

**Testimony of**

**THEODORE E. LIU  
Director of the  
Department of Business, Economic Development & Tourism**

**before the**

**HOUSE COMMITTEE ON FINANCE**

**on**

**Thursday, January 17 2008  
1:30 p.m.  
State Capitol  
Conference Room 308**

**in consideration of**

**BUDGET REQUESTS FOR  
SUPPLEMENTAL BUDGET REQUEST  
FOR FISCAL YEAR 2008-2009**

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	HD	Housing Development *
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	DA	Land Use Commission *

\* Assigned to the Department of Business, Economic Development, and Tourism for administrative purposes.

**Attachment 1**  
**Department-Wide Summary Information**  
**Totals for Proposed Department Budget Adjustments (by Method of Funding)**

FY08				
MOF	Act 213/07 Appropriation (a)	Restriction (b)	Emergency Request (c)	Total FY08 (a)+(b)+(c)
A	28,137,268			28,137,268
B	156,162,597			156,162,597
N	20,428,521			20,428,521
U	1,590,030			1,590,030
W	15,149,846			15,149,846
T	36,923,698			36,923,698
Dept. Totals	258,391,960	-	-	258,391,960

FY09				
MOF	Act 213/07 Appropriation (d)	Reduction (e)	Addition (f)	Total FY09 (d)+(e)+(f)
A	11,653,903		725,000	12,378,903
B	152,436,322		8,012,904	160,449,226
N	20,303,525		1,978,587	22,282,112
U	1,590,030		3,651,958	5,241,988
W	15,150,981		408,567	15,559,548
T	21,923,698		25,000,000	46,923,698
Dept. Totals	223,058,459	-	39,777,016	262,835,475

Please indicate restrictions and reductions as negative numbers, using brackets ( )

**Attachment 2**  
**Department-Wide Summary Information**  
**Fiscal Year 08 Proposed Emergency Requests**

<u>Program ID</u>	<u>MOF</u>	<u>Title of Emergency Requests</u>	<u>FTE</u>	<u>\$ Amount</u>
		NONE		
Dept. Totals by MOF			-	-

**Attachment 3**  
**Department-Wide Summary Information**  
**Fiscal Year 09 Proposed Budget Adjustments**

<u>Program ID</u>	<u>MOF</u>	<u>Program ID Title</u>	<u>FTE</u>	<u>\$ Amount</u>
BED 105/CI	A	Creative Industries Division	0.00	140,000
BED 113/XC	B	Hawaii Tourism Authority		2,000,000
BED 120/SI	A	Strategic Industries Division		285,000
BED 120/SI	U	Strategic Industries Division	4.00	1,623,390
BED 130/FA	U	Research & Economic Analysis Division	1.00	-
BED 142/AA	U	General Support for Economic Development		2,028,568
BED 143/TE	A	High Technology Development Corporation		300,000
BED 144/PL	N	Statewide Planning & Coordination		1,978,587
BED 145/VC	B	Hawaii Strategic Development Corporation	1.00	6,012,904
BED 160/HA	W	HHFDC Administration		408,567
BED 160/HF	T	Housing Finance		25,000,000
Dept. Totals by MOF	A		0.00	725,000
	B		1.00	8,012,904
	N		-	1,978,587
	U		5.00	3,651,958
	W		-	408,567
	T		-	25,000,000
	Total-All MOF		6.00	39,777,016

**Attachment 4**  
**Fiscal Year 09 Proposed Budget Adjustments**

<u>Program I.D.</u>	<u>Description of Adjustment</u>	<u>FTE (P)</u>	<u>FTE (T)</u>	<u>\$ Amount</u>	<u>MOF</u>
BED 105/CI	Increase GF base for operation & maint. of HI Film Studio.			60,000	A
BED 105/CI	Conversion of Film Industry Admin. Asst. Position #117019 from Temporary to Permanent.	1.00	(1.00)		A
BED 105/CI	Conversion of Building Mgr Position #49490 from Temporary to Permanent.	1.00	(1.00)		A
BED 105/CI	CID - Funding for CID Capacity Building & Marketing Programs.			80,000	A
BED 113/XC	Convention Center Special Fund ceiling increase.			2,000,000	B
BED 120/SI	Funds for Operating Programs of Science & Tech Branch.			50,000	A
BED 120/SI	To provide support for expanding and diversifying Hawaii's aerospace industry.			235,000	A
BED 120/SI	Funding and personnel for bioenergy program.		1.00	812,904	U
BED 120/SI	Energy & Fuels Data Analytic Positions Authorization (Two- 2.00 Positions) & funding for Public Utilities Commission Docket 2007-0176, Intragovernmental Wheeling of Electricity.		2.00	497,582	U
BED 120/SI	Funding support for technical assistance to state agencies implementing Lead by Example.			200,000	U
BED 120/SI	SID - Funding for Energy Facilitator position		1.00	112,904	U
BED 130/FA	DBEDT READ requests the addition of 1 position (Statistician III, SR20C) to the Tourism Research Branch. Not seeking additional funding from HTA. Assume budget same as FY 08. Funding for new position will be from transferring money from Other Current Expenses.	1.00			U
BED 142/AA	Interdepartmental transfer of funds from DHS under the TANF grant for Hiest Academy Program and Robotics Competition Programs.			2,028,568	U
BED 143/TE	Funding for the Hawaii SBIR/STTR Grant Program assists local businesses expand their federally funded R&D projects to attract Phase II federal dollars to commercialize their products.			200,000	A
BED 143/TE	Funding for the SBIR Technical Assistance program helps Hawaii businesses win federal R&D grants by training firms how to prepare competitive SBIR grant proposals.			100,000	A
BED 144/PL	Increase expenditure ceiling for Brownsfields Cleanup Revolving Loan Fund.			1,978,587	N
BED 145/VC	SID - (1) Renewable Hydrogen Program Manager		1.00	112,904	B
BED 145/VC	(2) Hydrogen Investment Capital Special Fund			5,900,000	B
BED 160/HA	Rent Adjustment - Correction of Amount			408,567	W
BED 160/HF	General Funds infusion of \$25,000,000 for the Rental Housing Trust Fund.			25,000,000	T

**Attachment 5**  
**FY09 Capital Improvements Program Summary**

<u>Priority</u>	<u>Project Title</u>	<u>FY09 \$ Amount</u>	<u>MOF</u>
1	Roof repairs to the Foreign-Trade Zone Facility at Pier 2.	930,000	C
1	Relating to Kukui Gardens Rental Housing Complex	26,000,000	C
2	Waiahole Valley Potable Water System Replacement	2,800,000	C
3	Kalaeloa Safety Improvements, Oahu	850,000	C
-	Rental Housing Trust Fund Infusion	25,000,000	C
-	Dwelling Unit Revolving Fund Infusion	25,000,000	C



**Attachment 6  
FY09 Request Decisions**

Depart Priority	Prog ID/Org	Description	MOF	Department			Budget and Finance			MOF	Governor's Final Decision		
				Perm. FTE	Temp. FTE	\$ Amount	Perm. FTE	Temp. FTE	\$ Amount		Perm. FTE	Temp. FTE	\$ Amount
1	BED 120/ SI	Strategic Industries Division (SID) - Funding and personnel for bioenergy program.	A		1.00	1,280,000				A		-	-
1	BED 120/ SI	Strategic Industries Division (SID) - Funding and personnel for bioenergy program.	U		-	-				U		1.00	812,904
2	BED 120/ SI	SID - Energy & Fuels Data Analytic Positions and funding for Public Utilities Commission Docket 2007-0176, Intragovernmental Wheeling of Electricity	A		2.00	140,000				A		-	-
2	BED 120/ SI	SID - Energy & Fuels Data Analytic Positions and funding for Public Utilities Commission Docket 2007-0176, Intragovernmental Wheeling of Electricity	U		-	-				U		2.00	497,582
3	BED 120/ SI	SID - Funding support for technical assistance to state agencies implementing Lead by Example	A			200,000				A			-
3	BED 120/ SI	SID - Funding support for technical assistance to state agencies implementing Lead by Example	U			-				U			200,000
	BED 120/ SI	SID - Funding for Energy Facilitator position	U							U		1.00	112,904
4	BED 120/ SI	SID - Greenhouse Gas Reduction (Act 234/SLH 07) 2 Positions	A		2.00	135,000				A		-	-
5	BED 105/ CI	Creative Industries Division (CID) - Request is to fund the Business & Development Administrator position	A			90,000				A			-
6	BED 120/ SI	SID - Funds for Operating Programs of Science & Tech Branch	A			50,000				A			50,000
7	BED 120/ SI	SID - To provide support for expanding and diversifying Hawaii's aerospace industry.	A	1.00		322,300				A	-		235,000
8	BED 142/ TL	Tourism - Add operating funds for Tourism Liaison Office	A			5,000				A			-
9	BED 143/ TE	High Technology Development Corporation (HTDC) - Funding for the Hawaii SBIR/STTR Grant Program assists local businesses expand their federally funded R&D projects to attract Phase II federal dollars to commercialize their products	A			200,000				A			200,000
10	BED 143/ TE	HTDC - Funding for the SBIR Technical Assistance program helps Hawaii businesses win federal R&D grants by training firms how to prepare competitive SBIR grant proposals.	A			100,000				A			100,000

**Attachment 6  
FY09 Request Decisions**

Depart Priority	Prog ID/Org	Description	MOF	Department			Budget and Finance			MOF	Governor's Final Decision		
				Perm. FTE	Temp. FTE	\$ Amount	Perm. FTE	Temp. FTE	\$ Amount		Perm. FTE	Temp. FTE	\$ Amount
11	BED 144/ PL	Office of Planning (OP) - Base funding is being requested to establish a multi-agency Enterprise License Agreement (ELA) for Geographic Information System (GIS) software.	A			200,000				A			-
12	BED 105/ CI	CID - Increase GF base for operation & maint. of HI Film Studio	A			100,000				A			60,000
13	BED 142/ AA	Dept Admin - Lotus Notes Programmer	A	1.00		43,824				A	-		-
14	BED 144/ PL	OP - Funding for studies to undertake State Land Use District Boundary Review.	A			250,000				A			-
15	BED 145/ VC	SID - (1) Renewable Hydrogen Program Manager	A		1.00	80,000				A		-	-
15	BED 145/ VC	SID - (1) Renewable Hydrogen Program Manager	B		-	-				B		1.00	112,904
15	BED 145/ VC	SID - (2) Hydrogen Investment Capital Special Fund	B			5,900,000				B			5,900,000
16	BED 113/ XC	Convention Center Spec. Fund ceiling increase	B			2,000,000				B			2,000,000
17	BED 130/ FA	Research & Economic Analysis Division (READ) - Requests the addition of 1 position (Statistician III, SR20C) to the Tourism Research Branch.	U	1.00						U	1.00		
18	BED 142/ AA	Dept Admin - Interdepartmental transfer of funds from DHS under the TANF grant for Hiest Academy Program and Robotics Competition Programs	U			-				U			2,028,568
-	BED 105/ CI	CID - Transfer of Pos. #117045 to BED 142 (Dept Admin)	A		(1.00)					A		-	
-	BED 105/ CI	CID - Conversion of Film Industry Admin Asst Pos. #117019 from temporary to permanent	A	1.00	(1.00)					A	1.00	(1.00)	
-	BED 105/ CI	CID - Conversion of Building Mgr Position #49490 from temporary to permanent	A	1.00	(1.00)					A	1.00	(1.00)	
-	BED 142/ TL	Tourism - Transfer of Pos. #117045 from BED 105CI	A		1.00					A		-	
-	BED 160/ HA	Hawaii Housing Finance and Development Corporation (HHFDC) - General Fund Exempt Position Salary Increases	W			10,605				W			-
	BED 160/ HA	Hawaii Housing Finance and Development Corporation (HHFDC) - General Fund Exempt Position Salary Increases	A							A			-
-	BED 160/ HA	HHFDC - Exempt Position Salary Increases	W			188,533				W			-
-	BED 160/ HA	HHFDC - Collective Bargaining Adjustments	W			24,727				W			-
-	BED 160/ HA	HHFDC - Rent Adjustment - Correction of Amount	W			408,567				W			408,567
-	BED 160/ HD	HHFDC - Exempt Position Salary Increases	W			77,646				W			-

**Attachment 6  
FY09 Request Decisions**

Depart Priority	Prog ID/Org	Description	MOF	Department			Budget and Finance			MOF	Governor's Final Decision		
				Perm. FTE	Temp. FTE	\$ Amount	Perm. FTE	Temp. FTE	\$ Amount		Perm. FTE	Temp. FTE	\$ Amount
-	BED 160/ HF	HHFDC - Collective Bargaining Salary Schedule Increases	W			29,630				W			-
-	BED 160/ HF	HHFDC - Collective Bargaining Salary Schedule Increases	W			6,509				W			-
-	BED 160/ HF	HHFDC - Exempt Position Salary Increases	W			241,994				W			-
-	BED 160/ HF	HHFDC - General Funds infusion of \$25,000,000 for the Rental Housing Trust Fund.	A			25,000,000				A			-
	BED 160/ HF	Increase Trust Fund ceiling - RHTF General Fund Infusion	T							T			25,000,000
-	BED 105/ CI	CID - Funding for CID Capacity Building & Marketing Programs	A			-				A			80,000
-	BED 144/ PL	OP - Increase expenditure ceiling for Brownsfields Cleanup Revolving Loan Fund	N			1,978,587				N			1,978,587



**Attachment 8**  
**All Positions Vacant As of 12/1/07**

Date of Vacancy	Program ID	Position Title	Position No.	Exempt (Y/N)	Budgeted Amount	Actual Salary Last Employee Paid (Annual)	MOF	Authority to Hire (Y/N)
12/05/06	BED130	Information Specialist III	10066	N	\$38,952.00	\$38,952.00	A	Y
10/03/07	BED144	Planner VI	14957	N	\$73,032.00	\$75,948.00	A	Y
07/31/07	BED130	Clerk Typist II	17805	N	\$23,736.00	\$24,684.00	A	Y
08/01/06	BED100	Secretary II	18398	N	\$29,976.00	\$31,332.00	A	Y
07/29/06	BED107	FTZ Representative	22200	N	\$51,312.00	\$70,560.00	B	N
11/01/05	BED107	FTZ Warehouse Worker	22205	N	\$34,728.00	\$32,760.00	B	N
09/20/07	BED144	Planner V	22408	N	\$47,448.00	\$49,344.00	A	Y
07/01/05	BED160	Accountant IV	23660	N	\$42,144.00	\$40,716.00	W	Y
08/07/07	BED144	Planner V	25238	N	\$47,488.00	\$49,344.00	N	Y
12/31/98	BED160	Housing Loan Services Officer	25650	N	\$47,448.00	\$45,840.00	W	N
12/01/07	BED144	Secretary II	26359	N	\$46,164.00	\$48,012.00	A	Y
05/18/99	BED107	Clerk Typist II	26756	N	\$23,736.00	\$21,096.00	B	N
03/16/04	BED120	Secretary II	26796	N	\$0.00	\$32,448.00	A	N
08/01/07	BED100	Economic Development Specialist VI	27489	N	\$73,032.00	\$75,948.00	A	Y
04/30/05	BED160	Clerk Typist II	27568	N	\$23,736.00	\$22,932.00	W	Y
08/13/07	BED160	Clerk Typist III	27586	N	\$32,424.00	\$33,720.00	W	Y
04/23/07	BED160	Clerk Typist II	32938	N	\$24,684.00	\$23,736.00	W	N
07/07/07	BED105	Economic Development Specialist V	35259	N	\$47,488.00	\$44,292.00	A	Y
10/01/07	BED160	Account Clerk IV	36211	N	\$32,424.00	\$30,156.00	W	Y
03/01/07	BED130	Librarian IV	39449	N	\$57,720.00	\$57,720.00	A	N
09/17/01	BED160	Departmental Personnel Officer I	40990	N	\$50,472.00	\$46,200.00	W	N
06/01/07	BED160	Clerk Typist II	41264	N	\$25,944.00	\$23,736.00	W	Y
02/14/07	BED160	Clerk Typist II	41266	N	\$23,736.00	\$22,932.00	W	Y
09/18/07	BED160	Personnel Management Specialist V	42099	N	\$49,332.00	\$51,300.00	W	Y
12/16/06	BED100	Economic Development Specialist VI	43036	N	\$64,932.00	\$62,400.00	A	Y
05/12/07	BED103	Planner V	45497	N	\$49,332.00	\$49,332.00	A	Y
08/16/07	BED100	Business Development Program Manager	49499	N	\$78,929.00	\$83,268.00	A	N
07/01/03	BED160	Housing Development Specialist I	100385	Y	\$60,480.00	\$60,480.00	W	Y
01/10/07	BED160	Housing Development Specialist II	100387	Y	\$60,037.00	\$60,036.60	W	Y

**Attachment 8**  
**All Positions Vacant As of 12/1/07**

Date of Vacancy	Program ID	Position Title	Position No.	Exempt (Y/N)	Budgeted Amount	Actual Salary Last Employee Paid (Annual)	MOF	Authority to Hire (Y/N)
04/11/06	BED160	Housing Warranty & Inseption Technician	100447	Y	\$42,696.00	\$50,184.00	W	Y
06/20/07	BED160	Housing Finance Specialist I	100489	Y	\$57,720.00	\$57,720.00	W	Y
02/02/02	BED160	Housing Development Specialist III	100891	Y	\$64,920.00	\$64,920.00	W	Y
08/30/07	BED160	Housing Loan Specialist	100929	Y	\$53,352.00	\$55,488.00	W	Y
03/09/05	BED160	Property Management Coordinator I	100932	Y	\$51,312.00	\$56,040.00	W	Y
10/04/07	BED120	Energy Clerk Typist	101058	Y	\$31,212.00	\$32,460.00	N	N
07/06/00	BED160	Loan Processing Assistant I	101626	Y	\$32,136.00	\$32,136.00	W	Y
07/28/07	BED144	Director, Office Of Planning	101867	Y	\$85,897.00	\$82,992.00	A	Y
03/29/02	BED160	Development Support Section Chief	102029	Y	\$66,144.00	\$66,144.00	W	Y
10/07/06	BED160	Housing Planner III	102035	Y	\$55,032.00	\$55,501.56	W	Y
07/25/07	BED150	HCDA Asset Management Specialist	102040	Y	\$0.00	\$53,820.00	C	Y
06/30/07	BED146	NELHA Microbiologist III	102526	Y	\$49,332.00	\$47,448.00	B	N
06/30/07	BED146	NELHA Chemist III	102694	Y	\$44,066.00	\$44,066.16	B	N
11/01/07	BED143	HTDC MIC Incubation Program Manager	102716	Y	\$58,219.00	\$77,625.00	A/B	Y
06/20/07	BED160	Mortgage & Rental Finance Section Chief	105731	Y	\$64,936.00	\$64,936.08	W	Y
10/31/07	BED146	NELHA Senior Secretary	107909	Y	\$56,925.00	\$59,208.00	B	N
02/20/04	BED160	Property Management Coordinator I	107935	Y	\$35,688.00	\$38,976.00	W	Y
01/19/06	BED150	HCDA Legislative & Community Relations Coordinator	111511	Y	\$0.00	\$55,764.00	C	N
08/16/07	BED143	MEP Project Manager	116615	Y	\$70,380.00	\$73,200.00	N	Y
11/30/05	BED151	ATDC Development Manager/Special Assistant	116965	Y	\$82,820.00	\$81,636.72	B	Y
09/29/07	BED151	ATDC Project Manager	117411	Y	\$77,996.00	\$81,120.00	B	Y
08/10/06	BED160	Housing Finance Specialist I	117422	Y	\$70,638.00	\$79,590.00	W	Y
05/04/07	BED160	Special Assistant	117429	Y	\$70,638.00	\$65,240.04	W	N
10/23/06	BED160	HHFDC Deputy Eecutive Director	118037	Y	\$77,000.00	N/A	A	Y
05/01/07	BED160	Housing Finance Specialist I	118415	Y	\$60,000.00	N/A	W	Y
05/01/07	BED160	Secretary I	118427	N	\$29,976.00	N/A	A	Y
11/20/07	BED130	Economist IV	118817	N	\$43,824.00	N/A	A	Y
11/20/07	BED130	Economist V	118822	N	\$49,344.00	N/A	A	Y

**Attachment 9**

**Listing of Expenditures Exceeding Federal Fund Ceiling for FY07 and FY08**

<u>Program ID</u>	<u>FY07 Ceiling *</u>	<u>FY07 Expenditures**</u>	<u>FY08 Ceiling*</u>	<u>FY08 Expenditures**</u>	<u>Reason for Exceeding Ceiling</u>	<u>Recurring (Y/N)</u>
BED 144	2,304,282	50,047			FY07: Brownsfield Assessment Grant, Public Law 107-118, Small Business Liability Relief and Brownsfield Revitalization Act. Funds used to conduct environmental site investigations of Brownsfield properties that are known or suspected to be contaminated by hazardous substances or petroleum.	N
BED 146	6,843,525	3,155,884			FY07: National Defense Center of Excellence for Research in Ocean Sciences (CEROS) technological development contracts.	Y
BED 146		94,394			FY07: National Defense Center of Excellence for Research in Ocean Sciences (CEROS) administrative expenses.	N
BED 146		321,390			FY07: Development and Deployment of Disturbed Energy Systems for the research and development analyses to determine the feasibility and benefits of the installing a variety of cutting edge technologies that are interconnected to the grid.	N

\* Per House Finance Staff reflect appropriation amount under "ceiling".

