

STAND. COM. REP. NO. 3400

Honolulu, Hawai'i

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RE: H.B. No. 2500
H.D. 1
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawai'i

Madam:

Your Committee on Ways and Means, to which was referred
H.B. No. 2500, H.D. 1, entitled:

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

begs leave to report as follows:

The purpose of this bill is to appropriate supplemental funds for the operating and capital improvement costs of the Executive Branch for fiscal year July 1, 2008, through June 30, 2009.

GENERAL OVERVIEW

Last session, your Committee crafted a budget reflecting our shared goals, principles, and priorities, and laid the groundwork for the creation of a sustainable Hawai'i, supporting strong families and communities, a healthy economy and environment, and a literate and competent workforce able to compete in the global marketplace. Acutely aware that Hawaii's strong economic growth of the mid-2000's had begun to cool, however, your Committee noted that caution should be exercised when obligating the State to pay for new programs and positions (with their recurring costs) that are not absolutely essential. Your Committee's cautious approach was well-founded.



STATE OF THE ECONOMY

HAWAII'S ECONOMY HAS SLOWED

After strong economic growth in the mid-2000s – peaking with double-digit growth rates in fiscal year 2005 (16 per cent) and 2006 (10.9 per cent) – Hawaii's economy slowed sharply in 2006 and 2007. In February 2008, a distinguished local economist commented that, "[a]ll indications now are for slower growth in Hawaii's near future."

The Department of Business, Economic Development & Tourism, in its latest quarterly economic report, stated that "total visitor arrivals are now expected to decline 1.4 per cent in 2008, in contrast to a 1.0 per cent growth in the last forecast ... [s]imilarly, visitor days are now expected to decrease 1.5 per cent in 2008, as compared to 1.0 per cent increase earlier."

In the past week, Molokai Properties Limited (commonly known as Molokai Ranch) announced the shut down of its operations on Molokai, and Aloha Airlines announced the shut down of its passenger service on March 31, 2008, after 61 years of operation in Hawai'i. Furthermore, as noted by one of Hawaii's daily newspapers on March 30, 2008, "Hawai'i mortgage delinquencies ratcheted up last year and show no indication of slowing this year as economic growth weakens, inflation remains strong and home values flatten."

Clearly, these are unsettled economic times. Hawaii's economy has slowed substantially, and the State's budget must account for and reflect the economic slowdown.

COUNCIL ON REVENUES

At its March 12, 2008 meeting, the Council on Revenues lowered its January forecast of the general fund tax revenues for fiscal year 2007-2008 from 4.9 per cent to 3.9 per cent. The Council kept its January forecast for fiscal year 2008-2009 through fiscal year 2012-2013. Because those projected increases are from a smaller base, general fund revenues in each of those fiscal years are lower as well.

For fiscal year 2006-2007 through fiscal year 2008-2009, combined, based on the Council on Revenues' forecasts between March 2007 (the basis for the balanced budget passed by the Legislature last year) and March 2008, the budget has to account



for a \$487,000,000 shortfall in actual and projected general fund revenues. In other words, between last year and this year, the State has nearly half-a-billion dollars less in general fund revenues to consider in its budget as it seeks to balance the many worthy, competing interests vying for State resources.

INFLATION

The Administration continues to claim that Hawaii's economy is growing, albeit more slowly. Spinning the economic growth issue this way does a disservice to Hawaii's people by creating the false impression that Hawaii's economy is growing in real dollars.

The truth is that inflation is eating up most, if not all, of Hawaii's increase in general fund revenues. In its latest quarterly report, Department of Business, Economic Development & Tourism stated that the Honolulu Consumer Price Index is expected to rise 4.0 per cent in 2008. Therefore, considering the Council on Revenues' projection of 3.9 per cent growth for fiscal year 2007-2008, Hawaii's real (inflation-adjusted) growth projection is closer to zero for the fiscal year.

Indeed, the effects of inflation are seen throughout the executive supplemental budget bill and in several emergency appropriation bills submitted by the Governor requesting supplemental funds to cover increased costs for energy, food, health care services, repair and maintenance, and other necessary goods and services.

As the state Comptroller acknowledged in testimony to your Committee, world oil prices have been steadily increasing, causing electricity rates to go up. However, even with that acknowledgment, the Administration continues to assume oil prices of \$70 a barrel in estimating and budgeting for energy costs, while in reality, oil prices are now over \$100 a barrel. The Administration's consistently low estimates for energy costs have resulted in *annual* requests for emergency appropriations to cover for actual costs. We expect that the Administration will *again* have to request emergency appropriations to cover actual energy costs next year. This is just one area where the Administration does not appear to have updated its financial plan. This creates a flawed picture of the true cost of government, as well as the resources required in future years.



Finally, your Committee takes heed of the University of Hawai'i Economic Research Organization's warning that, this year, "inflation will continue to be relatively high because of the recent sharp spike in oil prices and high food prices which will take some time to recede." With that admonishment, Hawaii's real growth is not in positive, but negative numbers for the near term.

NATIONAL ECONOMIC OUTLOOK

Growth of United States economic output (real gross domestic product) slowed to a meager 0.6 per cent annual rate in the final quarter of 2007, according to the "advance" estimate released by the United States Commerce Department on January 30, 2008. The weakest parts of the economy in the fourth quarter were sectors affected directly or indirectly by the national housing downturn.

