

STAND. COM. REP. NO.

1215

Honolulu, Hawaii

March 9, 2007

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

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

Sir:

Your Committee on Finance, to which was referred H.B. No. 500  
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 funds for the  
operating and capital improvement costs of the Executive Branch  
for the fiscal biennium from July 1, 2007, through June 30, 2009.

By providing meaningful investments in our education system  
and our health and human services programs, your Committee has  
crafted a budget that invests in our state's greatest resource -  
its people.

However, this investment must be tempered with an eye toward  
the future. In recent years, government spending has grown  
dramatically: 44 percent over the last four years alone. Such  
growth is simply unsustainable over the long term. With every  
indication showing that Hawaii's robust economy is beginning to  
slow, fiscal conservatism must be practiced when deciding funding  
levels for government programs.

While public expectations are high, the Legislature must  
remain vigilant and scrutinize how taxpayer dollars are spent.  
Prudence requires that a balanced approach be adopted to:

HB500 HD1 HSCR FIN HMS 2007-2977



- Shore up existing programs that have proven to be effective;
- Retool programs that are ineffective and that can be improved; and
- Shape new programs to serve the critical and evolving needs of the state.

Last year, the Legislature seized on an unprecedented opportunity to invest strategically in the State's future. Strong revenue projections allowed for the investment of capital in critical areas of need, particularly in the area of education. The Legislature provided \$240,000,000 for improvements to the physical infrastructure of schools within the Department of Education (DOE) and University of Hawaii (UH).

This infusion of cash allowed the DOE to reduce its backlog of repair and maintenance projects by one-third. Yet a staggering number of repair-and-maintenance projects remains and these projects must be addressed, as the DOE estimates the cost of completing the current backlog to be over \$340,000,000. Accordingly, your Committee on Finance has provided another \$100,000,000 in general funds to the DOE to continue to repair and update our public schools.

This budget also provides resources to ensure that our community hospitals remain open. All too often, health care begins in our emergency rooms and with emergency medical services (EMS) teams throughout the state, and proper health care cannot be provided with antiquated equipment and vehicles. This budget fully funds the amount requested by the Department of Health (DOH) for essential health services.

A major focus of the budget and other legislation last year was the dedication of additional resources to homeless programs and affordable housing. This year, additional budget resources will be combined with initiatives in other bills to further expand these programs and increase the availability of affordable housing.



The effects of the Iraq and Afghanistan conflicts on our soldiers are at the forefront of our concern. We cannot allow another generation of soldiers to cope with the ravages of war, alone. Our veterans deserve our assurances that proper medical and rehabilitative care, mental health services, and job training and employment services will be available to them when they return from serving our country. This budget invests in current services for our veterans and calls for a critical needs assessment to identify gaps in veterans' services resulting from decreased federal funding for these important needs.

While Hawaii's economy continues to grow, signs point to a slower growth rate in the near future. As a result, your Committee 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 prudent.

#### **DEPARTMENTAL HIGHLIGHTS**

##### **Investment in Human Capital**

Your Committee on Finance believes that investing in our people will take us further toward improving Hawaii's economy and quality of life. To this end, your Committee has increased funding for education above the levels specified in the Governor's budget. Funding for the DOE exceeds the Governor's budget by \$25,941,543 in fiscal year 2007-2008 (FY 2008) and \$26,510,658 in fiscal year 2008-2009 (FY 2009). For the UH System, funding exceeds the Governor's budget by \$3,338,441 in FY 2008 and \$6,597,356 in FY 2009. Your Committee on Finance also fully funded EMS for DOH. By balancing these additions with reductions in other parts of the budget, your Committee on Finance was able to realize a savings of \$17,002,953 in general fund appropriations over the fiscal biennium (FB 2007-2009).

##### **Department of Education**

Our public school system served 179,234 students across the state in the 2006-2007 school year. Recognizing DOE's mission to provide quality education for Hawaii's youth, your Committee on Finance has provided DOE with an additional \$370,698,011 for the fiscal biennium through various means of financing. While the majority of these increases were in fixed costs such as debt service and fringe benefits for employees, your Committee on Finance has also funded several key initiatives that support



efforts to improve student achievement not included in the Administration's proposed budget.

Act 51, Session Laws of Hawaii 2004, and the resulting implementation of the weighted student formula (WSF), distributed funds to schools based on students' needs, and increased school discretion on spending those funds. When Act 51 was enacted, the Legislature understood the need to assist all schools in their transition to full implementation of WSF. Accordingly, the budget passed last session included \$20,000,000 to provide a supplementary, fixed amount to each school based on its grade level. For example, elementary schools received \$63,300 while high schools received \$126,580.

The Administration's proposed budget did not include funds for this purpose. However, school principals have already formulated their academic and financial plans for the 2007-2008 school year. The reduction of an elementary school's budget by \$63,300, or of a high school's budget by \$126,580, could translate into the loss of a classroom teacher.

Your Committee on Finance has a different viewpoint from that of the Administration, and provides these supplementary funds so that principals will not have to get by with one less teacher or choose to do without other necessary resources.

In addition, the Administration's proposed budget for the DOE eliminated 112.5 positions and \$4,488,863 because of enrollment. However, reducing WSF funding would be rash, and would create significant difficulties at the school level. Therefore, your Committee has decided to reduce the number of positions, but not the dollar amounts, to express continued support for the WSF.