\*\* Per House Finance Staff reflect Governor's approval that is in excess of appropriated amount under "expenditure".

**Attachment 10**  
**Listing of Transfers for FY07 and FY08**

<u>Program ID</u>	<u>FY07 Ceiling*</u>	<u>FY07 Amount Transferred</u>	<u>FY08 Ceiling**</u>	<u>FY08 Amount Transferred</u>	<u>Reason for Transfer</u>	<u>Recurring (Y/N)</u>
BED 100	1,995,056	(40,000)			FY 07: Transfer \$40,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 105	1,432,414	(2,000)			FY 07: Transfer \$2,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 120	1,398,347	(55,000)			FY 07: Transfer \$55,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 130	977,480	(89,000)			FY 07: Transfer \$89,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 143	936,930	(13,000)			FY 07: Transfer \$13,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 144	1,622,561	(31,000)			FY 07: Transfer \$31,000 to BED142 to provide funding for personal services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 150	288,245	(11,000)			FY 07: Transfer \$11,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N

\* General Fund Appropriation

\*\* No transfers for FY 08



**Attachment 11  
Department Listing of Deployed Positions**

Position #	Position Title/Description	Program ID Originally Assigned to	Program ID Transferred to	Narrative Discussion on Why Position was Moved	Specific Reasons Deployment Will Result in More Efficient Functioning of Department	Impact to Program Originally Assigned to	Date Deployment Began	Expected End Date of Deployment
<b>DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT &amp; TOURISM - NONE</b>								

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request for Fiscal Year 2008 - 2009**

**Program I.D. and Title: BED 100 SM – Strategic Marketing and Support Division**

**1. Introduction:**

**a. Summary of program objectives.**

SMSD promotes economic diversification and industry development by addressing fundamental issues related to the building blocks of the new economy. Of primary concern are the challenges brought on by globalization. For small businesses, it means that the competition can now be located half way across the world. For our present and future workforce, the need to upgrade skills and remain adaptable are essential in order to be competitive in the global marketplace. For our local economies, it means aligning with regional economies to grow and be part of the broader, global economic scheme.

To accomplish its objectives of economic diversification and development, SMSD supports:

- Existing and emerging industries through the expansion of Hawaii's participation in global trade and commerce; linking Hawaii firms with overseas agencies and organizations, increase in exports of Hawaii products & services, workforce development; and
- New and existing business through business advocacy, coordination and development of programs and projects aimed at specific business sectors or economically-distressed areas, including rural areas and areas affected by natural disaster.

**b. Description of program objectives.**

There are two distinct, yet synergistic, programmatic areas: the Marketing Programs and the Support Programs. Together, these two programs support DBEDT's strategic objectives by:

- Linking Hawaii's people, ideas and businesses with the global marketplace to enhance global trade and to attract investment;
- Promoting exports of goods and services from Hawaii to provide Hawaii businesses with a wider market base of opportunity;
- Supporting the development of an innovation infrastructure in Hawaii through the development of a capable and informed workforce especially in the areas of science and technology, and building the capacity of our workforce to handle community needs;
- Improving Hawaii's small business environment through advocacy and small business preference programs; and

- Attracting investment, including foreign investment, to support areas of need such as workforce housing development, long term care facilities and educational facilities.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

To meet the **Marketing Programs'** objectives, efforts are focused on the following:

1. Promoting global linkages/exports from Hawaii, and opening and expanding markets for Hawaii's businesses through:
  - Utilizing existing agreements and identifying new strategic opportunities with foreign governments that will forge closer ties and generate new businesses opportunities & relationships;
  - Creating business and organizational partnership and matchmaking opportunities for Hawaii's companies through conferences, events, and our Sister-State relationships;
  - Operating representative offices in Taiwan and Beijing to provide stable linkages (governmental and business) with those regions;
  - Providing relevant and timely information about overseas market opportunities and serving as a facilitation to access there opportunities;
  - Organizing participation with private sector partners at domestic and international tradeshows to market Hawaii as a business and investment location, to gain new customers and sales for private sector business, and to market Hawaii's areas of excellence and industry sectors with competitive advantages;
  - Facilitating introductions between buyers and investors and other incoming business groups to purchase from or to partner with Hawaii companies;
  - Promoting professional and vocational education and training at Hawaii's institutions to Asian managers, administrators, and students as a means of developing higher value market opportunities and promoting Hawaii as a center for international education;
  - Collaborating with the counties, Economic Development Boards and industry associations in their targeted marketing efforts;
  - Building on the successes of "consortia" marketing. SMSD has developed three consortia: the Integrated Development Group (IDG), which is a consortium of Hawaii companies in the tourism consulting fields, and the Environmental Services Development Group (ESDG), which is a consortium of Hawaii companies in environmental consulting

and product development; and the Study Hawaii Group which is a group of institutions in international education to attract students and training groups to Hawaii;

- Leveraging Hawaii's network of contacts in the public, quasi-governmental, NGO and private sectors in the Asia-Pacific region; and
- Matching Hawaii firms with opportunities in the Asia-Pacific region by conducting targeted overseas business missions aimed at opening and expanding markets.

2. Attracting new business and investment to Hawaii by:

- Collaborating with county economic development boards and agencies, trade and industry associations, academic and research associations, and the private sector to market Hawaii's industry areas of excellence;
- Collaborating with overseas partners to identify prospects who are interested in investing or locating a business in Hawaii;
- Providing information and assisting companies interested in relocating or starting-up in Hawaii;
- Participating in targeted industry events, conferences and exhibitions to attract companies;
- Promoting Hawaii's business assets and incentives including Act 221/215, Enterprise Zones, State Employment Training Funds, etc., as part of the business development effort;
- Organizing outbound and inbound missions to promote Hawaii as a good place for business and investment; and
- Promoting the immigrant investor program in Asia and the U.S., educating attorneys and other professionals about the program, matching overseas investors with investment opportunities in Hawaii, and utilizing recent federal support for investment attraction.

3. Building an "Innovation Infrastructure" through readiness training and networking opportunities with the global marketplace:

- Sponsoring enterprise and export workshops to assist small businesses to enter the export market;
- Supporting industry improvement conferences and events;
- Conducting workshops on how small businesses can benefit from globalization; and

- Attracting international workshops, seminars and conferences that provide opportunities for Hawaii firms to expand their reach of contacts.
4. Improving the small business environment by:
- Continuing the “Hawaii: Open for Business” campaign backed by a joint effort of economic development agencies to market Hawaii as a business location especially to targeted industry sectors;
  - Maintaining an SMSD website in Chinese, and collateral materials to assist and attract businesses in selected languages;
  - Producing high profile conferences that position Hawaii as a key location for international business exchange; and
  - Orienting and assisting visiting groups, missions and journalists to feature Hawaii’s technology, expertise, infrastructure, education and training, and integrated medical health practices in media highlighting the business assets of our state.

To meet the **Support Programs’** objectives, efforts are focused on the following:

1. Building an “Innovation Infrastructure” through workforce development, through:
- Collaborating on workforce development initiatives with county workforce investment boards, state workforce development council and workforce development partners;
  - Marshalling other state agencies such as the Dept. of Human Services to participate in workforce training and development programs aimed respectively at the hard-to-hire and community based needs, and Dept. of Commerce and Consumer Affairs to increase participation in financial literacy efforts;
  - Identifying industry workforce needs, and serving as a facilitator between the training service providers, funding agencies and the private sector;
  - Developing and promoting work force development initiatives such as life-long learning accounts and repatriation of ex-pats; and
  - Identifying and applying for grants (federal, private, NGO) that provide financial assistance to kick-start or pilot workforce development projects.
2. Improving the small business environment by:
- Providing, through the Business Advocate, the necessary staff support to the Small Business Regulatory Review Board (SBRRB) and streamlining their review process to expedite comments to rule-drafting agencies;

- Increasing the SBRRB's public relations and publicity efforts to generate more awareness of the program;
- Providing financial and technical assistance, through the Community Based Economic Development Program, to eligible community organizations to plan and implement economic development projects that provide employment opportunities, build capacity, strengthen identity, and help retain and create cultural anchors;
- Developing partnerships to better leverage public funds geared toward communities, such as those with the Office of Hawaiian Affairs and the Department of Human Services, to meet targeted disenfranchised communities' needs;
- Identify and solicit NGO's and foundations for financial support to community based organizations;
- Collaborate with a statewide Advisory Council to develop a more effective public relations strategy and partnerships with other funding agencies and organizations dedicated to community economic development;
- Implementing an outreach campaign with the counties on the State Enterprise Zone (EZ) program. The objective of the outreach program is to increase new EZ enrollees by helping to identify, inform and educate eligible businesses in designated zones about program benefits;
- Developing new promotional and educational activities targeted to attract new businesses to EZs in economically distressed areas and increase the number of enrolled eligible firms from these areas;
- Increase advertising and publicity of Enterprise Zones and the EZ program in collaboration with other state agencies, such as the Dept. of Taxation, and in conjunction with the promotion of other tax incentives;
- Distributing EZ brochures, booklets, and copies of the EZ annual report upon request and through the counties and other public and private economic development entities. EZ information, maps, and application forms will also be made available on-line with increased links to related websites; and
- Providing Disaster Commercial and Personal Loans in the event of a state-declared disaster through the states Disaster Loan Program.

## **2. Program Performance Results:**

### **a. Discuss the performance results achieved by program in FY07.**

A summary of the **Marketing Programs'** FY 2006 and 2007 activities and results include participating in three U.S. mainland trade shows; organizing two overseas

trade missions, six reverse missions and eleven industry-specific promotional events. Results realized include attracting \$5.25 million in new investments into the state, \$2.5 million in new exports, and between \$3-6 million anticipated export sales. The following details are provided :

1. Promoting global linkages exports from Hawaii, and opening and expanding markets for Hawaii's businesses:
  - Organized Hawaii's participation at the BIO 2007 Annual International Convention in Boston, May 6-9, 2007. The event attracted a record 22,366 attendees from 48 states and 64 countries. Hawaii's delegation consisted of 30 individuals representing 19 organizations and programs from the private sector, state agencies and the University of Hawaii. Significant outcomes include: Over 300 contacts made from the Hawaii Pavilion and \$40,000 in private sector support leveraged from this event; also, a California drug discovery company is looking to move its operations out of the Bay area and is considering Hawaii as one possible location; the company is currently assessing the benefits of Act 221/215. Also participated at BIO 2006 in Philadelphia.
  - Organized Hawaii's participation at the 2006 SPIE Optics & Photonics Conference & Exhibition held in San Diego, August 15-17, 2006. The Hawaii team consisted of 19 individuals from 11 organizations, representing a cross section of private sector entities, academia and state government. This year's event featured 277 exhibitors and was attended by 4,400 people. Significant outcomes include: Over 100 contacts made through the Hawaii Pavilion; one company (Ealing Catalog) seriously looking to expand to Hawaii; market visit planned for November 2006; one company (WNBC in LA) in discussion to open sales office in Hawaii; 3 sources of new federal R&D funding was briefed and connected with Hawaii companies; and \$27,700 in private sector support leveraged for this event.
  - Organized Hawaii's participation in BioJapan in Osaka, in September, 2006. Thirteen professionals representing the University of Hawaii, government and the life sciences industry participated in a three day exhibition at the BioJapan trade show as part of the U.S. Pavilion. The event attracted over 20,000 attendees during the three day event. In addition to exhibiting at the trade show, Hawaii hosted a session that featured the Cancer Research Center of Hawaii's future developments. This event attracted over 80 attendees. A significant outcome included a future ICT mission to Hawaii in January 2007.
  - Organized Osaka ICT Mission to Hawaii – Reverse mission comprising of representatives from IT and telecom sectors in Western Japan. The mission was led by NTT Docomo President and included 12 individuals who observed and learned about IT and telecom initiatives on Oahu and the Big Island. This mission was a direct outcome of Hawaii's participation in BioJapan 2006 in Osaka.

- Produced performance by the Blue Sky Children's Arts Troupe –a special performance for over 200 Hawaii elementary school students to participate in a colorful cultural presentation from China by 40 children.
- Conducted the Hawaii Life Sciences and Innovation Seminars, Japan to promote Hawaii's emerging industries, the seminars were attended by over 150 participants in Tokyo and Okinawa.
- Participated in the Korea-U.S. Pacific States' Economic Conference in October 2006 in Seoul. A group of 21 Hawaii delegates representing 15 public and private sector organizations attended. One of the delegates made a presentation in the tourism session, addressing Hawaii's strengths as a location for meetings and conventions.
- In October 2007, participated at the Korea-U.S. Pacific States Conference in Boise, Idaho. Secured the 2009 conference for Honolulu, Hawaii that will attract 1,000 conference attendees.
- Planned, organized and led an environmental mission to China. The eight member mission, representing five Hawaii companies, visited Shanghai and Chengdu to get a better understanding of the environmental landscape and challenges facing China and to market their services and products to government and private-sector companies. Supported by the Shanghai and Chengdu offices of the U.S. Commercial Service (USCS), mission activities included industry briefings, over 60 targeted one-on-one appointments, group meetings with high-level environmental protection bureau officials and environmental site visits.
- Hawaii Environmental Biosolutions (HEB) signed a joint venture agreement with Jinan Jiu Rong Water Treatment Company to deploy HEB's wastewater treatment technologies in Jinan, capitol city of Shandong Province. The agreement was a result of a reverse environmental mission to Hawaii led by the U.S. Commercial Service office in Beijing. DBEDT planned and organized industry briefings by Hawaii environmental companies, environmental site visits and one-on-one business meetings. HEB will provide their patent pending wastewater treatment technology valued at \$1 million as their investment in the joint venture. Jinan Jiu Rong will provide \$500,000 cash and the exclusive use of one of their existing factories, which sits on 600,000 square meters of land, valued at over \$625,000, to establish the new company. A private Chinese investor will invest \$125,000 cash into the venture.
- Organized two site visits and industry presentation for a medical and dental administration delegation from Chengdu and Kunming, China, led by staff from the U.S. Commercial Service in Chengdu. Delegation members were interested in visiting a comprehensive dental clinic and learning more about how Hawaii handles its medical and dental waste. Hawaii Family Dental Centers is the State's largest group practice with eleven locations on four islands and over 80,000 patients. The delegation toured the Center's headquarters and learned how the multi-site complex of dental clinics handle



personnel recruitment, staff training, compensation structure and the company's strategy to market their services statewide. Two participants in the group who own their own hospital and dental clinics are interested in working with the dental center's planning staff on design and operational concepts for their future dental clinics. They were also interested in having their new facilities look more Westernized.

- The group also learned how Honua Technologies, the State's largest medical waste disposal company, safely handles and disposes of medical and dental waste. The Chief Financial Officer of Huaxi Puji Hospital in Chengdu is in the process of planning a new hospital in Sichuan Province and is interested in evaluating Honua Technology's products for installation in her three hospitals. Honua Technologies has made many trips to China on their own in an attempt to establish and develop relationships in the industry and to market and secure business overseas.
- Planned and organized an environmental-focused program for a reverse mission from Zibo City, China. A delegation of senior managers from the Zibo Municipal People's Government Administrative Committee of National New and High-Tech Industrial Development Zone, traveled to Hawaii get a first-hand look of what Hawaii's environmental service and product-based companies have to offer Zibo. Zibo is an industrial city well known for its high quality ceramics, silk, pharmaceutical and chemical products. Any of the products manufactured in Zibo present its own environmental challenges to the city's environment. With a population in excess of 4 million people, Zibo is considered one of the top 50 Chinese cities in terms of economic production and strength. The full-day program included a welcome by Director Ted Liu, 3 industry briefings, a site visit to the Waikiki Natatorium and meetings with several Environmental Development Group Hawaii companies. The group's visit to Hawaii was a direct result of a DBEDT-led environmental mission to Shanghai and Chengdu in September 2006. While the Hawaii delegation was in Shanghai, Mr. Pengsheng Zhang, Deputy Director for Administration, Zibo New & High-Tech Industrial Development Zone, travelled to meet with DBEDT staff and delegation members to explore the possibility of visiting Hawaii as part of a multi-state, environmentally-focused tour of the United States.
- Planned and coordinated an environmental industry-focused program in partnership with the University of Hawaii's Water Resources Research Center. This environmental delegation is the second group to visit Hawaii from the Administrative Committee of Zibo New & High-Tech Industrial Development Zone. The zone is interested in developing relationships and partnerships with Hawaii environmental companies in the areas of safe drinking water and wastewater treatment technologies. Initial contact was made with the zone's deputy administrative director during a DBEDT-led environmental mission to China in September 2006.
- Planned and organized a one-day program for a hospital and clinical laboratory delegation from Shanghai and Beijing. The 23 member delegation, led by the U.S. Commercial Service (USCS) was interested in

learning about Hawaii's statewide healthcare system and State government's role in regulating and monitoring medical facilities. The USCS had confirmed the group's interest in purchasing medical devices and new technology related to the delivery of healthcare services and partnering to broker medical supplies and equipment. Dr. Chiyome Fukino, Director of the State Department of Health, addressed the group on the topic of public health in Hawaii. Honua Technologies, a Hawaii company that has developed a proprietary medical and hazardous waste treatment and destruction system, briefed the delegation on their technology. Honua has been actively seeking business opportunities in China over the last four years. Healthcare Association of Hawaii presented an overview of the network of medical facilities in Hawaii. A site visit to the Hawaii Medical Center East facility was arranged for the group and included comprehensive briefing by senior medical administrators and a tour of the hospital.