Residential fixed investment fell at an annual rate of 23.9 per cent, the steepest decline yet in the two-year slide, and growth of personal consumption expenditures slowed to an annual pace of 2 per cent – presumably weighed down by loss of housing equity and related concerns.

The labor market also showed serious recent signs of weakness, largely because of job losses in residential construction and related areas (including housing finance).

The recent weakness of the gross domestic product, the labor market and the non-manufacturing sector, along with the systematic decline in the Conference Board's index of leading economic indicators since last fall, have stoked recession worries among financial market participants and policymakers in Washington, D.C.

The University of Hawai'i Economic Research Organization's March 21, 2008, forecast for the United States economy "implies a relatively mild recession by historical standards, but with a similarly restrained pace of economic recovery."

REVENUE PICTURE IN OTHER STATES

As of mid-March 2008, according to the Center on Budget and Policy Priorities, about half of the states are grappling with deep budget cuts and tax proposals to close revenue shortfalls.



- In California, lawmakers have made emergency cuts and authorized billions in bond sales to halve a deficit once projected at \$16 billion through June 2009. California lawmakers have already cut more than \$1 billion in payments to physicians caring for people who rely on the state for health care;
- Arizona must cut about \$1.8 billion or 16 per cent of its general fund budget; and
- New Jersey is grappling with a \$3.2 billion deficit, which is nearly 10 per cent of the state's general fund budget.

In short, the revenue picture in about half of the states is considerably worse than it is in Hawai'i. However, it would be wise to take note of their situations and be aware of the potential impacts on Hawaii's economy. Given the added likelihood of a recession for the United States economy, it imperative that the State of Hawai'i exercise fiscal restraint.

SUPPLEMENTAL BUDGET HIGHLIGHTS

With substantially lower than projected general fund revenues on hand, your Committee sought to preserve and ensure essential health and safety funding in this supplemental budget. Your Committee also sought to preserve funding for critical education, workforce, and economic stimulus initiatives.

Regardless, it is necessary to make reductions to the Administration's supplemental budget request. Your Committee did this through a combination of denying requests, vacancy adjustments, and reduction of the departments' general fund non-fixed cost "discretionary" budget appropriations.

Regarding vacancy adjustments, your Committee considered positions that have been vacant since June 30, 2007, or longer. Your Committee did not eliminate any position counts, unless those position counts were trade-offs for new positions. Your Committee believes this approach will soften the reductions imposed on departments and allow departments to activate and fill those positions when economic times are more favorable. Your Committee further notes that funds were not taken from positions filled with eighty-nine-day hires.



Finally, your Committee reduced the departments' general fund discretionary funds an average of 4 per cent, with a range of 2.5 per cent to 5 per cent. In making those reductions, your Committee tried to take into account the ability of the individual departments to sustain the level of reduction imposed in this supplemental budget.

Health, Human Services, and Public Safety

Health

Your Committee remains fully committed to ensuring that essential health, safety, and education services remain a legislative priority.

To that end, your Committee provided funds to meet the statewide needs of the Emergency Medical Services (EMS) contracted ambulance services. Your Committee provided \$2,638,980 in general funds and \$2,027,743 in special funds for emergency medical services through contracting agencies on the islands of Oahu, Hawai'i, Kauai, Maui, Molokai, and Lanai. This level of funding ensures that the EMS's operational needs are met. Additionally, this funding provides an Emergency Medical Technician training stipend in accordance with Act 213, Session Laws of Hawai'i 2007, to ensure a continued supply of trained paramedics in Hawai'i.

Your Committee also supports the continuing development and operation of a comprehensive statewide trauma system and therefore provided two temporary positions and \$6,882,307 in special funds to increase the Trauma System Special Fund ceiling. Trauma is the leading cause of early disability and the loss of many productive years of life, costing Hawai'i too many lives and millions of dollars each year. These funds will help provide a systematic, comprehensive, and coordinated trauma system and will primarily assist hospitals that provide acute trauma care, while improving and expanding the delivery of trauma services on the neighbor islands.

Your Committee continues to support the State's mentally ill population and has provided the Department of Health's Adult Mental Health Division with \$10,000,000 in general funds for purchase of service contracts. These contracts will allow individuals to be diverted or discharged from the Hawai'i State Hospital and assist the State Hospital to better manage its



census, while allowing the admission of individuals who are court-ordered to the hospital. Your Committee received a Governor's Message for additional program support at the Hawai'i State Hospital too late to be considered in this draft of the executive supplemental budget. However, your Committee is committed to improved working conditions and patient services at our State's inpatient mental health facility.