To promote fiscal responsibility and assist schools in the transition to the WSF, your Committee has taken the initiative to provide:

- \$1,291,500 in FY 2008 for fifteen Business Manager positions to assist principals with school-based financial management;
- \$650,000 in FY 2008 and \$1,250,000 in FY 2009 to design and develop a new financial management system; and



- \$1,000,000 in FY 2008 and \$125,000 in FY 2009 to develop and implement a new Facilities Asset Management Plan.

To further improve accountability and transparency within the DOE, and to better serve the students and parents of Hawaii, your Committee finds that DOE's information technology infrastructure must be enhanced. To this end, your Committee has allocated:

- \$957,820 in FY 2008 and \$958,630 in FY 2009 to centralize all student data into a single electronic student information system;
- \$1,005,772 in FY 2008 and \$1,012,172 in FY 2009 for a wide area network upgrade to allow further development of the centralized help desk, that provides a single source of answers to questions, and to increase communication between parents, students, and faculty; and
- \$1,566,220 in FY 2008 and \$769,468 in FY 2009 to centralize and integrate data into the Electronic Comprehensive Student Support System for students with special needs.

Although your Committee is funding these new initiatives, several basic needs must also be addressed. While not glamorous, utilities, food services, and student transportation are fundamental to a solid education system.

If Hawaii is to continue moving forward in a global economy, schools must be able to pay for such basic costs as electricity. It was therefore puzzling that the Administration did not approve the entire amount requested by the Board of Education (BOE) to sufficiently fund electricity costs for DOE facilities, requesting an increase of only \$434,336 in FY 2008 and only \$683,746 in FY 2009. These amounts represent only 27.8 percent and 20.4 percent, respectively, of the total amount requested by BOE. Your Committee covered the shortfall by providing a total of \$1,561,135 in FY 2008, and \$3,344,525 in FY 2009.

Our students must also be provided with meals during the day. Currently, essential food services are threatened with inadequate funding. Your Committee has provided \$14,930,811 in FY 2008 and \$15,695,217 in FY 2009, to sufficiently fund food services for students. These figures are \$8,964,084 more than the amount requested by the Administration in FY 2008, and \$8,968,284 more than the amount requested by the Administration in FY 2009.



The school transportation system that students rely on is a basic necessity. However, the service is in jeopardy because of rising operational costs. Your Committee has appropriated a total of \$9,991,030 in FY 2008 and \$14,029,731 in FY 2009, to sufficiently fund student transportation services, amounts that surpass those included in the Administration's proposed budget by \$2,613,344 for each year of the fiscal biennium.

Finally, our charter schools are important alternatives to traditional public schools, and deserve comparable funding. However, there is confusion about the charter schools funding formula, which takes into consideration student enrollment at charter schools and a per-pupil amount based on traditional school spending. It appears that in calculating this traditional school spending amount, the Department of Budget and Finance (B&F) included health benefit and pension costs. These costs, however, are passed through to B&F and are not at DOE's disposal. To provide this money to charter schools but not to traditional public schools would be unfair and inequitable.

As a result, B&F overstated charter school funding by \$2,424 per-pupil. B&F's calculation was \$9,290 per-pupil, while the correct amount should be \$6,866 per-pupil. Consequently, while the Administration's proposed budget includes a \$4,100,000 increase for charter schools, it appears that charter schools should have a \$9,300,000 decrease. Your Committee on Finance has therefore reduced the charter schools appropriation request to make it comparable to traditional school funding levels.

Rather than leave charter schools scrambling due to a miscalculation by the Administration, your Committee has dropped in \$11,800,000 to the charter schools budget, bringing the total to \$50,000,000 for each year of the fiscal biennium. Having done this, your Committee hopes that the Administration will work with the charter schools, the BOE, and the Legislature to determine a more equitable method of calculation.

**University of Hawaii**

UH is an important component of our public education system, and instrumental in charting the course of Hawaii's future. Your Committee on Finance allocated an additional \$278,166,835 in UH operating funds for the fiscal biennium. Of the total amount allocated, \$191,684,577 has been set aside for UH-Manoa, \$23,856,555 for UH-Hilo, \$7,655,270 for UH-West Oahu, and



\$59,862,860 for the community colleges, demonstrating your Committee's firm commitment to higher education.

Acknowledging the important role that student services and support play in academic success, your Committee finds that meeting the diverse personal needs of students is key to their growth and performance. Hence, your Committee has provided \$2,043,000 for student services at UH-Manoa. This will benefit students by expanding services for academic advising, counseling, student employment, health, and educational assistance services, as follows:

- \$885,650 in FY 2008 and \$890,000 in FY 2009 for undergraduate academic advising and counseling;
- \$150,000 and three positions in each year of the fiscal biennium for the Student Employment and Cooperative Education Program;
- \$271,000 in FY 2008 and \$386,500 in FY 2009 for health services; and
- \$150,000 in each year of the fiscal biennium for the Student Equity, Excellence, and Diversity program.

Additionally, UH-Manoa has been allocated:

- \$500,000 in FY 2008 and \$1,000,000 in FY 2009 for library services;
- \$1,404,000 in FY 2008 and \$1,929,000 in FY 2009 for the restoration of positions and funds for the College of Arts and Sciences; and
- \$3,634,725 in FY 2008 and \$3,953,817 in FY 2009 for the John A. Burns School of Medicine (JABSOM) Kakaako facility.