- In June, 2006, assisted the Bishop Museum in the signing of an historic cultural exchange agreement which resulted in a major exhibition which began on July 11 and which ran through September 1, 2006, and which focused on the historical and cultural development of the Hawaiian Islands. The exhibit was developed after the Taiwan office invited the National Museum of Prehistory to visit Hawaii in 2005 to meet with Bishop Museum officials.
- Helped Kona Brewing Company gain a foothold in the Taiwan brewery market. Initial sales totaled \$12,000 and 300 cases were ordered in 2007.
- Taipei staff worked closely with Ever Shine Corporation to promote various Hawaii products by placing principal Jason Lee in touch with such companies as Hawaiian Sun, Noh Foods and Nutrex. In addition, staff introduced Mr. Lee to EVA Airlines and Maersk Lines for possible long-term shipping arrangements. He produced a major Hawaii product promotion at Taiwan's Lake Shore Hotel in August, 2006 at which 1,500 participated. All-in-all, Mr. Lee imported \$417,262 worth of Hawaii products by end of 2006. In April, 2007, Mr. Lee visited the Beijing office to discuss opening up an office for the marketing of Hawaii Deep Sea Water.
- Facilitated Hawaii participation at the annual World Trade Centers Association (WTCA) conference in Beijing. Over the next ten years, the WTCA plans to build 40 facilities in China over the next ten years, resulting in revenues to Hawaii firms in the Integrated Development Group (IDG) of \$2.5 million to \$5 million. During the conference, an agreement was signed between the Integrated Development Group (IDG) and the Association to expand the Centers in China. IDG made a presentation on how it could help developers and municipal governments determine the feasibility and optimum mix of facilities.
- Taipei staff reported a significant breakthrough in promoting Hawaii products in Taiwan by partnering with Jason's Market Place to feature a variety of foods from the Islands at its Taipei supermarket. Jason's is well-known throughout Taiwan for as "the" place to buy gourmet, imported products.

- Helped the tourism consulting Integrated Development Group (IDG) secure a proposal for the redevelopment of the Tianjin Central Business District. The value of the master plan would be \$2 million. Further, IDG has been asked to help master plan a nature and eco-tourism preserve in one of the largest, untouched wetlands in the Beijing/Tianjin area. This could result in a site for Hawaii's Environmental Development Group to demonstrate new technologies. The value of this planning effort would be \$1 million.
- In September 2006, Taipei staff assisted in organizing a Deep Ocean Water seminar in Taipei, and invited Mr. Reb Bellinger of Makai Ocean Engineering and Mr. Jan War of the Natural Energy Laboratory of Hawaii Authority to speak. Staff felt that the highly successful meeting could generate business for Hawaii companies, such as Makai, with expertise in DOW planning and engineering.
- Participated in the *Taipei International Travel Fair*, from November 3 to 6, 2006 where they promoted IDG, short-term training and school excursion programs. The event, which is considered Taiwan's major travel show, attracted 172,280 visitors. Also in November, Taipei staff participated in the *13<sup>th</sup> East Asian Entrepreneurs' Summit*-- one of the largest international economic gatherings in the region where they highlighted business opportunities in Hawaii.
- Beijing staff assisted Mr. James Cavanaugh and Mr. Herman Jones to set up an extended car warranty business in China by assisting with a letter of intent and the processing of the China Tax Exemption certificate. In May, an agreement was signed between Hawaii Cavanah Associates and the Beijing Mai Meng International Insurance Company—a first-of-its-kind in China. The potential market for the auto insurance service appears to be significant. Firm held its grand opening in October.
- Beijing staff prepared an MOU between the China World Trade Center Holding and the Heilongjiang Provincial Tourism Group to renovate the Huaqiao Hotel in Harbin into a World Trade Center. IDG will provide a package of services for this project. In March 2007, staff discussed a possible World Trade Center project in Guiyang. In April, staff facilitated the application of yet another WTC for IDG services—for a building at Shijiazhuang. IDG would earn \$600,000 for the two projects.
- Taipei staff organized Hawaii participation at a food booth at *Food Taipei*, from June 21 to 24, 2007. The show attracted vendors from 27 countries, with a total of 1,600 booths. Hawaii products featured included jams and jellies, macadamia nuts, sea salts, sugars, vodka, herbal teas and chocolates. Six Hawaii companies took part in the event. A total of 59 buyers visited the booth, representing department stores, restaurants, tea houses and coffee shops. Ever Shine, a private Taiwan company, leased two booths and featured a wide range of Hawaii products. Seventeen buyers from nine countries visited. Sample sales at the booth totaled \$3,076. Importantly, participation led to two future marketing opportunities: at the Mitsukoshi

Department Store in Taipei (in October) and the Janfusun Fancy World amusement park (next year).

- New export of products such as Hawaii deep sea water, processed foods and confectionary, coffee, arts and crafts, apparel, etc. into *Raboi*, a Hawaii themed gift retail store in Taiwan which the Taiwan office help get started, totaled \$1.2 million for calendar year 2007.

2. Attracting new business and investments to Hawaii:

- Kodama Koi Farm (KKF) – a result of BioJapan 2004. KKF invested over \$2 million in Hawaii to create a 10 acre aquaculture farm raising more than 1 million koi, making it the largest koi farm in the world. KKF celebrated its grand opening in October 2006. KKF has relocated their administrative and retail sales office from California to Hawaii resulting in the following:
  - Total jobs created in Hawaii = 30
  - Projected export revenues in 2006 = \$2 million.
- Total I, a Japanese trading company invested \$1.5 million to establish its U.S. branch office in Hawaii, utilizing DBEDT's Foreign Trade Zone. Total I's investment is a result of on-going business attraction activities focused on Japan. Since locating to the FTZ, Total I expanded its business activities in Hawaii by investing in a local manufacturer of Hawaii products. Total investment for this project was \$260k.
- From November 24 to 30, 2006 Beijing and Taipei staffs participated in the *Guangdong International Tourism & Cultural Festival* in Guangdong. They assisted in organizing a Hawaii booth and organized two investment seminars: in Guangzhou and Beijing. The Guangzhou seminar attracted more than 80 persons, while the Beijing seminar drew 120 participants. Staff offered a presentation on opportunities for investing in Hawaii, in addition to sending out invitations, setting up hotel accommodations, contacting the media and arranging meetings with high-level officials. Eighteen investors expressed interest in learning more about Hawaii opportunities.
- Beijing staff assisted numerous media representatives in visiting the islands to promote education, training and investment opportunities in Hawaii. These included the following: *World Tourism Magazine, Travel & Leisure Magazine, Golfweek, Ming, Rayli, Harper's Bazaar* and *BQ*.
- In July, 2006, staff met with Director General Liu Kezhi of the China National Tourism Administration (CNTA) to follow up on the MOU signed by Chairman Shao Qiwei and Governor Lingle during Vice Premier Wu's visit to Hawaii in April, 2006. The MOU emphasized the sharing of information, the training of CNTA personnel, and cooperation in expanding two-way tourism between China and Hawaii.
- Beijing office staff participated at the annual China International Travel Mart in Shanghai from November 14 to 17, 2006. With over 2,300 booths, "CITM"

is the largest professional travel show in Asia. Staff highlighted opportunities for training and business investment in Hawaii.

- Organized a Tourism Forum on September 16 2006 at the Hawaii Convention Center for China National Tourism Administration (CNTA) Chairman Shao Qiwei and officials from CNTA and Hawaii tourism leaders. The Forum focused on challenges and opportunities for tourism development in China and Hawaii, and what Hawaii needs to do to target the upper end of the outbound Chinese tourism market. The Forum built on the April, 2006 Memorandum of Cooperation that pledged both Hawaii and China to form partnerships and strategic alliances.
- Developed itinerary and presentations for a group of Chinese investors visiting Hawaii in February, 2007 to explore Hawaii real estate opportunities. The 24-member delegation was composed of persons from real estate development, air conditioning, airlines, international trading and investment.
- Beijing staff assisted Hawaii's High Technology Development Corporation in establishing an office at the Zhongguancun Technology Park in Beijing. The office will play a vital role in tapping into China's rapidly-expanding high technology industry and forming partnerships with Hawaii companies.
- Recruited and coordinated numerous groups of Chinese students and professionals to visit Hawaii for degree education and short-term training. Among these were a group of tourism officials from Heilongjiang Province, who would train in various areas, including supervision and management, information technology, and financial planning, and a group of 23 government and private-sector officials from the Shanghai Municipal Tourism Commission who were seeking training in hotel management. The two most popular institutions for training are the UH Shidler College of Business and the UH School of Travel Industry Management.
- Worked with Hawaii educational institutions to attract students from throughout China. Staff listed special courses, as well as other events or programs of interest to the China market. The information was sent to interested parties. Staff attended and distributed materials at the 12<sup>th</sup> China International Education Exhibition Tour from March 2 to 18, 2007. The tour visited Beijing, Shanghai, Nanjing, Guangzhou and Chongqing. The major focus of the tour was to attract Chinese students to overseas educational opportunities. Staff reported a "great success" and noted a "high level of interest" in Hawaii educational institutions.
- Taipei staff planned the ASOA (American States Offices Association) Investment Seminar on March 22, 2007 at the Taipei World Trade Center. The seminar attracted 50 companies and 66 individuals who planned to invest in projects in the U.S. Staff offered a presentation on investment opportunities in Hawaii.
- Taipei staff participated in four trade shows to promote Hawaii products and education, at *Oh, America—Oh, Canada* (which focused on education) on

March 3 and 4, 2007; the *Taiwan Sports Recreation & Leisure Show* from July 19 to 22; the *Taiwan International Biotech Fair* from July 26 to 29, 2007; and the *Taipei International EnPEC & Water Show 2007*.

- In March, Beijing staff assisted representatives from UH and Zhongshan University in collaborating on an MBA program between the UH Shidler College of Business and Zhongshan University School of Management. In addition, staff met with Shidler and Sun Yat-sen University officials to discuss a China International MBA program.
  - Beijing staff assisted the Heilongjiang Provincial Tourism Administration, which led to the signing of a Memorandum of Cooperation on May 2, 2007. The agreement offers DBEDT the opportunity to assist the province in a number of areas, including hotel management, tourism development, tourism resources planning and marketing. Importantly, the agreement also specifies that Hawaii will serve as a “major training base” for Province tourism officials.
3. Building an “Innovation infrastructure” including human capital development:
- Conducted a briefing for developers on the Immigrant Investor Program (EB-5) to inform them of how the program can be used to reduce their financing costs;
  - Partnered with the Hong Kong Business Association of Hawaii to conduct a series of workshops on doing business in China;
  - Held bi-weekly video teleconferences with the Economic Development Boards and agencies of the counties, other state agencies including the University of Hawaii, and DBEDT to continue the inter-agency sharing of information and dialogue, including in work force development issues; and
  - Served as the state economic development agency’s representative on the Oahu Workforce Investment Board.
4. Improving Hawaii’s small business environment:
- Through the efforts of our contractor, Enterprise Honolulu, a Targeted Business Development project has been implemented to identify Hawaii innovation companies who are at a critical growth stage to find potential mainland investors and partners to help develop and grow their products and services locally and globally. EH assisted/mentored 16 companies by arranging B2B meetings and providing targeted research reports tailored for that specific company. Of the B2B meetings, one deal has resulted to date.
  - Worked with the Economic Development Alliance of Hawaii and the four county economic development boards to promote Hawaii’s technology-based services while jointly promoting county assets within the context of unified and coordinated state campaigns. Examples include BIO 2007 and SPIE 2006 Optics & Photonics.

The Support Programs' results are as follows:

- Business Advocate:

1. New/Amended Rules reviewed by Business Advocate:

<u>FY 2006</u>	<u>FY 2007</u>
65	57

2. Businesses requesting regulatory relief:

<u>FY 2006</u>	<u>FY 2007</u>
4	5

- CBED:

1. Number of jobs generated by community-based organizations (CBO):

<u>FY 2006</u>	<u>FY 2007</u>
95	153

2. Number of CBOs seeking technical/financial assistance:

<u>FY 2006</u>	<u>FY 2007</u>
520	550

3. Number of workshops and conferences providing technical assistance to CBOs:

<u>FY 2006</u>	<u>FY 2007</u>
6	18

- In FY 2006, 15 community-based organizations received \$260,532, in CBED Program grants for technical assistance and community economic development. In 2007, no grants were approved as funding levels for the CBED Revolving Fund were minimal. However, 12 community-based organizations completed previous year grant awards, reporting 153 new full-time and 100 part-time jobs created, 61 new businesses created and 151 existing businesses assisted or expanded. Also in FY 2007 the CBED Program provided technical assistance funding for 16 community-based business raining workshops presented by the Hawaii Alliance for Community-Based Economic Development (HACBED) and Volunteer Legal Services Hawaii (VLSH), and co-sponsored 2 community-based economic development conferences with economic development training components presented by the Council for native Hawaii Advancement (CNHA) and the Office of Hawaiian Affairs (OHA). More than 850 participants, representing more than 250 organizations attended these two conferences. Since its inception, each dollar from the CBED Program has been matched by more than 11 dollars from over 30 different public, private and community financing sources.

- Enterprise Zones (EZ):

CALENDAR YEAR	2004	2005
New Companies enrolled	17	25
Certification Letters issued	104	95
Number of Companies Enrolled in Program	203	191

- Financial Support:

The Financial Support Program continues to provide Disaster Commercial and Personal Loans in the event of a state-declared disaster.

**b. Explain how these results relate to the program's objectives and department's mission.**

The Marketing Programs' strategic initiatives serve the primary goal of diversifying Hawaii's economy by increasing the export of Hawaii's products and services and attracting new business and investments to the state, which increases revenues and creates jobs. Attracting new sources of investment, positioning Hawaii as a significant global business location, and facilitating opportunities for Hawaii's companies to access new domestic and international markets support the Department's overall mission of growing and diversifying Hawaii's economy.

The Support Program results relate to objectives and missions as follows:

- The Business Advocate has responsibility for assisting state agencies in determining the effect of regulations on the business community. Reviewing and testifying on proposed legislation and analyzing administrative rules carry out this objective. While much of the effort of the Advocate is based on input from the agencies themselves, there is a continuing emphasis on determining the best methods for developing meaningful and less burdensome regulations and helping agencies determine the business impact of their rules.
- CBED's primary objectives are to provide technical and financial assistance to qualified non-profit community-based organizations that enables them to plan and implement economic development projects that provide employment opportunities, build capacity, strengthen identity, and help retain and create cultural anchors in the local community. Tracking program performance based upon the number of jobs created, assistance to new and existing businesses, the number of community organizations seeking technical and financial assistance, and the attendance at CBED workshops and conferences provides quantifiable measures of the program's efficiency and effectiveness.



Economic development projects undertaken by community-based organizations support the department's mission to diversify the economy of Hawaii and create new employment opportunities.

- Enterprise Zones are making a tangible and cost-effective contribution to the department's efforts to stimulate business activity and job creation in economically distressed areas. The recent addition of more high-tech business activities to EZ eligibility should also increase the program's contribution to the department's economic diversification efforts.
- The Financial Support Program continues to provide Disaster Commercial and Personal Loans when there has been a state-declared disaster.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The Marketing Programs measure their effectiveness by the number of global linkages generated; new export firms they assisted, increases in export revenues, and the dollar amount of new investments. Outcomes of specific activities are presented in 2.a. above.

The Support Programs measure their effectiveness as follows:

- Business Advocate:
  1. Number of new and amended rules reviewed by business advocate and the Small Business Regulatory Review Board.
  2. Number of small businesses requesting regulatory relief.
  3. Number of petitions.
- CBED Program:
  1. The number of jobs, new businesses or expansion of existing businesses generated by community-based organizations (CBO).
  2. The number of CBOs seeking technical/financial assistance.
  3. The number of CBED workshops and conferences providing technical assistance to CBOs.

Successful community-based economic development integrates viable economic projects to promote a community's vision for its future health and quality of life. The CBED Program provides training and capacity-building opportunities to promote, support, and invest in community-based development projects that result in measurable economic impact.

- EZ Program:
  1. The number of firms eligible for EZ enrollment.
  2. The number of new firms enrolled and certified.
  3. The number of jobs created by enrolled firms.

The first two measurables are primarily contingent upon the number of zones and the number of eligible firms already located within each zone. The type of businesses enrolled in the program is also monitored because this can provide a rough measure of the quality of jobs being created.

**d. Discuss the actions taken by each program to improve its performance results.**

The Marketing Programs' actions were as follows:

- Restructured the Immigrant Investor Program to be in compliance with new rules and regulations as set forth by the U.S. Customs and Immigration Service by seeking a professional third party to market, screen and track investments and investors participating in the program.
- Branded under "Global Links" the various international related activities undertaken by the Division: Global Links newsletter, Global Links seminar, Global Links special events, etc.
- Entered into a partnership with the Pacific and Asian Affairs Council (PAAC) to facilitate and implement more international educational relationships. PAAC has a strong network of international affairs clubs at the local high schools while DBEDT has a strong network of contacts in education in Taiwan and China. The partnership will help more Hawaii students and teachers to travel abroad, and vice versa.
- Developed a continuing and comprehensive local, national and international marketing program that positions Hawaii as a location for serious business.
- Implemented a more collaborative approach to mobilize county economic development agencies and boards, industry and trade associations, private sector firms and the academic community to jointly produce and implement projects, leverage resources and compliment skills.
- Utilized partners located overseas and in domestic markets, including expatriates, to help market Hawaii as a business location and to find partners/opportunities for Hawaii's firms.
- Continued streamlining the Beijing and Taipei Offices in 2006 and 2007 to be responsive to the potentially lucrative opportunities resulting from, among other things: a) Shanghai's 2010 World's Fair, b) a major development initiative in Western China, led by an effort to use tourism to stimulate local and regional economies, c) development of World Trade Centers in China, Hawaii's expertise in sustainable tourism development could be well utilized in these development efforts, and plans and programs are underway to ensure that our firms are being considered.
- Aggressively pursued opportunities to promote Hawaii as a location for investment, through seminars and outbound and inbound missions.