Your Committee also provided:

- \$1,224,206 in general funds and \$1,659,671 in interdepartmental transfer funds to provide for the increase in the number of qualifying Medicaid claims for individuals with developmental disabilities admitted to the Home and Community-Based Waiver Services, which will meet state matching requirements under federal Title XIX;
- \$100,000 in general funds for HIV prevention and care for those with HIV/AIDS, to preserve services in light of the impending loss of federal Ryan White funds;
- \$2,750,000 in federal funds to reflect the Hawai'i Access to Recovery grant awarded in September 2007 and to offer support services that are intended to reduce substance abuse among families;
- \$170,880 in special funds to increase the Domestic Violence and Sexual Assault Special Fund ceiling, which will expand statewide community-based prevention initiatives for domestic violence and sexual assault, including programs through the Hawai'i State Coalition Against Domestic Violence, the Expressive Arts Project, and development programs at the University of Hawai'i at Manoa, Women's Center; and
- One temporary position and \$483,333 in federal funds to establish a federal fund ceiling for the United States Department of Agriculture Food Emergency Response Network Cooperative Agreement, which will help mitigate threats to our food supply and provide support in response to any outbreak of threat agents.



Hawai'i Health Systems Corporation and Kahuku Hospital

Your Committee recognizes the importance of providing better healthcare for the people of Hawai'i through the support of rural acute and long term care facilities. The Hawai'i Health Systems Corporation hospitals face tremendous challenges with, among other things, federal and private reimbursement rates failing to keep pace with rising medical costs. To help maintain the current level of essential health care services by those hospitals, your Committee did not subject the Corporation hospitals to a 4 per cent reduction and instead provided an increase of \$5,000,000 in general funds for fiscal year 2008-2009. Your Committee does not believe that funds provided to safety net hospitals are discretionary. Your Committee recognizes that the increase is far short of the \$86,000,000 increase in supplemental funding requested by the Hawai'i Health Systems Corporation, but current economic conditions do not allow for more.

Human Services

Given the state of Hawaii's economy, it has become increasingly important to support the Department of Human Services in its effort to provide services to those most in need. Your Committee has provided \$4,300,000 in general funds for services at existing shelters and operating funds related to five new shelters scheduled to begin service in fiscal year 2008-2009.

To support the Department of Human Services' staff, your Committee has provided \$7,027,516 in federal funds to increase the federal fringe benefit ceiling in light of a higher federal fringe benefit rate. Your Committee also converted fifty-nine positions from temporary to permanent in order to improve recruitment and retention of staff.

For healthcare payments to offset new federal restrictions requiring states to impose a one-year uninsured period before a child can be eligible for coverage for the State Children's Health Insurance Program, your Committee has provided \$585,000 in general funds to ensure that Hawaii's children have continued coverage.

Finally, your Committee provided \$160,000 in special funds to expand domestic violence services. These funds will support



projects to help ensure the safety and protection of domestic violence victims and their children by coordinating prevention and intervention services.

Temporary Assistance for Needy Families (TANF)

Your Committee is concerned about the unsustainable rate of expenditure of TANF funds and cash reserves proposed by the Department of Human Services. The expenditure plan proposed by the Administration for fiscal year 2008-2009 would spend all of the \$98.9 million in the TANF block grant and \$40 million of the cash reserve. At that rate of spending, by 2010 the TANF cash reserve would be gone, replaced by an \$18.5 million deficit. Therefore, your Committee pared back spending while providing for essential programs and preserving an adequate reserve. Your Committee reduced \$9.8 million in purchase of service contracts to reduce out-of-wedlock pregnancies and encourage the formation and maintenance of two-parent families, \$4 million for purchase of service contracts for child welfare, \$5.6 million in uncommitted funds to the Department, and \$7 million for work and work support programs. In your Committee's TANF expenditure plan, funding of \$19 million is still provided for work and work support programs, \$3 million for Enhanced Healthy Start on all islands (child welfare), and \$2.8 million for Uniting Peer Learning and Integrating New Knowledge (UPLINK), a highly effective positive youth development program for middle school students. Other TANF funds address after school hours programs for youth in various programs, work support programs, and family strengthening programs offered by various nonprofit organizations.

As a transition to a more prudent approach to TANF expenditures, especially in light of our current economic climate when TANF reserves may be needed for cash assistance, your Committee is spending \$17 million from the TANF reserve fund for those additional services. Unlike the Administration's plan, your Committee's approach will leave the TANF reserve with \$44 million in fiscal year 2008-2009 (or one year's worth of cash assistance payments).

Public Safety

Your Committee recognizes the impact of inflation on the provision of basic needs for our correctional facilities for both inmates and operational staff. Your Committee has,



therefore, provided \$1,171,962 in general funds to address increasing costs for food supplies as well as repairs and maintenance. With respect to other basic needs of the inmate population, your Committee has also found it necessary to provide \$1,373,836 in general funds to cover increased costs associated with providing health care services.

Consistent with the goal of addressing essential safety concerns, your Committee has provided twelve permanent positions and \$267,001 in general funds to mitigate existing security shortfalls following the reorganization of the Hawai'i Community Correctional Center.

Your Committee also continued to address specific health concerns in correctional facilities by providing:

- Three permanent positions and \$155,690 in general funds for additional nursing staff;
- Twenty-one permanent positions and \$662,250 in general funds for additional mental health services staff; and
- \$191,499 in general funds for higher salaries to retain and recruit physicians and psychiatrists.

In addition, the State's correctional facilities must continue to address overcrowding issues. Your Committee has therefore provided:

- \$247,650 in general funds to establish an intensive outpatient program to expedite the release of moderate risk offenders who currently undergo a more extensive high risk offenders' program; and
- Two permanent positions and \$62,862 in general funds for the Inmate Classification Office to allow for more efficient prisoner transfer and placement.