Ensuring access to quality post-secondary education for all residents of Hawaii continues to be the single most important mission of the UH community colleges. Your Committee recognizes the important role that the community colleges play in preparing students for basic job skill training and ongoing workforce development. Thus, your Committee has appropriated \$3,469,219 over the biennium to the community colleges to provide them



greater flexibility to offer new classes as the need may arise, while keeping tuition affordable.

Your Committee has further supported the UH System by providing:

- \$820,000 to the UH-Manoa College of Education to enhance and expand its teacher education program;
- \$4,836,200 for workforce development at community colleges throughout the state;
- \$1,500,000 in FY 2008, and \$2,000,000 in FY 2009 for B-Plus scholarships for eligible, financially needy students;
- \$1,710,000 in tuition and fees special funds and \$834,084 in general funds in FY 2008, and \$750,000 in tuition and fees special funds and \$750,000 in general funds in FY 2009 for the College of Pharmacy at UH-Hilo;
- \$88,000 in tuition and fees special funds and \$153,167 in general funds in FY 2008, and \$272,000 in tuition and fees special funds and \$417,000 in general funds in FY 2009 for Phase I of the Student Life Center at UH-Hilo; and
- \$603,130 in tuition and fees special funds in FY 2008, and \$952,632 in tuition and fees special funds in FY 2009 for the relocation of the UH-West Oahu campus.

Your Committee has also provided \$1,080,756 over the biennium for the Hawaiian Knowledge Initiative at UH-Manoa. This program marks the beginning of a consolidation of the various Hawaiian studies and Hawaiian language programs throughout the campus into a School of Hawaiian Knowledge. For programs and academic support for native Hawaiian students in the community colleges, your Committee has provided \$2,037,526.

### Department of Health

Your Committee recognizes the critical statewide necessity for timely and reliable access to EMS. However, a shortfall exists in the funding requested by the Administration for EMS ambulance contracts, which would place vital services to our communities at risk. To address this shortfall, your Committee has provided the necessary funding for these essential services,





totaling \$4,811,639 in FY 2008 and \$5,529,757 in FY 2009 in general fund appropriations, with each county receiving:

- \$2,449,409 in FY 2008 and \$3,159,208 in FY 2009 for Oahu;
- \$925,214 in FY 2008 and \$1,127,172 in FY 2009 for Hawaii;
- \$412,323 in FY 2008 and \$118,478 in FY 2009 for Kauai; and
- \$1,024,693 in FY 2008 and \$1,124,899 in FY 2009 for Maui.

With the deployment of Hawaii's Medevac unit to Iraq, people in some of Hawaii's most remote areas have been left vulnerable. Your Committee has provided \$800,000 in general funds in FY 2008 and FY 2009 to fund emergency aeromedical ambulance services for Oahu, to transport injured persons to hospital facilities in the most expedient manner possible.

Preventive and emergency medical services provided in our rural communities are also of great concern to your Committee, especially with health care facilities in such areas threatening to close their doors as a result of losses from providing indigent and charitable care. To ensure ready access to these health care services, your Committee has provided \$3,800,000 in general fund appropriations for each year of the fiscal biennium for purchase of service contracts as follows:

- \$1,100,000 in each year of the fiscal biennium for the Waianae Coast;
- \$1,000,000 in each year of the fiscal biennium for Wahiawa;
- \$700,000 in each year of the fiscal biennium for Hana; and
- \$1,000,000 in each year of the fiscal biennium for the island of Molokai.

#### **Department of Human Services**

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



The children are the most vulnerable of the needy population. The Child Protective Services (CPS) division of DHS has made significant progress toward improving programs that serve abused and neglected children. The "Child and Family Services Review: Program Improvement Plan," a review required by the federal government, indicated that CPS's efficiency numbers in dealing with the immediate and ongoing needs of these children have increased. Your Committee is encouraged by this progress and has approved an additional \$2,500,000 in general funds and \$2,275,000 in federal funds in each year of FB 2007-2009 for additional services, including essential training for foster homes and adoptive parents. The amount appropriated is \$500,000 more than requested in the Administration's proposed budget, to correct an error that would have resulted in a loss of federal funding.

DHS is also charged with providing services to at-risk youth through the Office of Youth Services (OYS) and Hawaii Youth Correctional Facility (HYCF). After years of unacceptable conditions at HYCF, the United States Department of Justice (DOJ) entered into a Memorandum of Agreement (MOA) with the State on February 7, 2006. The MOA requires HYCF to protect incarcerated youth from harm, give them proper access to medical and mental health care, and provide special education services as needed.

While your Committee recognizes the progress cited in the DOJ report dated November 15, 2006, there are still concerns with HYCF's inability to hire and retain conscientious employees and use the extensive funding approved by the 2006 Legislature. Therefore, your Committee is providing HYCF with \$214,200 in additional general funds for essential training contracts as well as contracts to help alleviate abusive employee sick leave practices, which was highlighted in the State Auditor's Report No. 07-01, "Financial Audit of the Hawai'i Youth Correctional Facility". Your Committee encourages OYS to continue to make strides toward its improvement plan goals for HYCF.