- Enhanced the level of awareness and providing relevant information on Hawaii's products, as well as to support business development for companies interested in international trade.
- Increased the local awareness of DBEDT's Beijing and Taiwan offices.

The Support Programs' actions were as follows:

- **Workforce Development:** Collaborated with DLIR and the Workforce Development Council to identify and workforce needs and streamline ways for government to meet these needs.
- **Business Advocate:** Emphasis continues to be placed on improving the rule review process of the Review Board. The Advocate has improved communications with regulatory agencies to insure that draft rules have a more specific impact analysis before they are sent to the Governor.
- **CBED:** Program staff has partnered and collaborated with Federal, State and private economic development fund providers, private sector businesses, and technical assistance providers to develop more efficient lines of communication between agencies to control duplication of services. The website is currently being revised and updated to allow the general public and eligible organizations easier access to program information, and allow for more efficient reporting and data input by CBED Program clientele.
- **Enterprise Zones:** All counties are at or close to the maximum number of zones allowed. So increasing the number of participating firms via the creation of new zones will be more limited than in the past. However, the Urban Honolulu zone was expanded to include all of Kakaako. This is expected to primarily help to increase the number of participating high tech firms. Legislation will also be reintroduced to help more farmers qualify for EZ benefits by increasing sales rather than employment. Finally, a strategic plan has been developed with input from DBEDT staff, program staff and county representatives to enhance and improve the effectiveness of the EZ program.

**e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

1. Hawaii continues to be thought of only for its sun and surf. Establishing its business image away from the "boondoggle" image will take a prolonged effort with a consistent message, and commitment by economic development partners.

2. The Marketing and Support programs budget in the last budget biennium for FY 2006 and 2007 was reduced by \$125,000 for each year of the biennium, representing a 22% decrease in non-payroll, ex-GIA funds available for current expenses. Meanwhile, the U.S. dollar has weakened in relation to the Chinese RMB, the Taiwan NT and the Japanese Yen. As a result of this loss of funds, the continuance of DBEDT's overseas offices as well as high profile marketing activities are in jeopardy.
3. The political instability and business uncertainty in Taiwan with the current president and the on-going tension between China and Taiwan. Taiwan, as an investor source, should improve in 2008.
4. Lack of Legislature support for overseas trade missions have had a negative effect on recruitment of participants and partners.

**b. Program change recommendations to remedy problems.**

1. DBEDT's Overseas Offices will play an expanded role in generating new business leads, facilitating strategic alliances, providing market intelligence, and actively matching Hawaii firms with opportunities overseas.
2. DBEDT initiated its "Hawaii Global Links" brand during the FY08. DBEDT will continue to use this brand in its marketing programs, to promote the importance & need for global awareness and participation.
3. DBEDT initiated a collaborative approach in marketing its assets by a.) teaming with county economic development agencies and boards, trade and industry associations, academic institutions and the private sector. Through leveraging of resources and skills, the collaborative approach is more efficient and effective in getting our marketing message across. b.) establishing consortiums to market tourism consulting, international education and environmental services and, c.) cooperating in the DOE, UH and other educational institutions to promoting international and cultural education.
4. CBED programs will be focused on entrepreneurship and creating a livable communities.
5. The SBRRB/Business Advocate will increase its outreach and promotional efforts to increase the number of firms seeking regulatory relief and general overall awareness.
6. The EZ program will increase outreach & one-on-one assistance efforts.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

The Marketing and Support programs budget in the last budget biennium FY 2006 and 2007 was reduced by \$125,000 for each year of the biennium, representing a 22% decrease in non-payroll, ex-GIA funds available for current expenses. Meanwhile, the U.S. dollar has weakened substantially in relation to the Chinese

RMB, the Taiwan NT and the Japanese Yen. As a result of this loss of funds, the continuance of DBEDT's overseas offices as well as high profile marketing activities are in jeopardy.

**4. Expenditure for FY08:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(20.00)				(20.00)	(20.00)
Personal Services	1,221,386	39,509			1,260,895	1,260,895
Current Expenses	3,028,571				3,028,571	3,028,571
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>4,249,957</b>	<b>39,509</b>			<b>4,289,466</b>	<b>4,289,466</b>
(Pos. Count) Special Funds	-				-	-
(Pos. Count) Federal Funds	250,000				250,000	250,000
(Pos. Count) Other Funds	1,821,915				1,821,915	1,821,915
(Pos. Count) General Fund	(20.00) 2,178,042	39,509			(20.00) 2,217,551	(20.00) 2,217,551

**a. Explain all transfers within the Program I.D. and the impact on the program.**

Not applicable.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

Not applicable.

**c. Explain any restrictions and the impact on the program.**

Not applicable.

**5. Supplemental Budget Requests for FY09:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(20.00)		(20.00)
Personal Services	1,221,556		1,221,556
Current Expenses	2,678,571		2,678,571
Equipment			
Motor Vehicles			
Total	3,900,127		3,900,127
(Pos. Counts) Special Funds			-
(Pos. Counts)	-		-
Federal Funds	250,000		250,000
(Pos. Counts) Other Funds	1,821,915		1,821,915
(Pos. Counts)	(20.00)		(20.00)
General Funds	1,828,212		1,828,212

**a. Workload or program requests.**

None.

**b. For all position count reductions, please specify whether the positions were new, filled or vacant.**

Not applicable.

**6. Program Restrictions:**

None

**7. Capital Improvement Program (CIP) Request for FY09:**

None

**8. Proposed Lapses of CIP projects:**

None

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title:     BED 105 CI - Creative Industries Division**

**1. Introduction:**

**a.     Summary of program objectives.**

In its broadest definition creative industries encompass economic activity of a wide spectrum of entrepreneurial and commercial businesses, individuals, production companies, software developers, cultural enterprises, nonprofit institutions and government agencies that directly or indirectly produce goods and/or provide services that are rooted in, or generated by artistry, design, aesthetic value or cultural enterprise.

Formed in 2003 within the Department of Business, Economic Development and Tourism (DBEDT) to provide a cohesive program to support the development of Hawaii's entertainment, culture and arts sectors, the Creative Industries Division (CID) promotes, accelerates and advocates for the growth of Hawaii's creative industries that results in a vibrant, internationally recognized self-sustaining sector of Hawaii's economy. Comprised of the Film Industry Branch (FIB) and the Arts and Culture Development Branch (ACDB), CID is dedicated to:

- Activating Strategic Partnerships
- Connecting existing assets to deliver
- Tangible results

In a study conducted by DBEDT's Research, Economic Analysis Division, total creative output for Hawaii increased 5.6 percent from \$1.9 million in 2002 to \$2.3 million in 2005. Likewise, total creative earnings for the State increased at an annual rate of 3.9 percent to nearly \$1.1 million in 2005. Finally in 2005, total creative jobs (i.e., including both wage and salary jobs and proprietors' jobs) were estimated to be 28,884, an increase of 7.4 percent annually from 2002.

CID's output and measurable results are focused on DBEDT's six strategic objectives. They are (1) Workforce Development: to develop, retain and attract a workforce with the skills required for an innovation-driven, globally competitive economy, (2) Global Links: to increase the flow of people, products, services, and ideas between Hawaii and its export markets, (3) Creation of an Innovation Infrastructure: to create the infrastructure that enables Hawaii's creative and entrepreneurial talent to turn ideas into products and services, and (4) Improving Hawaii's Small Business Environment: to lead public sector efforts to bring about a business environment that is market-driven, and rewards productivity and entrepreneurship.

**b.     Description of program objectives.**

Leveraging resources, partnership development and workforce development are critical to accelerating the economic viability of the creative industries in Hawaii's



economy, resulting in higher paying and highly desirable jobs in key target sectors including:

- Culture and arts
- Film, television, broadband and digital media
- Music industry
- Visual and performing arts
- Literary Arts
- Applied arts and commercial design
- Arts and Digital media education

In response to the SMS Research survey of creative industries, arts and entertainment related businesses, need areas include:

- Marketing and Planning
- Technology support/education
- eCommerce
- Training and Skills development
- Business Networking
- Distributor and agent contacts

Programs and activities such as educational seminars, training workshops, mentorship and internships are critical to building skill sets that help businesses and individuals operate more effectively.

Encouragement and development of exportable goods and services will expand the reach of targeted industries into new and existing markets. It will also help promote and brand Hawaii resulting in greater global exposure and the attraction of business investments for the state.

Improving Hawaii's business environment is critical to alleviating impediments to the growth of Hawaii's creative industries. In addition, CID functions as a liaison between industry and government; provides one-on-one counseling; and disseminates current and accurate information to support the growth of local creative-based businesses. The majority of the companies CID services are small scale companies. This function is important to removing obstacles that prevent these companies from growing and providing employment opportunities to Hawaii's workforce.

**The missions and objectives of the two branches comprising CID are as follows.**

Film Industry Branch (aka Hawaii Film Office)

FIB's mission is to stimulate and support a sustainable, self-sufficient film, television, and digital media industry which respects Hawaii's natural beauty and resources. It is also responsible for promoting statewide economic development of the film and video production industry in Hawaii in terms of its growth, revenue generation, diversity of resources and stability.

FIB's program objectives are **to increase film and television production in Hawaii** by:

- Stimulating the development of the local film and digital media industries by providing support for industry groups, networking opportunities, film education opportunities, access to resources, and strategic business partnerships to stimulate distribution of products.
- Attracting more off-shore productions through marketing Act 88 (SLH 2006) film industry tax incentives which increased the refundable tax credit to 15% on Oahu and 20% on the neighbor islands.
- new tax incentive initiatives.
- Serving as the primary liaison between the film industry and government, and striving to maintain positive relations among the film industry and government, and maintaining positive relations among the film industry, the community, labor, and business.
- Educating lawmakers and the general public about the importance and potential of a local film industry.
- Marketing and promoting Hawaii as a film location through advertising and promotional materials, trade shows, film festivals, and film industry events.
- Continuing to administer and improve the statewide one-stop film permitting process.
- Streamlining operations and management at the Hawaii Film Studio in support of its primary function to support production needs.

Arts and Culture Development Branch (ACDB) mission is to activate a statewide program that accelerates the economic viability and visibility of the arts and cultural sectors of Hawaii's creative economy.

ACDB'S program objectives are to **expand and diversify Hawaii's economy** by:

- Evaluating the current economic status of Hawaii's creative economy sectors and determining realistic achievable goals for growth.
- Providing a resource via the creation of a web portal for CID to support access to information that supports the needs of the arts and culture industries
- Serving as a statewide liaison and business advocate to support and enhance industry sectors of Hawaii's creative economy that have the potential to become greater economic drivers for Hawaii, via programs and the CID web portal.
- Directing the formulation and implementation of statewide programs to assist Hawaii creative industry businesses in developing and expanding domestic and foreign markets for their products and services.
- Attracting and creating regional, national, and international businesses and cultural exchange opportunities that have the potential for net export and visitor-related benefits.
- Identifying and analyzing challenges and issues that hamper the growth of industry sectors of Hawaii's creative economy and recommending appropriate State remedies by developing legislative proposals and policies to support and enhance the viability of these sectors.
- Activating key sector-specific partnerships to advance goals and initiatives.

- c. **Explain how your program intends to meet its objectives in the upcoming supplemental year.**

FIB plans to meet its program objectives through the following activities:

- Developing a unified film marketing program in cooperation with the four county film offices.
- Serving as the primary liaison between the film and television industry and government, labor, business and residential communities.
- Administering a statewide, one-stop permitting process for filming on State lands and property.
- Providing on-going staff support services to manage and coordinate film/television/photography permit process for off-shore and local productions. (FIB issues over 1,300 permits annually and handles a daily communication volume for permitting on average of 22 calls/faxes/emails on a weekly basis/20,000 annually.)
- Providing production inquiry responses The office also responds to more than 10,000 calls/fax/email requests for information and/or service annually (excluding film permit inquiries).
- Collecting and maintaining statewide statistics on film industry activity and economic impact.
- Developing a grants program to support local film and digital media projects, thereby building a sustainable, self-sufficient local film industry.
- Advertising in key Hollywood and international trade industry publications to maintain awareness and promote new tax incentives.
- Representing Hawaii at industry trade conferences, shows, film festivals, and other events as a sponsor.
- Managing, marketing and operating the Hawaii Film Studio, its grounds and up keep of facilities.
- Developing and distributing informational and promotional material about filming in Hawaii.
- Converting two (2) temporary positions to permanent positions so that there are adequate staff to respond to industry needs and business development.

To meet ACDB's objectives, efforts will be focused on planning and implementing the following activities:

- Developing ACDB's strategic plan as part of the overall CID strategic plan, to clearly layout the role in supporting Hawaii's creative economy sectors.
- Completing and launching the CID web portal in first quarter of 2008 to provide an internet presence for the purposes of connecting creative communities with information, services and educational/business development opportunities.
- Implementing, co-sponsoring and supporting trade development seminars, workshops to support market expansion activities that are project based.
- Presenting a series of educational forums focused on capacity building and market expansion for arts, culture and music sectors.
- Informing and educating companies that comprise the various sectors in Hawaii's creative economy, as well as the visitor industry, other government and non-profit agencies involved in arts and cultural activities of ACDB's mission.
- Assisting in obtaining National Heritage Area designation for the Hawaii Capital Cultural District (HCCD).

- Developing strategic partnerships with creative industries worldwide to enhance expansion of arts and culture sectors globally.
- Creating affinity marketing opportunities for ACDB sectors in media, television, broadband and broadcast venues internationally.

## 2. Program Performance Results:

### a. Discuss the performance results achieved by each program in FY07.

#### Film Industry Branch:

- Shepherded 15-20% film, television, and digital media production tax credit bill into law. The measure was passed by the legislature and signed into law by the Governor as Act 88 and took effect on July 1, 2006. The Film Branch was able to coalesce and galvanize the local film industry to lobby for the passage of the credit by providing regularly updated, digestible information about the bill and hearings through our blog.
- Established online application process for the new 15-20% tax credit, including detailed overview and instructions, registration form, and final production report form. Worked closely with the Department of Taxation to issue a Tax Information Release with further details on the credit, and to establish policies regarding what specific kinds of productions and costs are eligible for the credit. Continue to work closely with DoTax to fine tune the credit implementation.
- Established mandatory Educational and Workforce Development Contribution program under the new 15-20% tax credit. In order for productions to claim the credit, they must work with a local public or charter school, or labor union chapter to contribute financially or in-kind toward the furtherance of the film and arts industries in Hawaii with respect to workforce development.
- Established statistical tracking process for the new 15-20% tax credit. Will provide aggregate data on production expenditures, hires, neighbor island progress, and workforce development contributions on an annual basis.
- In FY 2006, 669 projects applied for standard film permits (resulting in 1,338 film permits issued for state locations) and 172 annual permits (used by year-round local photographers and videographers). In FY 2007, 672 projects applied for standard film permits (resulting in 1,344 film permits issued for state locations) and 175 annual permits. Our longtime "one-stop shop" for film permits remains an industry model worldwide, as few jurisdictions have such a streamlined permitting process. To ensure a smooth permit process, we work on a daily basis with DLNR, DOT, DAGS, and other state agencies.
- Supported full seasons of eight (8) television productions/series including ABC's "Lost," A&E's "Dog the Bounty Hunter," Discovery Kids' "Flight 29 Down," The N's "Beyond the Break," Here's "Dante's Cove," and MTV's "Living Lahaina" and "Island Fever," and three (3) major feature film productions including Universal City Studios' "You, Me and Dupree" and "Forgetting Sarah Marshall," and Second Mate Productions' "Pirates of the

Caribbean 3.” In addition, the FIB supported numerous television specials and episodic and commercials—all of which spent an aggregate of \$312 million in production expenditures in FY 2006 and 2007.

- Provide ongoing production servicing for all off-shore and local industry needs including processing of shooting permits for all state locations, assisting with location scouting, identifying production and parking facilities, on-location support, tax credit guidance, and answering all general inquiries.
- Sponsored four (4) local film festivals: Hawaii International Film Festival, Island Independent Film Festival (formerly Cinema Paradise), Maui Film Festival, and Ohina Short Film Showcase.
- Participated and represented Hawaii at numerous industry events in L.A. to market new tax incentive and develop opportunities for shooting in Hawaii including Locations Expo, Industry Tax Credit Seminars and Cineposium.
- Monitoring a contract with Community Entrepreneurs Foundation, FY 07 GIA recipient, to support a Digital Media Mentor for the Waianae High School Searider Productions.
- Completed a contract with Hawaii International Film Festival, GIA recipient, for their 26<sup>th</sup> Annual Film Festival..
- Monitoring a contract with Hawaii Community Television FY 07 GIA recipient, for a 60-minute documentary on former Congresswoman Patsy Mink.
- Monitoring a contract with Hawaii Public Television (dba PBS Hawaii), FY 06 GIA recipient, for a 30 minute documentary on Dr. Sun Yat-Sen.
- Entered into a contract with Hawaii International Film Festival for the 8<sup>th</sup> Annual Film in Hawaii Award.
- Entered into a contract with Malama Landscaping for general groundskeeping services at the Hawaii Film Studio.
- Continued to promote the benefits of having a vibrant local film industry to the Hawaii public at large by speaking to groups. Participated in numerous speaking engagements, including 09/18/06 - UH Law School Seminar: Hawaii's Burgeoning Film Industry: An Economic Engine and an Artistic Outlet Seminar, Hawaii Filmmaker's Panel @ Convention Center, Rotary Metro Honolulu, Wheeler Middle School Career Day, Farrington High School Film & Arts Fest, and Wahiawa-Waialua Rotary. Participated in numerous television and radio interviews.

#### Arts and Culture Development Branch

- Co-sponsored “Celebrating the Products of Hawaii” with the Retail Merchants of Hawaii (RMH), Ala Moana Center and the Hawaii Academy of Recording Arts on September 17, 2005. The event showcased fashions and accessories from Hawaii’s premier designers and manufacturers,

entertainment by Na Hoku Hanohano Award winning artists, and in-store promotional events such as product demonstrations, book/CD signings, prize drawings and informal modeling of Hawaii fashions.