Finally, your Committee has traded off \$745,584 in general funds from vacant Adult Correctional Officer positions to provide \$745,584 in general funds for overtime pay. Your Committee believes that this is a step towards addressing the existing overtime issues in correctional facilities with a more efficient and accurate approach. Your Committee expects the Department of Public Safety to account for and report the amount



of overtime compensation and adopt strategies to reduce such expenditures.

Defense

The State Civil Defense Division has been at the forefront in responding to the needs of our State when man-made and natural disasters occur. State Civil Defense provides a vital service to the State by coordinating private and other public authorities, planning and mobilizing rapid response services and recovery efforts, and restoring essential public services.

To ensure the health, safety, and emergency disaster preparedness of the State, your Committee has provided 21.5 temporary positions, \$848,171 in general funds, and a \$308,537 increase in the federal fund ceiling. These appropriations should sustain around-the-clock disaster warning personnel, the logistics staff that maintains the emergency supply cache, and the October 2006 Kiholo Bay Disaster Recovery Efforts staff. Your Committee also provided four positions and \$26,682 in general funds to provide continuity in the area of earthquake planning, survivable crisis management, population protection and disaster mitigation.

Your Committee also recognizes the valuable service and contribution of the Hawai'i Civil Air Patrol to the emergency preparedness efforts of the State. Your Committee has provided an additional \$19,000 in general funds for aircraft maintenance, emergency power supplies and ground training.

Finally, your Committee notes its concern regarding the current condition of the veterans' cemeteries throughout the State and has appropriated \$170,329 in general funds to the Office of Veterans Services to provide burial vaults and soil to limit the incidence of sinking graves in veterans' cemeteries and repair sunken gravesites. Your Committee expects that the Office of Veterans Services, together with the neighbor island counties, will increase its efforts in addressing much needed repair and maintenance at veterans' cemeteries on the neighbor islands.



Education

Public Education

Education remains a high priority for the State and, to the extent possible, your Committee sought to preserve the funding for the education of Hawaii's children, despite decreased revenue projections. Your Committee has worked closely with the Department of Education to address the most urgent of the Department's supplemental budget requests.

To improve access to education for children of homeless families, your Committee has provided two positions and \$600,000 in general funds for the Homeless Concerns Resource Program to address homeless concerns on Hawai'i and Maui.

In addition, your Committee has provided \$1,594,788 in general funds for the Weighted Student Formula to increase the weight for transiency/mobility from 0.025 to 0.05.

Because of the increase in the number of public charter schools, your Committee found it necessary to increase support for children enrolled in charter schools. Your Committee has approved the transfer of \$2,631,412 in general funds from the Department of Education to public charter schools to reflect the transfer of students from the Department of Education schools to charter schools. In addition, your Committee has provided \$1,833,293 in general funds to support two new start-up charter schools, Kona Pacific on the Big Island and Kawaikini New Century Public Charter School on Kauai.

Your Committee also provided:

- 108 positions for services for children with autism, to move away from more expensive contracted services and to provide better continuity of services; and
- \$322,625 in general funds for the transfer of responsibility for the Teacher Housing Revolving Fund from the Department of Human Services to the Department of Education, and an additional \$700,000 in revolving funds to improve teacher housing units and provide positions for the program.



Finally, your Committee provided a total of \$76,971,044 in increased fixed costs as follows:

- \$62,687,846 in general funds to address the increase in the pension accumulation requirement;
- \$9,522,996 in general funds to address the increase in social security payments;
- \$2,964,749 in general funds for debt service payments to reflect a decrease in budgeted interest payments due to the deferral of a bond issuance; and
- \$1,795,453 in general funds to reflect fiscal year 2008-2009 health benefits premium rates and updated enrollment projections.

Higher Education

The University of Hawai'i system is the State's only public institution for higher learning. As such, it is imperative that the University of Hawai'i provide quality education to prepare students to meet the demands of Hawaii's labor market.

Your Committee considered each of the Board of Regents' requests and tried to accommodate each campus's top priority. In addition to the appropriation of general funds, your Committee understands that the University of Hawai'i is anticipating an additional \$19 million in tuition and fees revenues every year until 2012. Therefore, your Committee has directed the University to use its increased revenues to offset the costs of some of its general funded requests.

Providing necessary educational resources is essential to delivering a quality education. Your Committee has provided the University of Hawai'i with 50.5 positions, \$1,915,800 in general funds, \$1,917,500 in special funds, and \$350,000 in revolving funds for various types of educational resources throughout the university system. These funds will provide students with additional classroom equipment, teaching assistants, computers, and technical equipment. Funding will also provide resources for distance education programs, articulation and transfer, the William S. Richardson Law School Library, the University of Hawai'i-Manoa Library, the Hyperbaric Treatment Center at the John A. Burns School of Medicine, the Hawaiian Knowledge Center



for Hawaiian language at the University of Hawai'i-Manoa, and the University of Hawai'i-Manoa Center for Smart Building and Community Design.

In addition, your Committee wants to ensure that the University of Hawai'i-Manoa, as a major research institution, has access to quality information. To achieve this, your Committee provided eight positions and \$2,399,875 in general funds to maintain and improve library collections and services at Hamilton and Sinclair Libraries.