During the 2006 Regular Session, the Legislature approved a request for \$1,300,000 for the Safe House Program. This program offers a temporary alternative for youth in need of residential placement that is more structured than a traditional group home, but less severe than incarceration at HYCF.



Funds for this program were provided for the past two years with the understanding that federal funding would become available. However, it does not appear that sufficient steps have been taken to qualify for Title IV-E federal funding. In addition, there are presently no certified teachers for the youth residing in the home, and the Safe House Program has not proven to be cost effective. While the purpose of the Safe House Program is commendable, DHS should demonstrate success with the current Safe House before expanding the program. Accordingly, your Committee has not approved the Administration's \$2,600,000 request for expansion of the Safe House Program.

The Deficit Reduction Act of 2005 (DRA) reauthorized the Temporary Assistance for Needy Families (TANF) block grant. However, the amendments incorporated into the DRA did not include many pieces of bipartisan welfare reauthorization bills that were in Congress, nor did many members of Congress have an opportunity to review the language before they were required to vote on it. The Center for Law and Social Policy characterized this reauthorization as being "deeply flawed." The new law substantially increased effective work requirements, yet provided only a minimal increase in child care funding, and also removed states' flexibility to tailor work requirements to participants' real needs.

Your Committee is concerned about the changes made to the TANF program, and to help facilitate DHS' transition, has concurred with the Administration's request to consolidate its multiple TANF programs into one. This consolidation will facilitate DHS' compliance with the TANF reauthorization requirements. DHS must, however, understand that inappropriate or questionable expenditures will not be tolerated. In addition, your Committee invites DHS to work with the Legislature to ensure a seamless transition that minimizes the effects of federal changes on TANF recipients.

#### **Department of Land and Natural Resources**

Hawaii's environment is one of the state's greatest resources, and your Committee has approved \$9,150,023 in FY 2008 and \$9,165,436 in FY 2009 for the Department of Land and Natural Resources (DLNR) to further its mission to conserve, protect, and manage Hawaii's natural and cultural resources for the benefit of present and future generations.



The laws that are designed to protect and conserve these resources must be enforced, and DLNR's Division of Conservation and Resources Enforcement (DOCARE) is tasked with this responsibility. State Auditor's Report No. 06-01, "Management Audit of the Division of Conservation and Resources Enforcement", revealed numerous deficiencies and called for various adjustments to current operations. Your Committee seeks to address these deficiencies by providing:

- \$301,500 in each year of the fiscal biennium for ten positions;
- \$744,100 in FY 2008 and \$234,800 in FY 2009 to automate operations and field reporting;
- \$198,640 in each year of the fiscal biennium for officer start-up costs, including training, computers, uniforms, GPS systems, and other equipment;
- \$50,000 in each year of the fiscal biennium to purchase rifles and shotguns; and
- \$230,000 in each year of the fiscal biennium to purchase boats and patrol vessels.

DOCARE can be improved by making structural changes in management through better record keeping, data tracking, and filing. Funds provided by your Committee should equip DOCARE with the analytic and evaluative tools needed to improve environmental enforcement decision-making.

A major threat to our unique natural resources is the far-reaching negative effects of invasive species on our native habitats. A rapid, effective, and proven response to invasive species is necessary. To support the Hawaii Invasive Species Council's (HISC's) continued efforts to control, eradicate, and respond to invasive species such as alien algae and seaweed, coqui frogs, fire ants, miconia, and fountain grass, your Committee has approved an additional \$1,000,000 in general funds and \$1,000,000 in Natural Area Reserve special funds for each year of the fiscal biennium.

In addition, your Committee has appropriated \$484,982 from the State Parks Special Fund in each year of the fiscal biennium to improve the Ranger Program for our public parks to provide



better visitor and user education programs on the proper use and environmental value of the parks.

The tragedies that occurred with the breaching of Ka Loko Dam in March 2006 showed the need for more diligence in protecting the public from the effects of natural disasters. To support this effort, your Committee has provided \$308,821 in FY 2008 and \$274,821 in FY 2009 for the establishment of three positions to expand dam safety programs statewide.

Your Committee notes that the Administration proposed to consolidate their commercial and recreational functions related to Hawaii's marine fisheries into one program. This request has been denied and the functions have been kept separate because your Committee is concerned that consolidation would reduce the interplay and dialogue necessary for good public policy making. In the interest of ensuring continued dialogue among all users, your Committee has provided \$58,908 for a project manager for the Commercial Fisheries and Resources Management Division, which currently does not have a division chief.

**Department of Agriculture**

Your Committee is dedicated to the development of agriculture in Hawaii, providing an additional \$4,936,250 in FY 2008 and \$4,358,999 in FY 2009, from all means of financing, for the Department of Agriculture (DOA) to ensure that agriculture remains a vital part of the economy. To maintain water resources and ensure public safety, your Committee has provided funds for an engineer for the non-agricultural park program to better monitor reservoirs under DOA jurisdiction, and \$3,000,000 in special funds in both years of the fiscal biennium for irrigation repair and maintenance. This will ensure adequate water resources and continued use of land for agricultural purposes.