- Co-sponsored the inaugural Border's Books and Music "Hawaii Grammy Nominees" campaign October 2-15, 2006 in 15 stores in the Southern California region, including San Diego and Santa Barbara. The promotion featured live performances, product displays, and an ad campaign supported by DBEDT/CID, the Hawaii Book Publishers Association (HBPA) and the Hawaii Academy of Recording Arts (HARA).
- Contracted with SMS Research & Marketing Services, Inc. to develop a working database and gather information about Hawaii's creative economy which included the spectrum of artistic and cultural for-profit and non-profit activities in various industry sectors. The database consists of contact information, industry classification, marketing and product/service descriptions, and economic data regarding job count and income estimates.
- Entered into a contract with the Friends of the Hawaii State Art Museum, Inc. for services related to the planning and implementation of the "Live from the Lawn" series of free arts-oriented entertainment performances for FIRST FRIDAYS that take place on the grounds of the Hawaii State Art Museum. DBEDT co-sponsors the series as part of its ongoing strategic initiative to promote and attract national and international attention for Hawaii's creative and cultural assets.
- Co-sponsored Hawaiian music concerts with the Friends of the Hawaii State Art Museum, Inc. on January 6, 2006 and January 5, 2007 that featured past and current Grammy nominees for the "Best Hawaiian Music Album of the Year."
- In co-sponsorship with Outrigger Hotels and Resorts and Hawaiian Airlines, coordinated live music performances by Hawaii's Grammy nominees at 3 Border's stores in the Southern California region; Border's Montclair (performance by Amy Hanaialii), February 7, 2007; Border's South Coast Plaza (performance by Amy Hanaialii), February 8, 2007; Border's Manhattan Beach, February 9, 2007 (performances by Ledward Ka'apana, David Kahiapo, Mike Kaawa, Paul Togioka, Amy Hanaialii, Daniel Ho, George Kahumoku Jr., Keoki Kahumoku, Richard Hoopii, and Da Ukulele Boys). The performances were well attended and received, especially at the Manhattan Beach outlet where over 500 people attended the event. Hundreds of CDs were sold during the time period of the in-store performances.
- Co-sponsored a booth with the Hawaii Book Publishers Association at the *Hawaii Book and Music Festival* at Honolulu Hale on April 22 & 23, 2006 and May 19 & 20, 2007. The Festival featured performances, presentations, demonstrations, book signings and other events by local, national and international authors, poets, storytellers, playwrights, songwriters, composers, arrangers and musicians.

- Co-sponsored the International Cultural Summit, *Ho'omoe wai kahi ke kao'o*, with the state Foundation on Culture and the Arts on May 11-13, 2006, at the Hawaii Convention Center. The summit featured an outstanding array of speakers and panelists on topics that included, but were not limited to, community building and leadership, cultural preservation and cultural diversity, creative economies and cultural tourism, public art and individual artists, and culture and arts education.
- Sponsored a *Gala Hawaiian Music Concert* on May 22, 2006, at the Nikko Hotel in Fukuoka, Japan. The dinner concert was attended by over 300 guests and was one of several activities celebrating the "25<sup>th</sup> Anniversary of Hawaii's Sister-State Relationship with Fukuoka." Entertainment from Hawaii included the Kaimana Band, Bruce Shimabukuro and Maunalua.
- Showcased Hawaii's Grammy nominated artists at the National Academy of Recording Arts and Sciences (NARAS) Board of Trustees' annual meeting on Maui on May 23, 2006 and May 22, 2007. The purpose of the performance was to demonstrate the cultural heritage and diversity of Hawaii's music in order to support the creation of a second Grammy category for music from Hawaii.
- Assisted with the organizational development activities and marketing of the Hawaii Capital Cultural District (HCCD) to positively impact the economic well-being of the businesses in the district by attracting more visitors to the area, as well as to assist HCCD in being proclaimed a National Designation Area. The HCCD area encompasses many businesses, culture and art venues, historic sites and attractions, museums, and educational and government institutions and will become a model for the creation of other heritage and cultural districts throughout the State.
- Produced the e-newsletter *Hawaii Books Quarterly*, in coordination with the Hawaii Books Publishers Association (HBPA), which highlights the latest releases in books from Hawaii and provides links to industry/company web sites.
- Monitored the grants-in-aid for the restoration of the Hawaii Theatre in downtown Honolulu and the World Music Association that puts on the *Hawaii International Jazz Festival*.
- Co-sponsored the National Academy of Recording Arts & Sciences, Inc.'s educational forum, "In the Mix: Technology and Musicians Making Money" which was held on June 30, 2007, Outrigger Waikiki Hotel. A panel of music and technology experts discussed the changing landscape of the music business and how Hawaiian musicians could best take advantage of it.
- Entered into a contract with StarrTech to establish a web site that would feature industry sectors in Hawaii's Creative Economy. The objective is to establish a site that would serve as a one stop place for information, business services, listings of arts and cultural events and a source for products and services. The site will be interactive and feature an online source directory of

products and services offered by individual artists, companies and organizations.

- Entered into a contract with the Honolulu Community College (HCC) to develop an Associate in Science degree focused on music business and audio engineering technology. the MELE program – Music and Entertainment Learning Experience – in partnership with Belmont University, will establish a premier training center for music business and production in Hawaii. The program will support the economic development of Hawaii and its music industry through producing a qualified base of new employees for the industry. The overall goal of the program is to produce a generation of music talent to greatly expand the existing industry capacity, and to create new technological, intercultural forms of music.

**b. Explain how these results relate to the program's objectives and department's mission.**

- The production of a television series or major feature film in Hawaii, the increase in production expenditures and tax revenues, and the increase in film or television projects that provide additional promotional value to the state are directly related to the program's objective to increase film and television production in Hawaii.
- The Hawaii Film Studio was created to meet the facility needs of the film industry and to provide a financial incentive for producers. In evaluating Hawaii as a cost effective place to produce films and television, the availability of the film studio is an important factor. The completed renovations have provided the much needed improvements – a production office building and a mill/tech building – to address the needs of the tenants.
- ACDB's activities serve the program's objective of facilitating activities for export- and visitor-related components of Hawaii's arts and culture industry and supports economic development opportunities for Hawaii's creative sectors which increases revenues and creates jobs for Hawaii's people. Attracting national, regional and international arts and cultural events helps to make Hawaii known for its arts and cultural activities, thus becoming a magnet for creative people and companies. According to AmericanStyle magazine's June 2007 edition, Honolulu was ranked No. 7 for art destinations for mid-sized cities in the U.S. (populations of 100,000 to 499,000).

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**



Program effectiveness is measured by the following:

	FY 06	FY 07
The amount of direct expenditures from film (including video, digital and still) productions in Hawaii.	\$126M	\$186M
The impact on State's economy by direct expenditures from film (including video, digital and still) productions.	\$201M	\$297M
Tax revenues generated by direct expenditures from film (including video, digital and still) productions (measured in millions of dollars).	\$13.77M	\$18.01M
Amount of outside funding generated in addition to CID's budget supporting arts/culture/films.	\$100K	\$192K
Major Hollywood studios, U.S. and international film/TV industry professionals.	200	200
Number of local production companies and professionals.	4,000	4,000
Number of local film festivals.	27	26
Number of visitors to Hawaii prompted by local culture and arts activities and film/TV shows.	55,294	55,460
Number of nonprofit arts and cultural organizations that are beneficiaries of economic activities stimulated by CID.	150	150
Foundations and other funding sources.	39	39
Number of film/TV/commercial projects filming in the State yearly.	157	170
Number of film permits processed annually.	1,510	1,523
Number of locally focused educational and promotional events.	12	24
Number of overseas sales, marketing and/or promotional activities attended, sponsored or supported by CID.	1	2
Number of arts/culture and film inquiries.	3,484	3,708

**d. Discuss the actions taken by each program to improve its performance results.**

- Marketing : With diminished funding available for marketing, advertising, and promotions, FIB joined forces with the county film offices to create a statewide campaign under the banner "Film Offices of the Hawaiian Islands", providing a way to expand current advertising campaigns and promotional

events, presenting a unified promotional image of Hawaii to the film and television production community

- **Staffing:** Due to increased high level of production activity in 2004, FIB requested and was given approval to fill 3 temporary positions for the office: an administrative assistant, a film specialist and a CIP coordinator. Production demands continue to be high and will increase significantly with the new tax incentive in place. These additional positions enable the office to maintain its day-to-day functions, continue to respond to requests for film permits, and to coordinate the details involved with the recently completed renovations and improvements at the Hawaii Film Studio. NOTE: The Film Permit Specialist position was converted from a temporary to a permanent position by the 2006 Legislature. The FIB is in the process of finalizing this conversion. The CIP Coordinator position ended in June 2006. Effective July 1, 2006, the CIP Coordinator position has been used to support the Tourism Liaison. In FY 2007 the Branch was unsuccessful in filling its Economic Development Specialist V position (converted from a Film Industry Development Specialist IV position). The Branch is again seeking applicants to fill this position.
- **Economic Planning & Support:** CID and ACDB were recently created within DBEDT in response to Governor Lingle's realization that Hawaii's creative industries can be a vibrant and sustainable sector of Hawaii's economy. Based on our research and interactions in the community, there is an overarching need for economic planning, not only for our arts and culture community but for the entire creative economy in Hawaii. Consequently, CID has embarked on developing a strategic plan. Such a planning process will identify the strengths as well as the opportunities for growth that will result in an internationally recognized and self-sustaining sector of Hawaii's economy that has the potential to provide higher caliber and better paying jobs, an enhanced tourism "product" and increased tax revenues for the State.

**e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

Film Industry Branch

In addition to its reputation as the world's premiere tropical location, Hawaii has gained a strong reputation for its ability to double for remote, exotic (and in some cases, potentially unsafe) locales such as Africa, South America, the Philippines, and parts of Southeast Asia. Hawaii must still compete with other locations to secure this business, but if Hawaii can be more financially competitive with the industry, it stands to capture a greater portion of this runaway production market.

Hawaii is perceived as an expensive place to film, mainly due to the cost of shipping necessary equipment to and from the mainland, cost of housing and per diem for mainland cast and crew, and overall higher cost of living in the islands. The expense of filming in Hawaii affects the state's ability to compete with other locations. Although these competitors are predominantly foreign countries, a significant number of U.S. jurisdictions have passed aggressive legislation to provide highly competitive incentives. U.S. states such as Rhode Island, Louisiana, New Mexico, New York, Illinois, Connecticut, Georgia, North Carolina, and Pennsylvania are examples of states that have implemented new incentive programs.

The establishment of Act 88 has helped to increase Hawaii's share of the lucrative international production market sector. However, with this enactment, comes a demand in increase the depth of expertise and staffing within FIB to support this on-going new area of the branch operations. Initially, there was no additional position was provided to manage the tax credit workload which is becoming increasingly significant. The management of Act 88 is more than the existing staff can handle. To address this, FIB/CID will be recruiting again for an EDS V position with expertise in film and financial management. Once a candidate is hired to fill this position, based on experience within the branch, an estimated 50% and 75% of their time will be devoted to managing the credit. The EDS V position will also have to handle the Research on Business and Economic Activities, Economic Development, Marketing Systems Development, and Opportunities for expansion of local film and digital industry support, including management of the Film and TV Development Board. Given Hawaii finds itself in the midst of the industry's most globally competitive period with increasingly aggressive credits being offered worldwide, the state's reputation as a film friendly location is clearly on the line and will be measured by how well the tax credit is managed.

**b. Program change recommendations to remedy problems.**

- Providing financial incentives and support from the public and private sectors that would offset the higher costs of production in Hawaii, especially in the areas of local filmmakers. A grant program would help grow the local film and digital media industry. Currently there are no funds available to support local filmmakers. The Film Office will seek additional funding sources to assist in these efforts and re-invigorate the Hawaii Film and TV Development Board.
- Increasing film and television production activity that would stimulate the development of more equipment services, provide a deeper pool of local technicians and support personnel, and eliminate the need to transport equipment and personnel from other locales.
- Increasing marketing efforts via sponsorships and trade shows to promote Hawaii as an ideal and diverse filming location.
- Increasing marketing programs and workshops to support capacity building for creative industries in the areas of film, digital media, arts, music and literary sectors.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

None.

4. Expenditures for FY08:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(11.00)				(11.00)	(11.00)
Personal Services	707,200	22,696			729,896	729,896
Current Expenses	650,867				650,867	650,867
Equipment					-	
Motor Vehicles					-	
Total	1,358,067	22,696			1,380,763	1,380,763
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund	(11.00) 1,358,067	22,696			(11.00) 1,380,763	(11.00) 1,380,763

- a. Explain all transfers within the Program I.D. and the impact on the program.

None.

- b. Explain all transfers between Program I.D.'s and the impact on the program.

None.

c. Explain any restrictions and the impacts on the program.

None.

5. Supplemental Budget Requests for FY09:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(11.00)	(2.00)	(13.00)
Personal Services	707,303		707,303
Current Expenses	525,867	140,000	665,867
Equipment			
Motor Vehicles			
<b>Total</b>	<b>1,233,170</b>	<b>140,000</b>	<b>1,373,170</b>
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds			-
(Pos. Counts)	(11.00)	(2.00)	(13.00)
General Funds	1,233,170	140,000	1,373,170

a. Workload or program request:

- 1) Increase in general fund base for operations and maintenance of Hawaii Film Studio by \$60,000 to operate and maintain studio.
- 2) Increase in general fund base for capacity building and marketing programs for the division by \$80,000 in response to industry needs assessment.
- 3) Conversion of Hawaii Film Studio building manager (position #49490) from temporary to permanent status to ensure the stable, consistent, safe and efficient operation of the facility.

- 4) Conversion of administrative assistant (position #117019) from temporary to permanent status given the increased workload since the new production tax credit went into effect on July 1, 2006.

**b, For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for FY09:**

None.

**8. Proposed Lapses of CIP projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request for Fiscal Year 2008-2009**

**Program I.D. and Title: BED 120 SI – Strategic Industries**

(Note: BED 120/SI incorporates former BED 120/AD – Energy and Resources, and BED 120/OR –Ocean Resources, rationale for which was consolidation of these programs by an approved reorganization.)

**1. Introduction:**

**a. Summary of program objectives.**

To achieve the growth, diversification, and long-term stability of the State's economy by facilitating the development of Hawaii industries centered on energy, environmental, ocean, life sciences, and sustainable technology-based products and services; implement Energy for Tomorrow program. Increase economic diversification by developing Hawaii's science & technology-based companies' markets.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

Strategic Industries Division's (SID) objectives are:

- Stimulate economic development and diversification by developing and marketing technologies and technology-based enterprises and resource-based industries, with a strong export focus.
- Increase economic efficiency and productivity, and business competitiveness by promoting and facilitating energy conservation and efficiency, and recycling and re-manufacturing, which decrease greenhouse gas emissions.
- Reduce risks to Hawaii's economy by developing cost-competitive indigenous sources of energy to reduce dependence on imported fossil fuels, which increases economic productivity, and decreases greenhouse gas emissions.
- Increase energy security for the State by developing comprehensive plans to meet State energy policy objectives and contingency plans to protect critical energy systems and effectively deal with energy crises.
- Increase non-state funding support to accomplish the foregoing program objectives, which support technology and resource-based economic development.

SID's general activities are summarized:

- SID implements responsibilities of the State Energy Resources Coordinator (ERC) by conducting energy planning and policy development activities in energy efficiency, renewable energy and clean fossil energy resources, including maintaining and exercising energy emergency preparedness and critical energy infrastructure protection plans and procedures.
- SID implements, and coordinates the private and public sectors' implementation of Energy for Tomorrow (EFT) program, by initiating and

engaging in partnerships in successful program activities and projects under the six major components of the EFT strategic action plan:

1. Savings Through Efficiency
2. Independence Through Renewable Energy
3. Fuels Through Farming
4. Security Through Technology
5. Empowering Hawaii's Consumers
6. Preserving Hawaii's Energy Security

Energy is essential to the economy and our modern, high technology life. The complexity and interdependencies of Hawaii's energy systems and markets is reflected in the comprehensive scope and integrated nature of the *EFT* plan.

- SID coordinates Lead by Example (LBE), a new EFT program, focused on setting and achieving specified targets for energy efficiency, renewable energy and sustainable building practices for all state, and attached agencies, Act 96, SLH 2006, and Administrative Directive 06-01, Energy and Resource Efficiency and Renewable Energy and Resource Development. LBE seeks to institute energy efficiency throughout all state agency and attached agency operations by developing data baselines and setting energy-savings targets.
- SID is funded by the U.S. Department of Energy (USDOE) to support the federally established State Energy Program. SID also manages competitive grants awarded to support specific programs of particular interest to the USDOE.
- SID promotes energy efficiency through: the Model Energy Code; performance contracting in state facilities that use private partnerships to install cost-effective, energy-efficient equipment; county energy efficiency programs; consumer education; partnerships with professional builders and designers; and recycling and reuse to encourage remanufacturing and recycling businesses.
- SID develops programs to increase commercial activities in technology sectors with high growth potential. These sectors include, but are not limited to, dual-use, life sciences, astronomy and aerospace, and ocean science and technology.
- SID leads the department's efforts to link the University of Hawaii (UH) with the Hawaii business community, to increase the university's ability to create and grow businesses from the research and innovation coming from the university and to maximize its potential as an economic engine for Hawaii; assists UH to obtain federal funding for such enterprises.
- SID promotes increased exports of products and services from Hawaii's technology-based enterprises and resource-based industries by facilitating entry into new overseas markets through trade missions, personal contacts, and analyses of markets.



- SID leads the department's role to implement the State greenhouse gas emissions reduction program instituted by Hawaii's *Global Warming Solutions Act of 2007*, Act 234, Session Laws of Hawaii (SLH) 2007. SID provides programmatic support for the Greenhouse Gas Emissions Reduction Task Force (GHG TF), administratively established in DBEDT; conducting this comprehensive, but under-funded effort as a cooperative program with State Department of Health (DOH), which Act 234 assigned the law's regulatory functions. DBEDT and DOH Co-chair the GHG TF.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

To the extent adequate resources to provide, SID will conduct the following program activities to meet its objectives:

- Implement, and coordinate the private and public sectors' implementation of Energy for Tomorrow (EFT) program.
- Establish the Bioenergy Program within the Division; coordinate public and private sector input during the development and implementation of the Bioenergy Master Plan.
- Implement the State's greenhouse gas reduction program, pursuant to Act 234, SLH 2007, support the GHG TF, and work cooperatively with DOH.
- Pursue technology-based economic development by facilitating increased exports, and developing supportive policies for industry.
- Pursue and facilitate strategic, high-potential enterprise research and innovation partnerships between UH and Hawaii's business community to obtain federal funding.
- Leverage program budget by increasing the use of non-state funds, with General Funds as the cost match.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by the program in FY07.**

Performance results are described by project activity, using measures in Section 2, b and c, below, and/or direct or indirect indicators, which support these measures.

- (1) *Energy for Tomorrow – Developed and Initiated Strategic Action Plan for Implementation.*** Based on measures adopted by a series of legislation enacted in 2006 that parallel initiatives described in the Governor's EFT plan, in FY06 SID developed the action plan outlined below, which continued through FY07 form the basis of SID program activities planned and underway to implement EFT. Because EFT's success also involves other state departments, Hawaii's county governments, and a broad set of non-governmental parties, the program must also include outreach and technical assistance external to DBEDT.

### **(a) Savings Through Efficiency**

- Organize technical assistance and training, and certification for agencies and set targets for newly constructed or renovated state facilities to meet minimum standards for energy and resource efficiency, and meet Leadership in Energy and Environmental Design (LEED) Silver or other nationally recognized consensus-based green building guidelines.
- Provide technical assistance to agencies that are now required to purchase state vehicles that meet minimum federal and state alternate fuel requirements, efficiency, and use alternate fuels such as ethanol blends and biodiesel.
- Provide technical assistance to agencies that are now required to purchase Energy Star products when cost-effective.
- Develop and implement plans and set targets for energy efficiency for state facilities and equipment so that state agencies “Lead by Example (LBE).” (Please also see LBE below, and Section 5a, Workload or Program Request).
- Provide technical assistance to state agencies to promote the use of renewable energy technologies, including assistance to the State Department of Education (DOE), which was appropriated (FY07) \$5,000,000 for a photovoltaic, net energy metered pilot project in public schools.