In light of recent national and local occurrences, it is clear that campus safety for University of Hawaii's students, faculty, and staff must be improved. To that end, your Committee provided forty-one positions and \$2,957,486 in general funds for campus security throughout all University of Hawai'i campuses. In addition, your Committee authorized the use of \$75,000 in special funds for the University of Hawai'i-Manoa to hire additional students to assist Campus Security with patrol and escort responsibilities. To increase safety and visibility at night, your Committee provided \$200,000 in general funds, \$200,000 in special funds, and \$100,000 in revolving funds for lighting fixtures throughout the University of Hawai'i-Manoa campus. Your Committee also provided \$182,500 in general funds for five Mauna Kea Rangers to help ensure the safety and security of visitors to Mauna Kea and provide first-aid to injured and sick individuals.

Quality student services are another important part of creating a positive academic environment. Your Committee understands the importance of accessible student services and provided the University of Hawai'i with eight positions, \$271,619 in general funds, and \$351,869 in special funds for such purposes. The appropriation includes resources for the Counseling and Student Development Center and the Children's Center at the University of Hawai'i Manoa, as well as resources for safety education and physical and mental health services at the University of Hawai'i-Hilo.

Your Committee also provided:

- A \$3,000,000 increase in the University of Hawai'i-Hilo special fund ceiling to address increased enrollment and expansion by enabling the campus to expend funds for



instructional purposes as well as student housing and auxiliary services;

- \$1,142,080 in special funds for Women Scholarships for Title IX compliance at the University of Hawai'i-Manoa; and
- \$85,000 in general funds for the Aquarium to replace a well water sump cover and install service scaffolding and railings that are required by the Hawai'i Occupational Safety and Health Law.

Finally, your Committee provided a total of \$18,401,650 in increased fixed costs as follows:

- \$16,154,285 in general funds to address the increase in pension accumulation requirement; and
- \$2,247,365 in general funds to address the increase in social security payments.

Environment

Land and Natural Resources

Your Committee recognizes the importance of safeguarding Hawaii's precious natural resources and seeks to supplement the Department of Land and Natural Resources' budget with the necessary funds to adequately protect and maintain Hawaii's lands and wildlife.

A major concern of your Committee is the protection of the State's natural area reserves, not only for the benefit and enjoyment of the people of Hawai'i, but also for future generations. To carry out this objective, your Committee has provided the Department with a \$2,000,000 ceiling increase in the Natural Area Reserves Special Fund for the Management of Natural Area Reserves, Watershed Partnerships Related Projects, Natural Area Partnerships, and the Youth Conservation Corps.

Maintaining Hawaii's image as a beautiful destination is vital to Hawaii's tourism industry. Your Committee encourages the sustainable use of Hawaii's natural resources to support tourism and Hawaii's economy and has approved a \$900,000 ceiling increase in the Park Development and Operation Fund for the expenditure of annually deposited funds from the Hawai'i Tourism



Authority to support various projects. In addition, your Committee has approved a transfer of \$1,000,000 in interdepartmental transfer funds from the Hawai'i Tourism Authority for the purpose of beach restoration.

Your Committee finds that illegal activities, including drug activities, vandalism, assault, drinking, and theft at various state parks and small boat harbors are exacerbated by the Department's limited staffing. To aid the Department's enforcement capabilities, your Committee finds that additional conservation and resources enforcement officers are needed. Therefore, your Committee provided eleven additional enforcement officers and four clerical support positions statewide and \$167,160 in general funds and \$420,432 in special funds.

Hawaii's rich cultural resources and unique ecosystems are constantly besieged by invasive species and public overuse. To prevent further degradation and disappearance of the State's fragile environment, your Committee provided \$400,000 in general funds to support the fight against the coqui frog infestation in Hawai'i, Maui, and Kauai counties. Another area of concern is Hawaii's aquatic resources. Your Committee provided \$1,052,500 in federal funds for the monitoring, management, and surveying of aquatic resources, including coral reefs and bottom fisheries, as well as management of the Humpback Whale Sanctuary and studies related to the Northwestern Hawaiian Island Marine National Monument.

Finally, your Committee is concerned with the protection of endangered species. The State is currently in violation of the federal Endangered Species Act with regard to the Hawaiian monk seal population. Beginning in March 2009, four positions in the Division of Aquatics Resources Sanctuary Program will lose federal funding. Your Committee finds that these positions are vital to the protection of both the monk seal population and the turtle population and has therefore provided \$97,780 in general funds to sustain these positions.

Agriculture

The State has taken various initiatives to combat invasive species in the past few years. However, with numerous shipping vessels coming to and from our islands to transport goods and basic everyday needs, the threat to our environment is still present. Act 9, Special Session 2007, established a user fee



for the inspection of sea containers bound for Hawai'i that may also be carrying pests. Your Committee has provided a \$565,464 special fund ceiling to meet state mandates to conduct harbor inspection programs and early detection and rapid response activities against invasive species.

The Department of Agriculture carries out programs to conserve, develop and utilize the agricultural resources and infrastructure of the State. As the Department's agricultural and non-agricultural park programs continue to experience substantial growth, there is a need to closely monitor these programs. Your Committee has provided two positions and \$140,162 in special funds to manage agricultural and non-agricultural park lands in the State.