The continued health and viability of agriculture as an industry also depends on the mitigation of threats posed by invasive species that attack crops or livestock. DOA's responsibilities and duties under the HISC allow DOA to play a vital role in the control of invasive species. Along with \$179,240 for brown tree snake control activities, your Committee has provided \$500,000 not included in the Administration's request for the Invicta manifest system to better aid the control of, and rapid response to, invasive species. This manifest system will catalogue shipments moving into and through the state, to help



prioritize DOA's limited resources to intercept the highest-risk cargo.

**Department of Public Safety**

Your Committee is dedicated to improving public safety and care for those incarcerated by the state, both inside and outside the Hawaii prison system. Therefore, your Committee is disappointed in the lack of consistent leadership by the Director of Public Safety and with the Administration's ongoing policy of sending inmates to out-of-state prisons. Appropriations made by previous Legislatures to expand, replace, or construct new correctional facilities have, unfortunately, been ignored.

As of February 28, 2007, there were 6,112 inmates assigned to the Department of Public Safety (DPS). Of this number, 3,486 are housed in State facilities originally designed to house only 2,451; another 2,112 inmates are in privately operated out-of-state facilities across four states, and 159 are in the federal detention facility near the Honolulu Airport.

To help DPS continue to control the overcrowding situation in the state operated correctional facilities, your Committee has provided an additional \$3,476,293 for necessary costs to continue to house Hawaii's inmates in out-of-state facilities.

In the interests of increasing transparency of DPS' budget and costs related to the stop-gap measure of placing inmates in contracted bed space, your Committee on Finance has created a new Program ID, PSD808, which indicates the funding amount for all prisoners incarcerated in non-state facilities, a total of over \$63,000,000. It is your Committee's hope that the Administration will begin the challenging task of working with the community and the Legislature to expand the State's capacity to house Hawaii's prisoner population locally.

To begin this task, the Administration's complacency with the status quo must change. State accounting records show that as of January 31, 2007, DPS had expended less than \$209,000 of the \$46,260,000 appropriated for the development of new state correctional facilities in the four previous fiscal years. These appropriations included projects to begin planning for the replacement of the Kauai Community Correctional Center and Oahu Community Correctional Center, the expansion and relocation of the Maui Community Correctional Center, the construction of vocational



training facilities for the Hawaii Community Correctional Center, and planning for new in-state correctional treatment facilities.

In addition, of appropriations for new facilities made five years ago from fiscal biennium 2001-2003, DPS allowed \$1.23 million of a \$1.5 million appropriation for planning for a new secure treatment facility to lapse on June 30, 2004, and the entire amount appropriated for planning for transitional housing facilities remains unexpended.

Your Committee hopes that with new leadership, progress in this area will finally begin. Toward this end, your Committee 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 500 beds and appropriate space for drug treatment and other rehabilitative programs. Each passing day with no effort made to begin the development of new in-state correctional facilities only delays the availability of modern and efficient correctional facilities, ending the practice of shipping inmates out of Hawaii.

#### **Department of the Attorney General**

The Department of the Attorney General (AG) administers the Career Criminal Prosecution Program and the Victim Witness Assistance Program. Both of these programs have been underfunded in recent years, resulting in the inability of the AG to classify criminals properly as career criminals and to prosecute them to the extent necessary for them to receive maximum sentences. These funding cuts have also resulted in a loss of assistance and support services to victims and witnesses of crimes.

Your Committee finds that the Governor's request for \$259,610 in each fiscal year of the fiscal biennium is insufficient to make up for the years of reduced funding and has, therefore, increased the appropriation for these programs to \$489,002 for each year of the fiscal biennium.

#### **Department of Hawaiian Home Lands**

Your Committee continues to support native Hawaiians as they strive to build homes, gain self-sufficiency, and preserve their culture. Your Committee also recognizes that the effectiveness of the Department of Hawaiian Home Lands (DHHL) is crucial in



attaining the planned goals established by the Hawaiian Homes Commission Act of 1920.

In the interest of transparency, your Committee has requested that the Auditor conduct an audit of DHHL. Your Committee came to this decision after several alarming discrepancies were revealed. As of December 31, 2006, DHHL had expended only 27 percent, or \$84,100,000, of the \$225,000,000 in trust funds received since settlement payments began in the mid-1990s. Your Committee believes it is vital to address both the appropriateness of accelerating settlement payments as requested by the Administration, and the progress made by DHHL in carrying out the purpose of the Hawaiian Home Lands Trust.

Further, your Committee questions the appropriateness of a one-year, zero-interest loan of \$80,000,000 from the State's general fund, granted to DHHL by the Director of Finance to finance construction projects. In addition, your Committee is concerned that the transfer of 16,518 acres, called for in section 19 of Act 14, Special Session Laws of Hawaii 1995, has not yet been completed. These and other issues should be more carefully examined by a thorough audit of DHHL's activities and practices.

**Department of Transportation**

Consolidation of the Kakaako Makai lands under the Hawaii Community Development Authority's (HCDA) management to facilitate a large-scale development project, including residential development, was the original reason for the transfer of management of Kewalo Basin from the Department of Transportation's (DOT) Harbors Division to HCDA. Your Committee finds it puzzling that although the Kakaako Makai project was cancelled last year as a result of Act 317, Session Laws of Hawaii 2006, the Administration decided to move ahead with the July 1, 2007, transfer of the harbor management responsibility.