### **(b) Independence Through Renewable Energy**

- Provide information and technical assistance to constituencies eligible for increased renewable energy technologies income tax credit for designated solar-thermal, wind-powered, and photovoltaic energy systems now made permanent.
- Provide support to electric and gas utilities, and independent energy developers to achieve State Renewable Portfolio Standards (RPS); i.e., 20% renewable energy by 2020.
- Provide support to DBEDT/State ERC role as intervener in PUC Docket #2007-0176 on Intragovernmental Wheeling of Electricity.

### **(c) Fuels Through Farming**

- Develop execution plans to implement the new statewide renewable fuels standard of 20 percent of highway fuel demand to be obtained from alternate fuels by 2020.
- Provide technical assistance to State Department of Accounting and General Services (DAGS) and other state fleet operators to implement the State’s biofuels purchase preference.

- Develop the Hawaii bioenergy master plan, statewide multi-fuel biofuels assessment, follow-up actions from the 2006 Biofuels Summit, and other activities in coordination with stakeholders.

**(d) Security Through Technology**

- Manage the Hawaii renewable hydrogen program within DBEDT, coordinating with Hawaii Strategic Development Corporation (HSDC).
- Coordinate use of the \$10,000,000 hydrogen investment capital special fund together with needed guidelines, rules, and execution plans (FY07 appropriation).
- Coordinate with the UH who was appropriated \$100,000 (FY07) for a hydrogen system program manager position within the Hawaii Natural Energy Institute (HNEI).

**(e) Empowering Hawaii's Consumers**

- Coordinate with the Public Utilities Commission (PUC) who has been empowered to acquire information from oil companies to increase "transparency" of gasoline prices and monitor industry profits, such that DBEDT utilizes to this information, which the PUC systematically shares with DBEDT to conduct the distinctive analytic functions to preserve Hawaii's energy security, and ensure readiness of the state's energy emergency preparedness programs as provided by Act 78, SLH 2006, and Act 182, SLH 2007 (i.e., DBEDT to use the data to effectuate HRS Chapter 196, and Chapter 125C).
- Coordinate with the State Department of The Attorney General (AG) on matters relating to prohibiting of unfair pricing practices by petroleum companies.

**(f) Preserving Hawaii's Energy Security**

- Implement and coordinate DBEDT responsibility to the Governor and SCD to fulfill State-level Emergency Support Function #12 (Energy) under Federal emergency management and SCD Statewide disaster response policies and plans, as well as function as lead State agency for fuel shortage management plans and responses (Chapter 125C, HRS).
- Complete the programmatic review and update of the state's energy emergency preparedness program plan, and pursue recommended administrative and legislative recommendations developed over the course of this multi-year project. The USDOE requires state to maintain up-to-date EEP plans to remain eligible to receive federal, State Energy Program funding.
- Restore and revitalize the program's initiative to develop an in-house capability and function to systematically conduct quantitative and qualitative technical analyses of Hawaii's statewide energy resources, systems and markets (Please also see request in Section 5a).

(2) **Energy Efficiency to Create Jobs and Increase Economic Efficiency and Productivity (EFT – Savings Through Efficiency).** SID continued to design, implement and advance programs that increase energy efficiency in residential buildings, commercial and government facilities, resulting in substantial energy, environmental and economic benefits, while leveraging state resources with competitively developed grant funds.

*Provided Program Leadership for Lead by Example Program Plan.* SID organized the LBE program leadership infrastructure by conducting a series of state government-wide organizational and planning meetings. SID's implementation of the LBE program provided state agencies with a diverse range of the technical assistance, training opportunities and implementation tools (e.g., guidelines, "roadmaps" for tracking and reporting, etc.), data and evaluative analytic tools, and flexible, tailored support that the agencies need to meet the challenging new energy efficiency, renewable energy, alternate fuels, and environmental standards. In conjunction with other state departments, SID has developed the following objectives (Please see Table 1, below):

**Table 1.**

**Lead by Example (LBE) Objectives & Projected Benefits  
Program Support Actions and Estimated Results**

<b>Lead by Example (LBE) Objectives &amp; Projected Benefits</b>		
<b>Action Items to Be Supported</b>	<b>Near-term Objectives 0-3 yrs. (FY08)</b>	<b>Long-term Objectives 10 yrs (FY2015)</b>
Provide education programs on energy efficiency (Pragmatic training and information regarding targets and standards, implementation approaches and measures (energy conservation and energy efficiency), and evaluating results.	3% reduction in kWh	6% reduction in kWh
R&M/O&M facilities; e.g. lighting retrofits, purchasing more efficient equipment. (Baseline as of FY 05)	6% reduction in kWh	20% reduction in kWh
Leadership in Energy and Environmental Design (LEED) Silver for New Construction.	30% reduction in kWh for each new building built to LEED Silver	30% reduction in kWh for each new building built to LEED Silver
Increased energy efficiency and fuel diversification of State vehicles. (Baseline as of FY 05)	5% reduction in petroleum consumption	12% reduction in petroleum consumption
Increase availability of environmentally preferable products to state agencies.	3% increase in availability of environmentally preferable products	12% increase in availability of environmentally preferable products
Increase procurement of environmentally preferable products.	5% increase in procurement of environmentally preferable products	12% increase in procurement of environmentally preferable products

*Model Energy Code (MEC) Technical Support.* SID continued to provide the counties and its private industry construction and vendor partners with technical support on Hawaii's MEC. The MEC has garnered tremendous energy savings. For example, since 1995, when updated energy codes were first implemented in Hawaii, and 2014, the codes are expected to reduce energy costs by an estimated \$336 million, reduce oil imports by 5 million barrels, and generate \$97 million worth of investments in energy efficiency.

*Rebuild America/Hawaii.* SID's leadership of the Rebuild Hawaii program is a recognized success story in USDOE's Rebuild America (RBA) program, having won five national awards for performance excellence. In FY06 & 07, SID continued its activities of the Rebuild Hawaii Consortium, a statewide information sharing group of 300 members from federal, local, state government, utilities, non-profits, private sector. Overall impact of this program includes \$67 million investment in energy efficiency projects, \$9 million annual energy savings to statewide facilities, 851 jobs created.

*Continued Use of Energy Benchmarking Study for State Facilities on Oahu (2005).* This SID study characterized electrical energy usage and presents data for each State agency by end use distribution. The report identifies Energy Conservation Measures (ECMs) that would help reduce the State's electrical consumption and quantifies their energy savings potential and the associated construction costs for implementation. The study shows that the 11 ECMs identified by the study could save up to 14.2 percent of State facilities' annual energy use on Oahu. Estimated energy cost savings for these ECMs would be \$10.7 million; estimated construction cost would be \$78.3 million. Thus, in FY06 & 07, SID continued to use this technical reference, and plans to continue to tap its value for LBE program implementation.

*Identify And Certify State Buildings Qualifying for ENERGY STAR®.* As part of benchmarking state building energy use, SID continued analyzing state buildings to evaluate and certify buildings, qualifying for ENERGY STAR® certification, where financially attractive improvements can reduce energy use by 10%, then implement improvements through low-cost building "tune-ups", lighting upgrades, and replacement of old equipment. Four state buildings have been certified as ENERGY STAR: The State Office Tower (2006), the Kapolei Office Building (2005 and 2006), and the Abner Pahi Hale Courthouse (2006) in Kaneohe have been awarded ENERGY STAR® ranking. The Hilo State Office Building is the fourth and most recent state building awarded an ENERGY STAR®.

ENERGY STAR® is a joint program of the U.S. Environmental Protection Agency (USEPA) and the USDOE to protect the environment and reduce costs through energy efficient products and practices. ENERGY STAR® certified buildings rank in the top quartile, measured by actual energy savings and USEPA performance ratings, while meeting comfort, and other functional environmental requirements.

In FY06 & 07, SID continued to support the development and activities of the Hawaii Green Business Program, which promotes and recognizes businesses in Hawaii that implement measures to conserve energy, water, waste and other resources.

- (3) ***Energy Diversity, Preparedness and Security to Increase Economic Stability, Resiliency and Efficiency (EFT – Independence Through Renewable Energy, Fuels Through Farming, Security Through Technology, Empowering Hawaii's Consumers, and Preserving Hawaii's Energy Security)***. SID developed federal funding and strategic partnerships with the private sector, USDOE, National Laboratories, the counties, other states, the military and others to identify, analyze and develop market opportunities in renewable energy, biofuels, and distributed energy resources (DER). SID's partnerships helped initiate and continue to support policy and regulatory improvements for energy security in the long-term, and to increase readiness for energy emergencies and market disruptions that can occur with little or no warning. Results included targeted assistance and funding for bio-energy and direct-use geothermal energy market and resource assessments, support for biofuels industry development, support and monitoring of ethanol blending in gasoline, and regulatory reform. Importantly, all of these energy program efforts required the State's quantitative and qualitative analyses of energy policies, systems and markets, a severely diminished program capability for which SID has initiated an effort to improve, but currently lacks necessary staff resources (Please also see request in Section 5a).

*Hawaii Hydrogen Initiatives.* The renewable hydrogen program envisioned for Hawaii recognizes the unique capabilities that now exist in the University of Hawaii, state agencies such as SID, Natural Energy Laboratory of Hawaii Authority (NELHA) and High Technology Development Corporation (HTDC), and our local energy providers who are faced with daily challenges of operating reliable systems in an isolated island environment. SID led efforts to create a public-private partnership to position Hawaii as a leader in the Hydrogen Economy. Notable achievements include obtaining federal funds and completion of Phase 1 of the USDOE funded Hawaii Hydrogen Power Park Project, with the University of Hawaii's Hawaii Natural Energy Institute (HNEI) as implementing partner.

By establishing the Hawaii renewable hydrogen program (Act 240, SLH 2006), expectations are to increase the portion of Hawaii's energy generated by the state's indigenous renewable energy resources and accelerate the development of a renewable hydrogen economy. Through public-private partnerships, investments will be attracted, adding high paying skilled jobs to Hawaii's economy, while accelerating the transition to non-oil energy alternatives.

In FY06 & 07, SID worked with HSDC to develop the infrastructure to deploy the \$10 million Hydrogen Investment Capital Special Fund, established by Act 240, SLH 2006, to support the renewable hydrogen program, and provide the state with the highest possible return on investments. This included issuing a procurement solicitation and evaluating proposals to support development and implementation of the renewable hydrogen program, and

provide investment management services for the Hydrogen Investment Capital Special Fund. SID strongly supports HSDC's (BED-145) FY09 supplemental budget request, including the proposed use of the special hydrogen fund to establish and fund a temporary position for a renewable hydrogen program manager.

*Renewable Portfolio Standard (RPS).* SID, the Office of Planning (OP), and the Department of Land and Natural Resources (DLNR) continued their partnership to support DLNR's production of a statewide catalog of potential sites for renewable energy development, also required by Act 95, SLH 2004. In addition to professional staff from each agency, SID also provided funding for this project, and OP has integrated the renewable energy site catalog and relevant data into the State Geographical Information System (GIS). This jointly developed catalog was submitted to the 2007 Legislature, and SID prepared the biennial progress report of DBEDT's RPS support activities to be submitted to the 2008 Legislature. Both the catalog and report are required by the RPS law.

*SID Support of Hawaii Biofuels Industry Development.* In FY06 & 07, SID helped to accelerate development of in-state biofuels production facilities and, ultimately, a fully integrated industry. SID coordinated, and engaged in meetings with biofuels companies and relevant state agencies to facilitate development.

SID continued to follow-through with activities resulting from the Governor's 2006 Biofuels Summit, which resulted in the following focal points for attention:

- Provide incentives for in-state production.
- Streamline permitting and secure County cooperation.
- Bolster and coordinate R&D on agricultural fuel crops, processing, and conversion.
- Develop infrastructure to move biofuels to market.
- Clarify water access issues.
- Coordinate investment across the value chain.

SID is preparing to initiate the ambitious, but severely under-funded statewide bioenergy master plan effort, pursuant to Act 253, SLH 2007. Without the additional resources requested in Section 5a, however, the bioenergy master planning effort of the comprehensive scope and technical value envisioned by the Legislature will not be achievable. Adequate programmatic functional direction, structure and resources will be essential for the State's role and responsibilities in this energy market growth sector to keep pace with planned scale and tempo of industry development, infrastructure capacity requirements and consumer needs (e.g., approximately 220,000,000 gallons/year (over 5.2 million barrels/year) of new biodiesel production capacity is planned for development within the next 3-4 years). State biofuels program requirements are more fully described in Section 5a.

In 2007, Hawaii Department of Transportation (DOT), Harbors Division and DBEDT-SID executed a partnering agreement to supplement the DOT's statewide fuels facility planning project with petroleum fuels and biofuels supply/demand forecast analyses, and concurrently conduct an assessment of the State's energy and economic security in relation to imported fuels and fuels feedstocks (petroleum and biofuels). Value-added energy security benefits are being evaluated, and projects assessed for linkages with existing and planned fuel infrastructure. Sustaining the benefits of, and implementing program recommendations expected from this limited one-time initiative, is but one example of the type of results to expect from restoration of SID's in-house energy data and systems analytic staff capacity, described in Section 5a. This type of technical, quantitative and qualitative support is needed by all SID energy program functions, and by sister state agencies as appropriate.

SID continued to advance local production of ethanol, and instituted procedures to monitor compliance with the Hawaii administrative rules signed by Governor Lingle in 2004, implementing §486J-10, HRS, mandating ethanol in gasoline. The regulations require at least 85% of Hawaii's gasoline to contain 10% ethanol, effective April 2006.

*SID Leads DBEDT/State ERC Intervention As a Party in PUC Intragovernmental Wheeling Docket #2007-0176 ("Wheeling Docket").* A 2007 PUC order opened the Wheeling Docket to investigate policy and regulatory mechanisms to allow state facilities to develop renewable energy electrical generation facilities, or purchase electricity from independent renewable energy power producers, and pay utilities a reasonable "wires charge" to use their existing transmission and distribution infrastructure to "wheel" renewable power between or to state facilities. The PUC order cited DBEDT's December 2006 letter to the Commission in this regard, among other recent rationale for opening the docket.

As the second largest electricity consumer behind only the U.S. Department of Defense, for the State the significance of this docket is profound. PUC approved DBEDT/State ERC's motion to intervene in the docket and SID is spearheading this effort to boost the State government's own use of renewable energy. If successful and equitably implemented, renewable energy wheeling promises the highest profile example of energy leadership, innovatively providing strong market "pull" to develop renewable energy supply to meet this greater demand.

The Wheeling Docket, though, involves issues of extraordinary technical complexity and the potential for significant change in Hawaii's regulated utility industry. To put forward credible arguments within the formal, quasi-judicial PUC proceedings, DBEDT must have access to consultants, expert witnesses and expert legal representation with equivalent depth of technical expertise as those the utilities will use to present their case. DBEDT will need the best team of expert professionals, both from within the organization and hired outside experts in engineering, energy economics, utility regulatory & ratemaking procedures, and relevant utility law; i.e., deploy a similar case strategy as the utilities. To adequately represent the case on State facilities'



wheeling of renewable energy, external contracted support, and dedicated legal counsel throughout the PUC proceedings requires funding. Sufficient funding and restoration of the adequacy of its own staff capacity and capabilities will be critical for such an analytic-intensive effort as the Wheeling Docket, while also servicing all of DBEDT-SID's energy economics, and data and statistical support requirements (Please see request in Section 5a).

*Renewable Energy Development Projects – Efficiency Improvements of Permitting Is an Imperative.* For decades, renewable energy project developers and proponents have voiced complaints that government permitting requirements and processes in Hawaii are overly time-consuming, cumbersome, onerous and costly. Renewable energy development proponents pose the valid argument that if increased deployment and use of renewable energy is a State priority, government permitting processes should reflect this priority, at minimum in terms of efficiency and priority relative to nonrenewable energy facilities; e.g., fossil fueled electricity generation facilities. In 2007, DBEDT was directed by SCR 164 to analyze and report to the 2008 Legislature the feasibility and efficacy of establishing a "one-stop shop" to streamline the permitting of renewable energy projects. Though appropriations were not provided to support the study, in-house SID staff conducted the analysis, and prepared a report of findings and recommendations, which DBEDT has separately transmitted to the Legislature. DBEDT-SID's staff analysis and report included extensive policy analysis, targeting the states of Oregon and Washington approaches, as well as face-to-face interviews in meetings with professional staff and managers of these states' offices and councils, whose functions aim to improve efficiency of siting and permitting energy and other development projects, while preserving the integrity of the environmental protection intent of these laws and rules. In short, DBEDT, supported by the Administration, has recommended and reflected in its FY09 supplemental budget request the establishment and funding of a renewable energy permitting facilitator position to, at a minimum, implement key permit efficiency strategies. (Please see explanation and request in Section 5a). This initiative is an approach modified for Hawaii's needs, patterned on the State of Washington Office of Regulatory Assistance approach to provide dedicated facilitation and information services to renewable energy developers seeking to obtain permits and site projects in Hawaii.

*Act 182 .SLH 2007, Amends Chapter 486J, HRS – Legislature Provides Clear Policy Guidance – DBEDT, and PUC Energy Data Analytic Functions Distinctively Different, Complementary and Critical.* Act 182 added to Chapter 486J, HRS, an important single-sentence section directing DBEDT on how, and for what purposes to use the expansive data that PUC (data collection agency) continues to provide to DBEDT, pursuant to Chapter 486J, HRS recognized, and Section 486J-5.3 provides policy direction to DBEDT to conduct energy analytic functions that are distinctively different than those done by the PUC, and specifically directs DBEDT to use this data "to effectuate the purposes of Chapters 125C, 196, and other relevant laws." Both the Legislature and Administration supported this amendment of Chapter 486J, HRS, explicitly acknowledging the need to differentiate DBEDT's energy analytic role from the PUC's and do so within the same law

that requires PUC to conduct analysis with a fundamental focus on petroleum prices and petroleum industry profits, a necessary and appropriate State "watchdog" role.

Just as the two agencies (DBEDT and PUC) have distinctive, non-redundant energy-related missions and functions, so too are their requirements to conduct discernibly different types of energy data and statistical analyses. They implement different analytic support functions to produce different kinds of information for definitively differentiated purposes. Thus, both agencies require the appropriate staff capacity for these functions.

Virtually all energy-related policy issues, planning, decision-making, and energy emergency preparedness involve data and statistical analyses, translated into useful and usable information on Hawaii's energy resources (traditional and renewable, and energy efficiency), systems and markets, as well as for; i.e., energy economics, and energy data services and statistical support. The law (Act 182), therefore, provided clarified policy direction to DBEDT to conduct such energy analytic functions, using data DBEDT continues to receive from the PUC and obtains from other sources.