Commerce

Business, Economic Development, and Tourism

Your Committee recognizes the importance of continuing to provide funds to support the economic development of Hawai'i. Your Committee has therefore provided \$2,000,000 in special funds to increase the spending ceiling of the Convention Center Enterprise Special Fund to accommodate new business opportunities for the Convention Center.

Regarding the Office of Aerospace Development, your Committee notes the importance and potential for growth of the aerospace industry in Hawai'i and has provided \$130,000 in general funds for further development of the industry.

Your Committee also notes that it is crucial for the High Technology Development Corporation to continue to provide support for Hawai'i companies that have been awarded the Small Business Innovation Research or Small Business Technology Transfer grants. Your Committee has therefore provided \$100,001 in general funds to provide matching grants for the companies to remain competitive on a national scale.

Finally, your Committee also provided:

- \$1,978,587 in federal funds for the Brownsfields Cleanup Revolving Loan Fund to offer financing for developers to remediate and redevelop environmentally impaired properties;



- \$6,090,625 in special funds to increase the spending ceiling of the Hydrogen Investment Capital Special Fund to a total of \$8,700,000 for fiscal year 2008-2009 (in accordance with a contract with Kolohala Holdings LLP); and
- \$8,000,000 in trust funds to increase the ceiling of the Rental Housing Trust Fund so that it may continue to provide a reliable opportunity of financing for developers of affordable housing units.

Commerce and Consumer Affairs

The major functions of the Department of Commerce and Consumer Affairs are to develop standards relating to the licensing and general supervision of various industries; issue professional licenses; represent, protect, and advance the interests of consumers; coordinate consumer protection activities, conduct investigations, and research and enforce laws and rules; and provide consumer education services and programs.

Your Committee applauds the Department for meeting its mandate without using general funds. To further support its goal, your Committee has provided four permanent positions and one temporary position and a \$299,881 increase in special fund ceilings to continue its licensing and regulation activities and services.

Your Committee also appropriated \$1,115,000 in special funds for actuarial services to conduct examinations of domestic insurers and \$355,000 in special funds for contracted actuarial services for required statutory examinations of captive insurance companies to ensure transparency in Hawaii's insurance industry.

Finally, your Committee provided \$65,000 in special funds to the Department to allow continued funding of the Economic Cadre Program. The program aims to train selected teachers to promote and advocate the integration of economics into the school community.

Labor and Industrial Relations

Your Committee finds that there is a delay before workers' compensation cases can be brought to trial, primarily because of



the number of appeals being filed annually. This delay is problematic for time-sensitive cases, such as treatment plan denial cases in which workers cannot receive treatment until a decision on their case is made. To help ensure prompt decisions on such cases, your Committee provided the Labor and Industrial Relations Appeals Board with an additional \$65,000 in general funds for a hearings officer to expedite hearings on workers' compensation treatment plan issues, vocational rehabilitation issues, and temporary total disability issues.

Your Committee recognizes the success of the Office of Community Services in providing employment core services to the disadvantaged. To enable the Office of Community Services to expand employment core services and service Compacts of Free Association clients, your Committee provided \$1,200,000 in interdepartmental transfer funds for these purposes.

Transportation

The continued safety and operation of state harbors, through which most of Hawaii's goods and necessities enter the State, is critical. To that end, your Committee provided:

- \$241,860 in special funds and \$725,579 in federal funds to fund harbor security projects; and
- \$500,000 in special funds for engineering and architectural services to inspect and evaluate the structural integrity of harbor facilities.

Your Committee also provided a total of \$14,711,000 in special funds for the maintenance of various state highways and roads as well as training crews to manage storm water systems.

Other Department Highlights

Budget and Finance

In fiscal year 2005, the Employees' Retirement System began implementation of the new Pension Management Information System and will continue rollout of major functionalities in fiscal year 2008-2009. Your Committee appreciates the need for continued support of the new Pension Management Information System, and its ability to provide services in a more timely manner to an increasing customer base of 106,000 members, retirees, and beneficiaries. To aid and assist the Employees'



Retirement System and new Pension Management Information System, your Committee is providing \$2,000,000 in other funds to assist the conversion efforts of hybrid plan members with noncontributory service to hybrid service; \$500,000 in other funds to replace computer systems that are nearly twenty years old, enable other technological improvements, and provide maintenance; \$250,000 in other funds for overtime expenses for increased workload requirements; and sixteen positions.

Your Committee acknowledges the vital role of the Hawai'i Employer-Union Health Benefits Trust Fund, which provides affordable health and other benefit plans to state and county employees and retirees. The Employer-Union Health Benefits Trust Fund does not have the in-house expertise necessary to invest its funds in the best interest of the plans' participants and beneficiaries. Your Committee is providing \$300,000 for investment consultant services to effectively manage and optimize fund performance.

Your Committee strongly believes in providing adequate legal services to indigent persons charged with criminal offenses. The average misdemeanor/felony caseload per deputy public defender in the Kona Branch of the Office of the Public Defender far exceeds national caseload benchmarks. Population growth and the upcoming change in assignment of criminal cases in the South Kohala and Kau districts will further increase workload in the Kona office. To effectively process these additional cases and avoid potential excess costs of private counsel, your Committee is establishing a Deputy Public Defender III position for the Kona branch of the Office of the Public Defender and providing \$57,500 in general funds.