This enthusiasm to transfer management and immediately rehabilitate the harbor has driven HCDA to propose steep increases in the slip fee schedule, institute a common area maintenance charge, and require mandatory insurance coverage for harbor users. These requirements could threaten the livelihood of many existing harbor users. Your Committee finds that DOT has sufficient financial resources to initiate needed improvements without such drastic fee increases. Your Committee hopes that HCDA will work with DOT and harbor users over the next year to develop a better





plan for harbor improvements and develop a more appropriate fee schedule.

While the Administration remains enthusiastic regarding its proposed transfer of the management of Kewalo Basin from DOT's Harbors Division to HCDA, your Committee has decided to take a more cautious approach. To this end, your Committee denied the deletion of funds for Kewalo Basin and appropriated funds for a pier repair construction project through DOT's Harbors Division rather than through HCDA.

### Department of Defense

Cuts in federal funding have caused your Committee to be concerned about the capacity of the Hawaii National Guard to respond to state missions. The Air National Guard has indicated to your Committee that their operations and maintenance funds were cut by the federal government by four percent in FY 2005 and 18 percent in FY 2006. The Army Guard had their operations and maintenance budget reduced by \$7,500,000 from FY 2006 to FY 2007. Over time, these federal cuts will likely force the Army and Air Guard to reallocate resources from within their remaining budgets to meet fixed cost requirements, at the expense of other activities such as training. Unfortunately, with the Bush Administration's decision to maintain or increase troop levels in Iraq, both the Air and Army Guard are anticipating additional cutbacks in federal funding. Therefore, your Committee has asked the state Department of Defense (DOD) to conduct an assessment on readiness and report back to the Legislature prior to the next Regular Session.

Your Committee is also deeply concerned by recent revelations of the inadequacy of services for veterans returning from the military conflicts in Iraq and Afghanistan, particularly conditions at the Walter Reed Army Medical Center. Despite how people may feel about the Bush Administration's rationale for engaging in a war in Iraq or entering into military actions in Afghanistan, the men and women of our armed forces and the Hawaii National Guard deserve our gratitude and wholehearted support. To that end, the State must work to ensure appropriate and adequate services for our veterans. Through this measure, your Committee has asked DOD's Office of Veteran Services to undertake a comprehensive assessment of the adequacy of mental health, medical, job training, and employment services for veterans and to report back to the Legislature prior to the next Regular Session. Your Committee is committed to seeing that the moral mistake of



failing to provide appropriate services to the veterans who return home from foreign wars is not repeated. The resulting pain, indignity, and loss of human potential must not be inflicted upon another generation of veterans.

#### **CAPITAL IMPROVEMENTS PROGRAM**

Your Committee carried out a careful, thorough review of the Administration's Capital Improvement Program (CIP) priorities, providing funding for as many projects as possible. However, your Committee made the difficult decision to adjust downward by \$200,000,000 the Administration's plan to borrow money to finance construction projects. Your Committee accordingly took a measured, judicious approach in assessing and funding the CIP projects contained in this Executive Budget proposal.

In addition, your Committee placed a slightly higher priority than the Administration on supporting the facility needs of public schools and UH. Total CIP appropriations for public schools were increased by \$93,561,000 over the amount requested, with greater emphasis on addressing the repair and maintenance needs of all public schools, maintaining compliance with various codes and health and safety requirements, and responding to feedback from the schools' communities for specific campus improvements. In addition, funding for the UH System was increased by \$48,299,000 over the Administration's request to support needs for facility improvements at UH-Manoa and UH-Hilo, as well as needs at the Windward, Leeward, Hawaii, Maui, and Kauai Community Colleges.

To ensure funding would be available for priority projects, your Committee looked to alternative sources of funding to support many of the requested construction projects. Several examples of this strategy are found in the CIP budget of DLNR, where funds from the Special Land and Development Special Fund were appropriated for several high priority projects of the Administration and Legislature. These include dam assessment work, rock fall mitigation projects on Kauai and at Diamond Head, land acquisition at Maalaea Harbor, and pesticide mitigation work for Central Oahu. A review of DLNR's report on this special fund's activities revealed that in FY 2006 this fund had an ending cash balance of over \$12,800,000, revenues of over \$13,000,000, and expenditures of under \$4,600,000.

Other funds used for priority projects of the Administration include the State Parks Special Fund, the Dwelling Unit Revolving Fund, and the Works of Art Special Fund. Another approach used to



reduce spending included appropriating first year funding for many lump-sum projects at the level requested, but deferring second year funding. This will allow departments to begin work on the various projects, and provide them the opportunity to come before the Legislature with a supplemental budget request if their progress warrants additional appropriations.

The October earthquake demonstrated an inability to warn the public in a time of critical need. As such, your Committee has provided funding to hang ten million dollars worth of new and replacement emergency warning sirens across the state to help address this critical need.