In plain language, energy data, statistical and energy economic analysis are integral to the State's roles in strategic energy policy planning, and energy emergency preparedness and response, both aimed at preserving energy and economic stability and security. Thus, Act 182, SLH 2007 directed DBEDT to use this data "to effectuate the purposes of Chapters 125C, 196, and other relevant laws."

Chapter 196 HRS, designates the DBEDT Director as the ERC, and assigns responsibilities to systematically analyze, develop, and coordinate achievement of the State's energy policies, programs, and plans (e.g., such as the Energy for Tomorrow initiatives). Chapter 125C, HRS, names the ERC as the Governor's designated representative responsible for energy emergency preparedness (DBEDT is lead agency for emergency fuel shortage preparedness planning and management), including energy emergency related support of State Civil Defense (SCD) under any disaster situation. SID is the State ERC's principal implementing staff office. (DBEDT has prepared two bills for the Administration 2008 package of legislative proposals, which if adopted, would amend HRS Chapter 196, and Chapter 125C, to build on Act 182 SLH 2007, by refinement of statutory language relating to energy data and energy economics analytic functions of DBEDT's Energy Program. Please also see SID's request for essential in-house energy analytic staff positions, described in Section 5a.)

*Energy Emergency Preparedness (EEP) Program and Critical Energy Infrastructure Protection for Homeland Security.* Hawaii has experienced numerous energy disruptions, both natural and geopolitical, reflecting the shared challenge faced by industry and all levels government involved in the state's energy emergency preparedness, and guarding against threats to Hawaii's energy security. Each major event has heightened awareness that maintaining readiness of an effective energy emergency response capability is essential to the resilience of the state's energy systems and its economy.

Catastrophes such as the September 11, 2001, terrorist attacks, and Hurricanes Katrina and Rita, have sharpened government and industry focus on efforts to protect and restore critical energy infrastructure and deal with energy emergencies, regardless of the cause. In Hawaii, recent events such as the March 2006 statewide propane shortage, the July 2006 suspected contaminated ethanol shipment, and the October 15, 2006, earthquake validates the adage that "all emergencies are local."

DBEDT-SID serves as principal staff office for support and coordination of the State's statutory EEP functions. SID provides energy emergency support to Hawaii State Civil Defense (SCD), the State's lead agency for overall emergency management in the event of natural or human-made disasters, including acts of terrorism. Under SCD's statewide emergency response plans SID performs Emergency Support Function #12 (Energy), serving as state-level support to SCD similar to USDOE's federal-level ESF #12 role supporting FEMA under the *National Response Plan*.

*The Hawaii State Energy Council – the Central Mechanism to the State's Energy Emergency Preparedness Program.* Chaired by the SID Program Administrator, the Energy Council coordinates information flow and facilitates response among public and private energy stakeholders to any energy emergencies and disruptions in Hawaii. SID's model for the energy council has been recognized by USDOE and National Association of State Energy Officials as the Nation's first "Center of Excellence for Energy Assurance."

*EEP Program and Plan Update Project.* Hawaii's State EEP Program and Plan have been the subject of a comprehensive two-year update project by DBEDT-SID and its expert consultants, actively involving its Energy Council partners throughout the project. States must maintain current EEP plans to remain eligible to receive USDOE State Energy Program SEP funding. This project has determined that the State must improve its ability to adequately plan and prepare for, respond to, and manage energy emergencies and threats to the state's energy security. (Please see full discussion in Section 3 Problems and Issues.)

*Responses to Energy Emergencies in 2006 and 2007.* Two examples of significant events requiring SID (ESF #12) activation of EEP response in 2006 are the March 2006 statewide propane shortage, and October 15, 2006 earthquake emergency. In FY07 thus far, SID activated its EEP functions in response to the partial shut in of the Tesoro refinery, due to damage to one of the refinery's units (reformer that produces jet fuel and high-grade gasoline components) following a weather related power outage. As of this writing, in November 2007, SID continues to monitor this situation, which Tesoro expects to fully resolve by mid-December.

As requested by the AG, SID provided significant report writing support to the AG with respect to energy emergencies in FY06 & 07. The AG is required by Chapter 486 H-17, HRS, to investigate for potential violations of criminal and civil law any shortage or condition affecting the supply of any petroleum products and report any such shortage or supply condition to the Legislature.

*SID Supports 2005 Federal Energy Policy Act of Hawaii Oil Dependence Assessment.* Supported the UH-Hawaii Natural Energy Institute (HNEI) work to conduct a study pursuant to Section 355, Assessment of Dependence of State of Hawaii on Oil in the Federal Energy Policy Act of 2005, by providing energy data, and previous DBEDT studies related to the HNEI effort. Initiated in FY06, the project and the reports it produced under this USDOE-funded effort were finished in FY07.

*Global Warming Solutions Act of 2007 (Act 234, SLH 2007).* In essence, Act 234, SLH 2007 established State policy to cost-effectively achieve greenhouse gas (GHG) emissions reductions and limits at or below best estimations and updates of the inventory of GHG emission estimates of 1990 emissions levels by January 1, 2020. The Act 234 mandate includes the following three main implementation components:

1. Administratively established within DBEDT a permanent Greenhouse Gas Emissions Reduction Task Force, with a mandate to develop a recommended "work plan" to integrate a comprehensive statewide program of GHG emissions reduction measures, with recommended scheme of market- and standards-based regulations, monitoring and enforcement, applicable to Hawaii's emitters and emitter categories. Work plan to be rigorously analyzed for economic and other impacts to test cost-effectiveness and efficacy to achieve 1990 GHG emissions levels; conduct one public workshop per county on draft work plan. Upon adoption, work plan to be implemented, monitored and updated on a five-year programmatic cycle. Work plan completion deadline: December 1, 2009, due as report to the 2010 Legislature. (Statutory composition of the GHG Task Force includes DBEDT Director, and DOH Deputy Director as Co-chairs, six (6) members are Legislative appointees, and two (2) members are appointees of UH Climate Change Commission).
2. Requires DBEDT and DOH to produce updated inventory of statewide GHG emissions estimates for 1990 emissions by sector and emitter categories; inventory estimates to serve as regulatory target levels; conduct one public meeting on results. Inventory completion deadline: December 31, 2008, due as report to the 2009 Legislature.
3. Requires DOH to use GHG emissions estimates inventory, and GHG Task Force work plan to develop and adopt rules for emissions reductions/limits by January 1, 2020 (DOH to adopt rules December 31, 2011; operative date: January 1, 2012).

In 2007, DBEDT and DOH partnered to organize and conduct two meetings of the GHG Task Force. SID prepared for the Task Force organizational and operational guidelines, and draft implementation management plan covering the three main components above. DBEDT has also requested Governor's approval for release of the Act 234 appropriations, authority to procure specialized technical consultants to support DBEDT and GHG Task Force in developing, calibrating and utilizing the highly technical computer models needed for all three implementation components, and other implementation activities.

DBEDT provided initial implementation cost estimates\* to the legislative conference committee by request during deliberations on the bill, later enacted as Act 234 (\*Estimate: \$800,000/year, inclusive of establishment of two staff positions in DBEDT; i.e., 2 staff, consultant contracting for special technical support, purchase/develop computer models, task force administration, operations and other related costs. (\*NOTE: Estimate is Fiscal Biennium 07-09 only; recurring costs also require funding; i.e., staff and operations required for permanent GHG Task Force five-year programmatic update cycles)). Estimates were based on previous DBEDT/DOH (externally funded by 1-time USEPA competitive grant) 1997 statewide inventory of greenhouse gas emissions, USEPA model for which, though since updated, are inadequate for Act 234 regulatory purposes according to USEPA in 2007. However, Act 234, SLH 2007 was inadequately funded, appropriating \$500,000 per year of Fiscal Biennium 07-09 (allowed hiring staff, but established no positions).

Importantly, a very preliminary estimate of over 92% of Hawaii's greenhouse gas emissions originate from the energy sectors statewide. Thus, achievement of statewide GHG reductions and limits established in Act 234 will require considerably more resources than envisioned for implementation of the 2006 energy statutes.

- (4) Technology-based Economic Development.** As part of a departmental reorganization, the Ocean Resources Branch was renamed the Science & Technology Branch (SID/STB) in 2006, with responsibilities for a broader range of activities focused on expanding and diversifying Hawaii's science and technology (S&T) sectors to insure that Hawaii can maintain its economic competitiveness. In order to grow significantly, Hawaii's science & technology-based companies must develop new export markets and need access to an appropriately trained workforce. In order for the industry to grow by adding more companies, the commercialization of scientific innovation must be accelerated and Hawaii's non-tech image (sun, sand & surf) must be broadened to include science & technology. The primary focus initially has been on support for general S&T initiatives and ocean science & technology, aerospace, life sciences and dual use technology. Within DBEDT's six strategic objectives, the S&T Branch primarily is linked to the "Export of Goods and Services" as they relate to S&T sectors and the "Creation of an Innovation Infrastructure."

Within this context, the S&T Branch carried out activities in six functional areas:

*Export Assistance.* Most Hawaii science & technology-based companies are small, with limited marketing budgets or expertise. There is a need to develop other markets on a national and global scale. To this end, SID collaborates with other DBEDT units, the University of Hawaii, trade associations, economic development boards and private companies to represent Hawaii's S&T sectors at targeted trade shows and provide Hawaii's companies with access to new export markets. In FY06 and FY07, SID:

- Participated in the 2006 International Optics & Photonics Convention in San Diego, the 2006 AIAA Space Symposium in San Jose, the NASA Space Exploration Symposium in Houston, Texas (December 2006), and the U.S. Space Foundation's 2007 National Symposium at Colorado Springs. Promoted Hawaii's aerospace-related assets and capabilities abroad, and to help formulate partnerships between Hawaii and various aerospace agencies, research institutions and companies worldwide. As a direct result of these meetings, the State of Hawaii and NASA Ames Research Center signed a formal Memorandum of Understanding on March 7, 2007, for collaboration between researchers at NASA and both the UH and local companies in areas of mutual interest and complementary expertise. This led to the development and funding of collaborative research proposals by NASA's Innovative Partnership Program (IPP) to conduct development, testing and evaluation of new technologies in Hawaii to support future robotic and human missions to the Moon and Mars. SID is negotiating with three NASA Centers (Ames in California, the Johnson Space Center in Texas, and the Marshall Space Flight Center in Alabama), the Kennedy Space Center in Florida, and the Jet Propulsion Laboratory in California) to develop additional space act agreements for new collaborative research and development (R&D) opportunities involving UH researchers, local business entrepreneurs, and NASA professionals. Negotiations also are underway with Lockheed Martin, the Boeing Company, Raytheon, and other major aerospace corporations to develop Hawaii-based aerospace R&D initiatives in conjunction with the newly established Pacific International Space Center for Exploration Systems (PISCES – see below).
- Organized the Hawaii pavilion at Oceans 2005 MTS/IEEE in Washington, D.C. and Oceans 2006 in Boston to promote Hawaii's strategic assets and capabilities in the area of ocean science & technology. SID provides a turn-key opportunity for companies and organizations to demonstrate new products, attract new customers, serve existing clients, interest potential investors and partners, locate agents and representatives and carry out market research. At Oceans 2005, Makai Ocean Engineering, Inc. was awarded the Compass Industrial Award outstanding contributions to the advancement of the science and engineering of oceanography and marine technology. Introductions made by SID staff resulted in a significant partnership between a Hawaii company and a major defense contractor.
- With the Strategic Marketing and Services Division (SMSD), organized the Hawaii pavilion at BIO 2006 in Chicago and BIO 2007 in Boston. The annual conference and exposition of the Biotechnology Industry Organization has grown rapidly and now attracts over 20,000 attendees from over 60 countries, with pavilions on the exhibit floor promoting the life sciences sectors of many U.S. states and countries. In 2006, the pavilion showcased the developments in Kakaako, research at the University of Hawaii, innovative products and services from around the State, and featured new medical technology developed by Oceanit and spun off into a new medical device company, Hoana Medical. In addition, DBEDT organized a seminar

on infectious diseases chaired by Dr. Duane Gubler, director of the Asia-Pacific Institute of Tropical Medicine & Infectious Diseases. In 2007, over 30 Hawaii representatives attended or exhibited as part of the pavilion, including the UH Office of Technology Transfer and Economic Development, which helped start-up companies seek investment to commercialize technologies developed at UH.

*Communications/Networking.* Hawaii continues to suffer from a resort destination image in the minds of many funding agencies and potential investors, partners and purchasers of products and services. There is a need for a concerted effort to change the image by publicizing Hawaii's achievements and creating awareness of Hawaii's natural resources, infrastructure and personnel assets. To this end, SID uses a variety of communication tools, including: displays at trade shows; production of brochures and reports; presentations at conferences; advertisements, editorials and articles in trade journals; websites; attraction of conferences to Hawaii; sponsorship of Hawaii conferences; and personal communication. In FY06 and FY07, SID:

- Initiated a series of sector-specific brochures, which built upon the Technology in Paradise general technology brochure developed by the High Technology Development Corporation. Brochures were produced for Applied Optics, Life Sciences, Ocean Science & Technology and Aerospace.
- SID worked with the Biotechnology Industry Organization to bring a new conference to Hawaii. The inaugural Pacific Rim Summit on Industrial Biotechnology and Bioenergy was held in Honolulu in January 2006. Attendance was fifty percent higher than anticipated, demonstrating the growing interest in this field and Hawaii's ability to serve as a gathering place for intellectual exchange and technology development in the Pacific. The second PacRim Summit was held in Honolulu in November 2007, attracting senior officials from the USDOE, China, Canada, Malaysia, and Australia.
- SID worked with the organizers of the annual EnergyOcean conferences to bring it to Hawaii. At EnergyOcean 2006 in San Diego, SID managed a 2-booth display representing Hawaii companies and cosponsored the event. EnergyOcean 2007 was held at the Turtle Bay Resort. The conference did well in Hawaii, with significant growth in both the numbers attending and the quality of the program, further demonstrating that Hawaii is a viable venue for S&T conferences. It is expected that this conference will be in Hawaii every four years.
- SID serves as the official U.S. Secretariat for the Japan-U.S. Science, Technology & Space Applications Program (JUSTSAP), an association of leading scientists, educators, business professionals, and government officials from Japan and the United States established to promote international collaboration in aerospace-related activities. During November 2006 Big Island conference, a new proposal was introduced to develop a Pacific International Space Center for Exploration Systems (PISCES) here with Hawaii as a

testbed to demonstrate, evaluate and validate innovative technologies for future robotic and human missions to the Moon, Mars, and beyond; train astronauts, scientists, engineers and other professionals engaged in R&D associated with future space exploration; catalyze innovative aerospace education programs in local secondary schools, community colleges, and universities statewide; and be an international venue for dialogue and collaboration toward the formulation of multinational space enterprise. DBEDT plans include use of Act 149, SLH 2007 appropriations as seed funding to help establish a headquarters for PISCES at UH Hilo during FY08, stage an inaugural PISCES Conference in Hilo, support testing and evaluation of new robotic and other technologies on the Big Island to support future lunar missions, establish a new aerospace curriculum at UH Hilo, and expand R&D. partnerships with Pacific Region space-faring nations. Act 149 established a new Office of Aerospace Development in SID, which will help coordinate these and other relevant initiatives.

- SID co-sponsored a variety of conferences and events to raise awareness about Hawaii's science & technology achievements, assets and issues. These included Seminars on agricultural biotech, Science and Technology Day at the State Capitol, the Annual PACON International Ocean Day symposium and the Hawaii BioScience Conference with JABSOM.

*Industry Advocacy.* Hawaii is an ideal location for carrying out R&D activities in a number of areas, most notably in astronomy and aerospace, the life sciences and ocean science & technology. However, some of the activities are not without controversy and public concern. There is a need to address these issues with science-based arguments to insure that the public are informed participants in the decision-making process. To this end, SID works with the private sector, government agencies, University programs and nonprofits to develop and disseminate accurate information, address community concerns and serve as advocate where appropriate. In FY07, the S&T Branch Manager was appointed by the Governor to represent DBEDT on the Temporary Bioprospecting Commission created by the Legislature to develop policy recommendations for the regulation of bioprospecting in Hawaii. The Commission has met with communities on all the islands to gather public input on the complex issues involved.

*UH-Industry Partnerships/Workforce Development.* Successful efforts to grow an economy based on technological and scientific achievement in other regions have all included strong industry ties to academic research institutions as a source of intellectual capital, innovation, and technical skills. There is a need to promote UH-industry partnerships to facilitate tech transfer and the development of a skilled workforce that can support the S&T industry. To this end, SID supports the cooperative effort between DBEDT and the UH to increase the University's capacity as an economic driver by forging closer ties with industry. In FY06, SID entered into a contract with the UH to utilize State funds to enhance a federal grant to increase UH competitiveness with an emphasis on



developing university-industry partnerships, student internships, career pathing, and outreach activities statewide. The program is being implemented through the Office of Technology Transfer & Economic Development.

*Major Project Coordination.* Hawaii has the potential to be the location for major S&T projects that involve a variety of public and private organizations. There is a need to coordinate the effort to bring these projects to Hawaii and in some cases, government can best fill that role. To that end, SID identifies projects that fit within our mandate. In FY06 and FY07, SID focused on two aerospace projects:

- Pacific International Space Center for Exploration Systems (PISCES) is a project conceived and promoted by JUSTSAP to establish an international space center in Hawaii to be administered by the UH at Hilo (see above). It will feature a simulated lunar settlement on the Big Island to carry out research, test new general technologies, educate students, train astronauts, and provide the public with first-hand experience of what it will be like to live and work on the Moon and, eventually, on Mars. Hawaii offers an ideal environment for PISCES, with lunar-like terrain and a central location for collaboration between the continental U.S. space-faring nations throughout the Asia-Pacific region, world-class capabilities in a broad range of space-related sciences (particularly astronomy and planetary geosciences), a diverse population and an international ambience. The 2007 State Legislature unanimously passed bill to provide seed funding to inaugurate PISCES on the Big Island.
- Several companies approached DBEDT for assistance in establishing space launch activities from Hawaii. These initiatives encompass a wide range of launch scenarios – from vertically-staged land- and sea-based rocket launches to “spaceplanes” that deploy from conventional airports and “launch” like conventional airplanes yet can carry scientific experiments, commercial satellites, and tourists to both sub- and low-earth orbits. SID continued discussions with Rocketplane Global Inc. and the Federal Aviation Administration to help establish Honolulu International Airport as an FAA-licensed commercial “spaceport” – similar to those already or being established in Oklahoma, California, Virginia, Alaska, New Mexico, Florida, Wisconsin, and Texas.

*Industry Analysis.* In order to support the development of any industry sector, it is important to understand the nature of that industry. To that end, SID began collaboration with the new Hawaii Science & Technology Council, a private nonprofit industry association formed from a consolidation of the Hawaii Life Sciences Council and the Hawaii Technology Trade Association. In FY06 and FY07, SID:

- Completed the surveys of the ocean science & technology industry for 2004 and 2005. Revenues rose from \$155 million in 2003 to \$176 million, an increase of 13.5 percent, but fell to \$164 million in 2005,

attributed to the decline in Federal research dollars due to the wars in Iraq and Afghanistan.