The use of renewable electrical energy is important to Hawaii's environment and economic landscape. Section 269-95, Hawaii Revised Statutes, states that the Public Utilities Commission shall contract with the Hawai'i Natural Energy Institute for studies regarding renewable portfolio standards. Your Committee provided \$500,000 in special funds for this important research initiative.

Accounting and General Services

Your Committee recognizes the Department of Accounting and General Service's role in ensuring the timely and accurate recording and accounting of all state financial transactions.



Your Committee has provided \$90,000 in general funds to cover additional costs of actuarial valuations of post-employment health benefits plans to meet the reporting standards issued by the Government Accounting Standards Board.

As previously noted, the price per barrel of oil has been rising steadily, resulting in higher than anticipated energy consumption costs. Consequently, your Committee has provided \$694,600 in general funds to enable the Department to pay for increases in electricity costs. In addition, your Committee believes that steps must be taken to efficiently manage our energy resources in the face of external economic factors. Your Committee provided \$400,000 in revolving funds to install energy efficient ballasts and bulbs in various state parking lots.

Your Committee acknowledges that the University of Hawaii's successful football season brought much attention to the condition of the Aloha Stadium. The long-time venue for various sporting and spectator events suffers from wear and tear brought on by time, natural elements and abuse. Your Committee has provided \$803,100 in special funds to cover various operational and utility expenses and to continue funding the stadium's multi-year seat replacement project to safeguard spectator health and safety. Your Committee has also provided \$117,671 in special funds to cover pay adjustments of part-time intermittent workers who are integral to the stadium's operation and safety.

Attorney General

The illegal drug activity involving methamphetamine or "ice" is a serious problem in the State. Act 63, Session Laws of Hawai'i 2003, created the Drug Nuisance Abatement Unit in an effort to prosecute violators of drug nuisance abatement laws. Since its inception in 2003, the unit has had tremendous success in closing down drug houses and disrupting the distribution and manufacture of drugs. Because of the unit's success, Act 180, Session Laws of Hawai'i 2007, provided the unit with funding for additional personnel to maximize the unit's performance and increase the number of drug house closings. However, this funding was only provided in fiscal year 2007-2008. To continue the Drug Nuisance Abatement Unit's efforts to address illegal drug activity, your Committee maintained this increased funding and provided the unit with 2.5 permanent positions and \$141,875 in general funds.



In addition, your Committee provided \$91,015 in federal funds for the Coverdell Grant which enables the Narcotics Enforcement Division to develop, maintain, and improve their capacity for forensic drug analysis. The Coverdell Grant also supports county forensic laboratories.

Your Committee also provided:

- In recognition of the importance of having updated and accurate information on sex offenders, 5.28 positions and \$193,675 in general funds for additional enforcement of Sex Offender Registration requirements;
- Two positions, \$20,931 in general funds, and \$56,881 in federal funds to the Child Support and Enforcement Agency to process a backlog of cases; and
- Two positions and \$98,394 in interdepartmental transfer funds to provide legal services to the Hawai'i State Hospital and the Hawai'i Housing Finance and Development Corporation.

Grants-in-Aid

Hawaii's grant-in-aid program under chapter 42F, Hawaii Revised Statutes, provides critical funding to nonprofit organizations that provide important services in the community. Your Committee is mindful that millions of dollars appropriated for grant-in-aid applicants in fiscal year 2007-2008 have not been released. However, many of these nonprofit organizations provide necessary services throughout Hawai'i efficiently and at a lower cost.

This legislative session, \$47 million in operating grants-in-aid and \$110 million in capital improvement grants-in-aid were requested. The vast majority of the applications came from worthy organizations in sincere need of support to sustain valuable programs for their constituents and our community. Understanding the State's budgetary constraints, your Committee provided \$4.3 million for operating grants-in-aid (less than 10 per cent of what was requested) and \$9.8 million in capital improvement project grants-in-aid (8 per cent of what was requested).



CAPITAL IMPROVEMENT PROGRAM HIGHLIGHTS

Mindful of the slowing in the State's economic growth and aware of important infrastructure needs, your Committee has approached capital investment with due regard for the State's fiscal uncertainty but acknowledging the role such investment can play to spur economic growth. While some would cut back on public investment when economic projections are less than optimistic your Committee finds that such times require sustained investment in the education, transportation, and health infrastructure projects that are vitally important to regaining sustained fiscal growth. Capital investment should be the engine of recovery rather than a casualty of a slowed economy.

Education Capital Improvement Projects

The Governor's proposed supplemental budget included a total of \$180,000,000 in capital improvement project funding for the Department of Education for fiscal year 2008-2009. Only \$40,000,000 of this was new funding; \$140,000,000 of the Governor's request was conversion of previously appropriated general funds to general obligation bonds. Your Committee finds that to be an inadequate response to the deteriorating infrastructure facing public schools today. Your Committee's supplemental budget provides \$373,975,000 in special funds for public schools for fiscal year 2008-2009. Included in that amount is an appropriation of \$49,020,000 for statewide cesspool removal to avoid federal Environmental Protection Agency sanctions. Also included is a total of \$192,461,000 in lump sum appropriations for classroom renovations and school building improvements. In addition to the new funding for schools, your Committee has reauthorized the Department of Budget and Finance to expend \$230,400,000 in previous appropriations for the State Educational Facilities Improvement special fund that were set to lapse on June 30, 2008.