Highlights of projects and funding provided by the Legislature include:

- \$75,000,000 for repair and maintenance work at public schools, statewide;
- \$40,000,000 for Windward Community College Library construction;
- \$37,000,000 for Maui Community College Science Building construction;
- \$26,000,000 for UH-Hilo Student Service Building construction;
- \$25,000,000 for electrical upgrades for public schools, statewide;
- \$8,000,000 for improvements to the Hilo Medical Center;
- \$6,800,000 for facilities to support nursing program expansion at Leeward, Maui, Hawaii, and Kauai Community Colleges;
- \$5,140,000 for Kapaa Elementary School Library;
- \$5,000,000 for planning and designing new correctional facilities with treatment and rehabilitation program space on the island of Hawaii;



- \$5,000,000 for Kalaheo Elementary School Administration /Classroom building;
- \$4,000,000 for gender equity projects at public schools, statewide;
- \$4,500,000 for Kilauea Elementary School Cafeteria;
- \$3,500,000 for completion of a six-classroom building at Naalehu Elementary and Intermediate School;
- \$3,100,000 for improvements at Maui Memorial Hospital;
- \$3,000,000 for completion of a new gymnasium for Pahoehoe High School;
- \$2,900,000 for development of an Education Resource Center in North Hawaii;
- \$2,850,000 for cafeteria expansion for McKinley High School;
- \$2,600,000 for structure improvements at Waihee Elementary;
- \$2,500,000 for a covered play court at Mililani Middle School;
- \$2,300,000 for playground improvements for public schools, statewide;
- \$2,250,000 for various improvements at Niu Valley Intermediate School;
- \$2,000,000 for asbestos abatement at public schools;
- \$2,000,000 for electrical and air conditioning improvements for Waianae Intermediate School; and
- \$1,950,000 for a library expansion project at Waimalu Elementary.

#### **ECONOMIC CONCERNS**

While Hawaii has enjoyed a very robust economy in recent years, there are troubling signs for Hawaii's economic future.

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Government must ride the economic waves and alter its spending as the economy rises and falls.

On February 23, 2007, the Department of Business, Economic Development, and Tourism (DBEDT) published its latest "Quarterly Statistical and Economic Report", forecasting that "Hawaii's economy will maintain moderate growth in 2007." DBEDT notes that Hawaii's real Gross Domestic Product increased 2.7 percent in 2006, and predicts growth of 2.6 percent in 2007 and 2.5 percent in 2008. Visitor growth forecasts, although a 1.2 percent decrease from previous forecasts, remain positive at 1.4 percent in 2007.

President Bush's budget as submitted to Congress in early February, contains sizable reductions for domestic discretionary programs over the next five years. The Center on Budget and Policy Priorities stated that "[i]n many key areas - including education, the environment, and state and local law enforcement - funding in FY 2008 would fall below the expected FY 2007 level, adjusted for inflation . . . The cuts would then grow deeper in the years after 2008." Reductions for domestic discretionary programs in 2012 would amount to \$34,000,000,000 or 7.6 percent, relative to 2007 funding levels.

President Bush's budget includes the following cutbacks:

- \$9,900,000,000 from K-12 and vocational education over five years;
- \$4,100,000,000 from community health centers, domestic HIV/AIDS programs, and maternal and child health over five years;
- \$5,800,000,000 from employment and training services over five years;
- \$9,400,000,000 from criminal justice assistance over five years; and
- \$6,900,000,000 from Community Development Block Grants over five years.

In its latest report on state budget actions, the National Conference of State Legislatures (NCSL) notes that in FY 2006-2007, while state fiscal conditions appear to be solid, "modest revenue



growth projections are expected to lag budgeted spending levels, so year-end balances are forecast to decline." The report later states that "other fiscal challenges, such as unfunded pension liabilities and costs for public employee retiree care, are looming and carry sizeable price tags. Lawmakers also are concerned about federal-to-state cost shifts that could derail balanced state budgets."

NCSL has indicated that nationwide, \$75,000,000,000 in costs have been shifted from the federal level to the states through unfunded mandates, including the No Child Left Behind and Real ID programs. In addition, the DRA changed many of the requirements of the TANF program. These changes will save the federal government approximately \$39,000,000,000. However, the burden of providing services to TANF recipients now falls more heavily on the states.

In 2004, the Government Accounting Standards Board issued Statement 45, which requires all government entities to report on the unfunded liability related to Other Post-Employment Benefits, specifically health care costs. Like many other states, Hawaii uses a pay-as-you-go system to pay for health benefits, and has very few funds available to address any unfunded liability. While exact figures are not yet available, state government must address this concern, which could potentially be billions of dollars.

This combination of federal budget cuts, impending recession, and unfunded liability has the potential to create an economic tidal wave for Hawaii's citizens. The time for tough decisions may soon be upon us.

On March 2, 2007, the Department of Taxation issued a general fund revenue update for the month of January. The seven months of data available for the current fiscal year indicate that FY 2007 tax revenue collections have increased by 4.3 percent over taxes collected in FY 2006. The revenue projection of the Council on Revenues is currently 6.0 percent in FY 2007. Your Committee on Finance remains cautiously optimistic that the economy will be strong enough to make up the difference in the next five months.

An examination of current growth in state government also provides reason for caution. In the past four years, the state executive branch general fund budget has grown 44.2 percent from \$3,700,000,000 in FY 2004 to \$5,400,000,000, as requested by the Governor, in FY 2008, a growth of \$1,700,000,000 in four years. By comparison, from 1996 to 2004, expenditures for all of state



government grew from \$3,100,000,000 to \$3,700,000,000, or \$600,000,000 in eight years.

Although FY 2006 ended with a surplus of over \$700,000,000, the spending plan submitted by the Governor shows deficit spending of \$238,900,000 in FY 2008 and \$172,400,000 in FY 2009, culminating in a cash balance of \$43,100,000. This seems to indicate that recurring expenditures are not aligned with recurring revenues.

