUKUNAGA, Carol	✓				CARROLL, Mele				✓
HOOSER, Gary L.	✓				CHONG, Pono	✓			
KIM, Donna Mercado	✓				HANOHANO, Faye P.	✓			
MENOR, Ron				✓	HAR, Sharon E.	✓			
TOKUDA, Jill N.	✓				LEE, Marilyn B.	✓			
TSUTSUI, Shan S.	✓				MAGAOAY, Michael Y.	✓			
HEMMINGS, Fred	✓				MANAHAN, Joey	✓			
WHALEN, Paul	✓				MIZUNO, John	✓			
					NAKASONE, Bob	✓			
					RHOADS, Karl	✓			
					SAGUM, Roland D., III	✓			
					TOKIOKA, James Kunane	✓			
					AWANA, Karen Leinani	✓			
					MEYER, Colleen Rose	✓			
					WARD, Gene, Ph.D.	✓			
TOTAL	9	-	-	2	TOTAL	17	-	-	1

A = Aye WR = Aye with Reservations N = Nay E = Excused

Senate Recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted	House Recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted
---------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------

Senate Lead Chair's or Designee's Signature: 	House Lead Chair's or Designee's Signature: 
------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------

Distribution: Original Yellow Pink Goldenrod
 File with Conference Committee Report House Clerk's Office Senate Clerk's Office Drafting Agency