Your Committee has taken note of the alarming state of some facilities within the University of Hawai'i system and provided \$106,395,000 in general obligation bond funds and \$17,883,000 in revenue bond funds for a total of \$124,278,000 for fiscal year 2008-2009 for renovations and repair and maintenance of the University's physical assets. Included are \$10,168,000 for renovation of Gartley Hall at the Manoa campus, and \$16,200,000 for the Hawai'i Community College Manono campus and the West



Hawai'i Education Center. In addition, your Committee provided \$10,395,000 in general obligation bond funds for a new classroom building at the Waianae Education Center.

Transportation Capital Improvement Projects

An efficient system of harbors and airports is vital to the flow of people and goods to, from, and within Hawai'i. Your Committee has provided \$124,375,000 in revenue bond funding for the Department of Transportation's Harbor Modernization Plan for fiscal year 2008-2009. New funding of \$250,122,000 in general obligation bonds and \$14,478,000 in other federal funds are provided for airports modernization and maintenance statewide--bringing the total authorization for airports in fiscal year 2008-2009 to \$306,869,000.

Energy Efficiency

Your Committee recognizes that energy efficiency is an investment that pays for itself, and to that end has increased energy conservation and efficiency appropriations by \$8,750,000 in general obligation bond funds for fiscal year 2008-2009.

Housing Capital Improvement Projects

The lack of affordable housing and the resulting homeless problem are major concerns of your Committee. Appropriations to address these issues include a total infusion of \$30,000,000 in general obligation bond funds into the Rental Housing Trust Fund and the Dwelling Unit Revolving Fund to finance additional affordable housing. Your Committee also provided \$10,000,000 in general obligation bond funds for a new facility for the homeless on Oahu, \$6,000,000 in general obligation bond funds for the Kaloko Housing Program in West Hawai'i, and \$26,000,000 to complete the purchase of Kukui Gardens.

Health Capital Improvement Projects

Your Committee provided \$36,182,000 in general obligation bond funds for improvements to facilities within the Hawai'i Health Systems Corporation, and an additional \$6,406,000 in general obligation bond funds for the Hawai'i State Hospital.



Conclusion

Given substantially lower than projected general fund growth for fiscal year 2007-2008, your Committee has crafted an honest, responsible and sustainable supplemental budget. This budget does not create false impressions, and should not give rise to false expectations.

In total (all sources of funding), this supplemental budget appropriates \$10,773,849,714 in fiscal year 2008-2009. Specifically regarding general fund appropriations, this budget appropriates \$5,325,468,704 in fiscal year 2008-2009. Compared with the budget request submitted by the Governor in December 2007, as adjusted by Governor's Messages throughout this legislative session, this budget represents a decrease of \$32,447,614 in fiscal year 2008-2009 in general fund appropriations.

Your Committee received testimony in support of this measure from: the Hawaii Health Systems Corporation, Oahu Region; the Kona Community Hospital; the Hilo Medical Center, the Finance Information Systems and Audit Committee, Hawaii Health Systems Corporation Board, the Hawaii Health Systems Corporation, Kauai Region, Hawaii Health Systems Corporation, Kauai Region Board of Directors, Hawai'i Tourism Authority, the Kauai County Housing Agency, and the Hawai'i Island Community Development Corporation.

Your Committee received testimony in opposition to this measure from the: Japanese American Citizens League of Hawai'i, Waianae Community Outreach, and one individual.

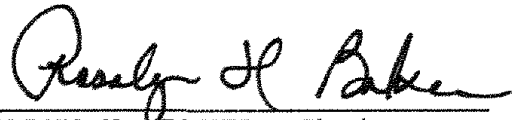
Your Committee received comments on this measure from the Department of Taxation, the Department of Land and Natural Resources, the Department of Business, Economic Development and Tourism, the Department of Human Services, the Department of Commerce and Consumer Affairs, the Hawai'i Housing Finance and Development Corporation, the Hawai'i Health Systems Corporation, the College of Arts and Humanities, University of Hawai'i Manoa, the University of Hawai'i William S. Richardson School of Law, the High Technology Development Corporation, the Hawai'i Agriculture Association, Faith in Action for Community Equity, the Richardson School of Law Alumni Association, Group 70 International, EAH Housing; Hawai'i Alliance for Community Based Economic Development, the Hawai'i Credit Union League, the



Hawai'i Council on Economic Education, Island Insurance Company, Ltd., Stanford Carr Development, LLC, Enterprise Honolulu, Acutron Co. Inc., Catholic Charities Hawai'i, the Family Life Center, Inc., Partners in Development Foundation, Big Brothers Big Sisters of Honolulu, Legal Aid Society of Hawai'i, Parents and Children Together, Blueprint for Change, the Partners in Development Foundation, Family Support Services of West Hawai'i, Maui Family Support Services, the YWCA, Hawai'i Island, the Hawai'i Family Support Institute, and eleven individuals.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2500, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2500, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.

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



ROSALYN H. BAKER, Chair