Expenditures that grow at such rates will create structural deficits if revenue growth does not follow. One-time expenditures that will immediately improve infrastructure are preferable over unsubstantiated recurring expenditure requests.

Like any other piece of legislation, the budget represents the different priorities that different people may have. After listening to the public, your Committee agrees with some of the priorities of the Governor and disagrees with others. Unfortunately, deeper analysis of some of the Governor's recommendations has revealed serious weaknesses. Several key appropriations were missing which were included in Governor's Messages dated February 14, 2007, February 15, 2007, and March 2, 2007. While the March Message arrived too late for serious consideration by your Committee, several of the Administration's shortcomings were nonetheless addressed as a result of your Committee's own investigations. In addition, your Committee anticipates at least two more Governor's Messages making further corrections to the original December submittal.

As much as your Committee would like to commit resources to many of the initiatives endorsed by the Governor, your Committee must look to the future. Economic momentum cannot be sustained without investment in the basics. These basics include:

- Educational programs and infrastructure at DOE and UH;
- Health care initiatives and EMS infrastructure;
- Homeless services and the creation of affordable housing;
- Disaster planning and preparedness and the state infrastructure needed to respond to disasters; and



- Veteran services and a needs assessment to ensure that our troops returning from Iraq and Afghanistan receive the support they need.

### CONCLUSION

The budget is a complex document, which attempts to balance the diverse needs and priorities of the people of Hawaii. Your Committee faced competing needs during its formulation of the budget, requiring it to make difficult decisions. The intent of your Committee is to invest in our future and provide the essential services requested and needed by the community.

This budget appropriates a total of \$10,317,792,076 in FY 2008 and \$10,519,942,447 in FY 2009. When reviewing the general fund portion of the budget, your Committee appropriated \$5,167,921,115 in FY 2008 and \$5,263,801,995 in FY 2009. When compared to the budget submitted by the Governor in December 2006, this budget represents an increase of \$2,712,555 in FY 2008 and a decrease of \$19,715,508 in FY 2009, resulting in a total reduction of \$17,002,953 in general fund appropriations for the fiscal biennium.

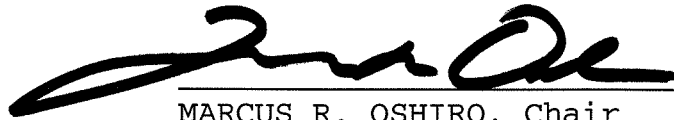
This draft is just one step in the budgetary process. Your Committee on Finance looks forward to working with both the Senate Committee on Ways and Means and the Administration to craft the best possible budget for all the people of Hawaii.





As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 500, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 500, H.D. 1, and be placed on the calendar for Third Reading.

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



MARCUS R. OSHIRO, Chair



State of Hawaii  
House of Representatives  
The Twenty-fourth Legislature

HSCR 1215

**Record of Votes of the Committee on Finance**

<b>Bill/Resolution No.:</b> <span style="font-size: 1.5em; font-family: cursive;">HB 500</span>	<b>Date:</b> <span style="font-size: 1.5em; font-family: cursive;">3/7/07</span>			
<b>Committee Referral:</b> <span style="font-size: 1.5em; font-family: cursive;">FIN</span>	<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.			
<b>The recommendation is to:</b> <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <div style="width: 45%;"> <input type="checkbox"/> Pass, unamended  <input type="checkbox"/> Hold         </div> <div style="width: 45%;"> <input checked="" type="checkbox"/> Pass, with amendments  <input type="checkbox"/> Pass, with amendments, for recommittal for further consideration         </div> </div>				
<b>FIN Members</b>	<b>Ayes</b>	<b>Ayes (WR)</b>	<b>Nays</b>	<b>Excused</b>
1. OSHIRO, Marcus R. (C)	✓			
2. LEE, Marilyn B. (VC)	✓			
3. BELATTI, Della Au	✓			
4. BROWER, Tom	✓			
5. CARROLL, Mele	✓			
6. CHONG, Pono	✓			
7. HANOHANO, Faye P.	✓			
8. HAR, Sharon E.	✓			
9. MAGAOAY, Michael Y.	✓			
10. MANAHAN, Joey	✓			
11. MIZUNO, John	✓			
12. NAKASONE, Bob	✓			
13. RHOADS, Karl	✓			
14. SAGUM, Roland D., III	✓			
15. TOKIOKA, James Kunane	✓			
16. AWANA, Karen Leinani	✓			
17. MEYER, Colleen Rose	✓			
18. WARD, Gene, Ph.D.	✓			
<b>TOTAL</b>	18	0	0	0
<b>The recommendation is:</b> <div style="margin-left: 20px;"> <input checked="" type="checkbox"/> Adopted  <input type="checkbox"/> Not Adopted         </div> <p style="margin-left: 40px;">If joint referral, _____ did not support recommendation.  <small>committee acronym(s)</small></p> <p style="margin-left: 40px; font-size: 1.2em; font-family: cursive;">Marilyn B. Lee.</p>				
<b>Vice Chair's or designee's signature:</b>				
<b>Distribution:</b> Original (White) – Committee       Duplicate (Yellow) – HMSO       Duplicate (Pink) – Clerk's Office				