- Entered into a cooperative project with the Hawaii Science & Technology Council to expand the ocean science & technology directory to all S&T sectors, the first step to building capacity for general industry analysis.

During FY07, the programs of the Science & Technology Branch were expanded to include support for the science, technology, engineering, and math (STEM) education component of the Administration's Innovation Initiative. National recognition that the U.S. has fallen behind many other countries in its ability to educate sufficient engineers and other highly trained workers to remain competitive in today's global marketplace was articulated in the 2006 report "Rising Above the Gathering Storm" and other recent publications. The Innovation in Education bill contained seven proposals to improve Hawaii's ability to deliver a quality STEM education. Five of the proposals were supported by the Legislature (Act 111, SLH 2007). While education is a key responsibility of State government, through the Department of Education (DOE), there is also a compelling need for DBEDT, as the economic development agency, to help insure that the education system can produce a workforce capable of supporting the economic development objectives of the State. DBEDT is working with the Department of Education, UH (including Community Colleges, College of Engineering, and College of Education), the Department of Human Services, the Workforce Development Council, and the private sector to insure the implementation of the STEM education initiatives.

- (5) ***Leverage Program Budget by Increasing the use of Non-State Funds, with General Funds as the Cost Match.*** To offset reductions in general fund support for its programs, SID has succeeded in competing for federal funds. In FY06 & 07, SID competitively developed about \$390,314, and \$509,500 of federal funds, respectively. For the 13-year period, 1995-2007, in 2007, SID's overall average annual funding from competitive grant awards equaled approximately \$477,109 (Please also see Figure 3, page 27. These grants are developed through public/private partnerships and contracts are awarded to the private sector.

In addition to the federal funds attracted to support energy-related projects, the State successfully competed for a two-year, \$500,000 STEM Education grant from the National Governors Association, funded by the Bill & Melinda Gates Foundation and Intel Corporation. Awarded in FY07, it will be implemented in FY 08-09, and supports the development of the STEM Academies established by Act 111.

However, without adequate State funding for cost-match to increase Hawaii's competitiveness, the energy program's history of successful development of USDOE grants is not likely to continue. Thus, cost-match funding will likely become an increasingly significant as a factor for state success in these competitive federal grant programs.

**b. Explain how these results relate to the program's objectives and department's mission.**

The activities and results reported above support the Department's mission by supporting key State policies and policy objectives for which DBEDT is responsible, including the Director's statutory role as the State Energy Resources Coordinator (ERC):

- The legal basis of Hawaii's energy program is cited in (Hawaii State Planning Act) HRS Chapter 226, §18, the state's energy objectives to reduce dependence on imported oil.
- Chapter 196, and Chapter 226-18, HRS, require state energy planning and project activities in energy efficiency, renewable energy and clean fossil energy resources to support achievement of these energy policies. SID also supports Chapter 26-18(a), HRS, which provides DBEDT: [S]hall . . . encourage the development and promotion of industry and international commerce through programs established by law.
- Chapters 125C and 128, HRS, assign energy emergency and critical energy infrastructure protection planning and response functions to DBEDT, which SID conducts with industry and State Civil Defense.
- Chapter 486J-5.3, HRS, requires DBEDT use of data received pursuant to the statute "to effectuate purposes of chapters 125C, 196, and other relevant laws"; SID conducts analyses of all energy sectors.
- Act 234, SLH 2007, mandated DBEDT (SID) and DOH to update statewide inventory of estimates of 1990 GHG emissions levels for regulatory limits/reductions; administratively established GHG Reduction Task Force within DBEDT; SID provides staff for Task Force operations and administration; established 5-year Task Force programmatic implementation, evaluation, update cycle for work plan of reduction measures/regulatory scheme (Please also see Section II., D., below.)
- Chapters 201-3, 13 and 71 through 75, 226-10 & 103, and 213-1 & 3, HRS, assign functions to DBEDT related to developing ocean sciences and aerospace and promoting a R&D industry in Hawaii.
- (Please also see Section II, D., below.)

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

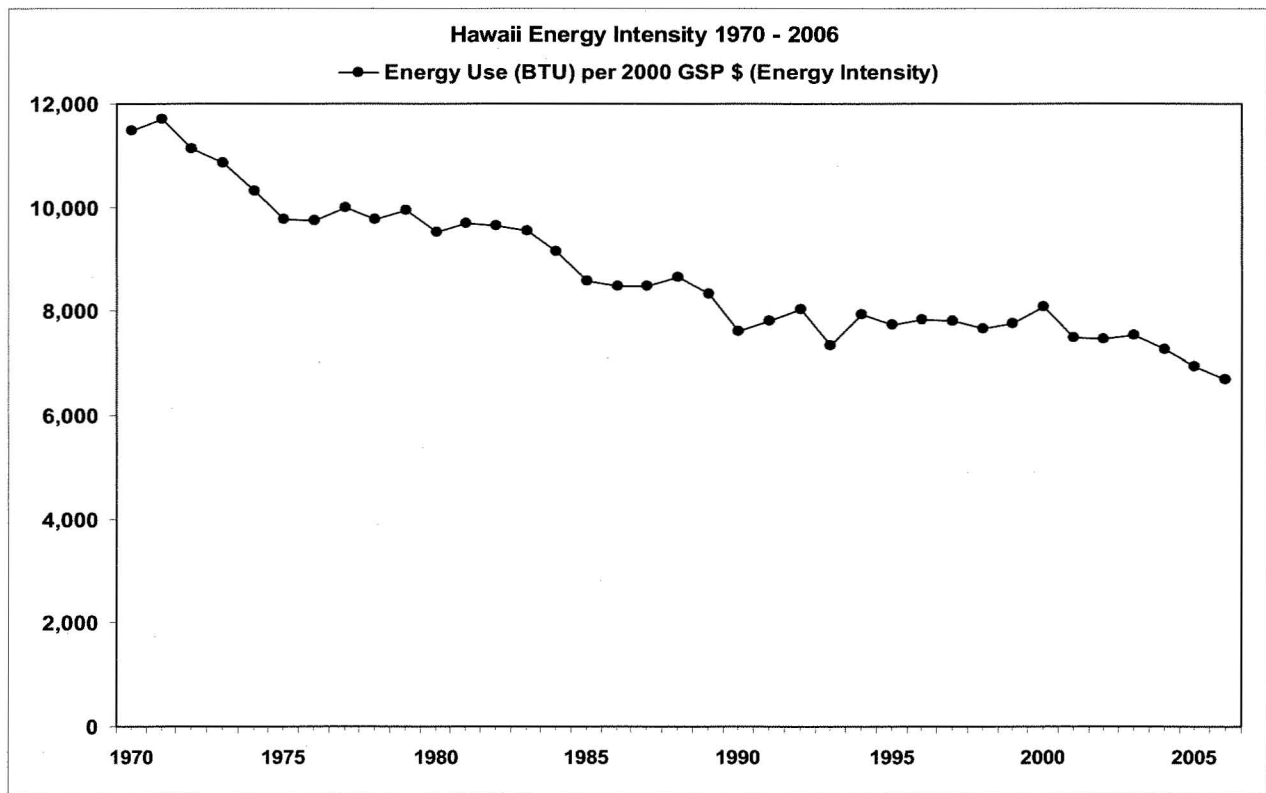
SID uses both qualitative and quantitative measures of program effectiveness to evaluate energy and technology programs and projects. Examples of SID's important measures of effectiveness and performance are provided below:

- (1) Energy Use per Capita/Gross State Product (GSP) – Energy Intensity – Hawaii's Economy Continues to Become More Energy Efficient.** Hawaii's energy intensity (please see Figure 1, next page), the ratio of energy input to GSP\* output is an important measure of the Hawaii economy's energy efficiency. Energy intensity has continued to improve – decrease – over the past 35 years from approximately 11,492 Btu/\$1.00 of GSP in 1970

to 8,575 Btu/\$1.00 of GSP in 1985 to 8,095 Btu/\$1.00 of GSP in 2000. In 2005, (FY06) energy intensity decreased by about 318 Btu from the 2004. By mid-FY07 (i.e., calendar year 2006), this value had improved to 6,681 Btu/\$1.00 of GSP, an improvement of approximately 253 Btu with energy intensity decreasing a total of about 570 Btu/\$1.00 of GSP, during FY06 & 07, a steady improvement. From the 2004 measure of 7,252 Btu/\$1.00 of GSP, to 2006, Hawaii now averages the use of 6,681 Btu of energy to produce \$1.00 of GSP. (\*GSP is in constant 2000 dollars. Note: Sums are negligibly affected by rounding to whole numbers.)

Figure 1.

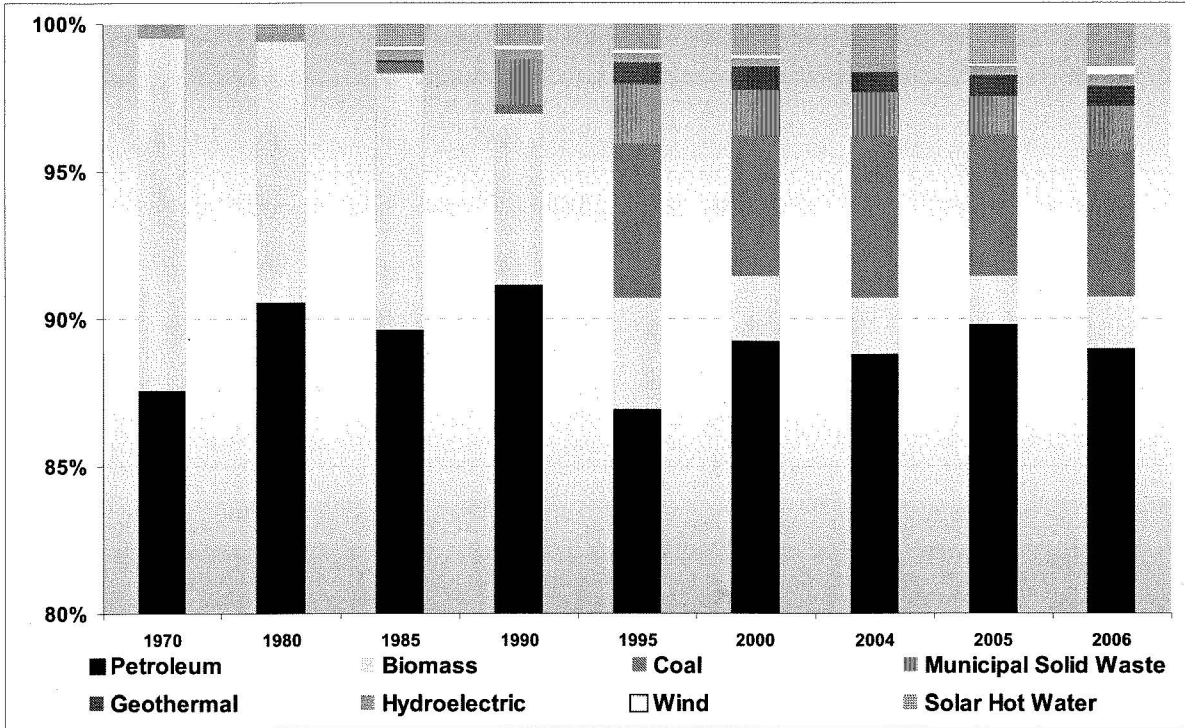
**Hawaii's Energy Intensity: 1970 – 2006**  
**Thousand Btu to Produce \$1 of Gross State Product (GSP)**  
**(GSP in Constant 2000 Dollars)**



**(2) Reducing Oil-Dependency by Diversifying Energy Supply Portfolio.**

Hawaii's energy supply diversity has direct impacts on the economy's competitiveness and resilience to oil market disruptions. GSP dollars spent on imported fuel could instead increase consumer spending and investments in Hawaii. Hawaii's oil-dependent economy increases its vulnerability to the impacts of oil price dislocations. Figure 2, next page, shows 2006's more diverse energy resource portfolio than 1970, but a declining use of indigenous energy; i.e., biomass energy from a waning sugar industry. During FY06 & 07, though, renewable energy use increased, most noticeably, wind energy, solar photovoltaics, solar water heating, and hydroelectric. Thus, Hawaii's dependency on oil for primary energy (total energy in all sectors) now stands at 89%.

**Figure 2.**  
**Hawaii's Primary Energy Consumption by Resource**  
**1970 – 2006**

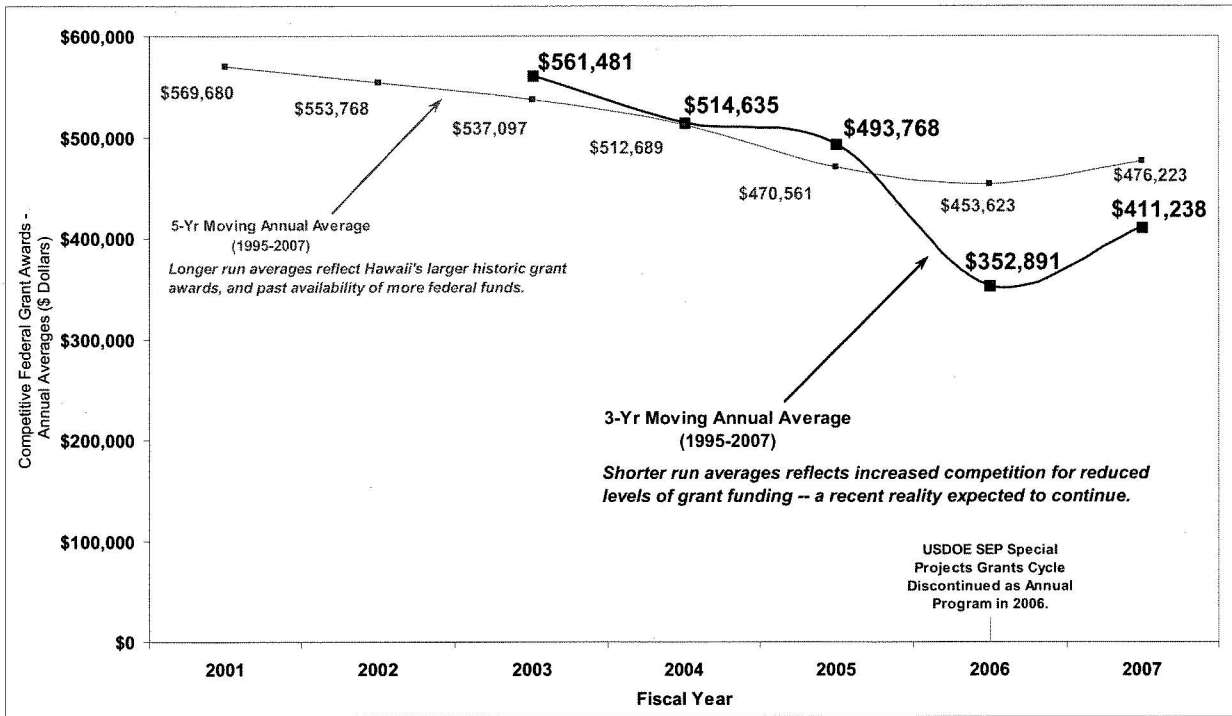


*Note: Scale begins at 80% for clarity.*

**(3) Developing External Funding Via Competitive Grants.** External validation of the value of a program's activities could also be measured by the program's success in developing external non-state funding in competitive, peer-reviewed grant programs. While SID has a proven record of accomplishment of historic success, since 2003, other federal budgetary priorities have significantly constrained the availability of non-defense funding. It has become harder to obtain these funds. Figure 3, next page, illustrates these trends in the context of Hawaii's performance in obtaining competitive grants. Thus, State support for a strong energy program is essential for Hawaii to remain competitive. In fact, the significant 2007 "uptick" in federal energy grant funding to Hawaii can be directly attributed to the States comprehensive energy policy and funding initiatives enacted in 2006, tangible evidence to USDOE that the Legislature and the Administration recognized energy as a priority. The stronger and more sustainable the State's commitment to energy, the more competitive Hawaii becomes and the more likely to retain and expand USDOE's interest and support.

Figure 3

Trend Comparisons of Annual (Fiscal Year) Funding Levels from Awards of Competitive Federal Grant Funds to Hawaii State Energy Program



Note: Both five-year and three-year moving averages are based on the grant funding awards over the 13 fiscal years, 1995 through 2007.

(4) **Number of Businesses and Organizations Participating in Outreach, Business and Industry Development and Promotion Activities.** Several hundred companies doing business in Hawaii have participated in SID-supported conferences, workshops, and seminars in Hawaii, many of which have attracted many potential Asian customers.

d. **Discuss the actions taken by each program to improve its performance results.**

*SID Restructured Its Budgeting and Management Evaluation System.* SID's performance is structured to comport with DBEDT's performance and budget management system. DBEDT has set six strategic objectives, under which all major programs develop yearly action plans for budgeting, procurement and managing program and organizational performance. SID's functions primarily relate to and support DBEDT's objectives for: "Energy for Tomorrow", "Innovation Infrastructure" and "Export of Goods and Services." These three strategic objectives are described above. Priorities are developed, target goals and objectives are set, resources budgeted accordingly, and projects/programs are monitored for effectiveness against predetermined, targeted outputs and outcomes. SID was reorganized to reflect this restructured framework.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.

None.

### 3. Problems and Issues:

- a. Discussion of problems and issues encountered, if any.

(1) **Issue: How To Re-concentrate State Energy Program Priorities And Resources To Achieve The Most Efficient And Effective Near-, Mid-, And Long-Term Support For State Energy Policy Objectives, And DBEDT's Energy Mission.** This is a particularly critical time for Hawaii, because of its high oil-dependency. Hawaii's existing energy systems are integrated, and oil-dependent, and, thus, nearly completely dependent on the new world oil market of high prices and increased competition for limited supplies. This requires a more sophisticated quantitative and qualitative technical understanding of Hawaii's interdependent, oil-based energy systems, as well as the economic and market contexts in which they operate. It also requires maximizing cost-effective energy efficiency and conservation, widely accepted by experts to be the "first and best" area of focus to decrease dependence on fossil fuels, lower consumers' energy costs, and even defer the need to construct new power plants. Critically important is the sustainable development of indigenous, renewable energy resources to displace the need for imported oil. All of these requirements must be met, using a strategic, coordinated approach to avoid large, near-term investments in fossil-fueled infrastructure, economics of which could delay Hawaii's early adoption of advanced, more sustainable energy technologies.

(2) **Issue: How to Address the need for statewide energy systems data and analysis by DBEDT.** Energy emergencies increase the visibility and interest in energy emergency preparedness and overall energy security, highlighting the importance of our efforts to update and strengthen Hawaii's EEP Program and Plan. SID must address inadequacies in the existing energy statutes, which severely limit the State's ability to adequately plan and prepare for, respond to, and manage energy emergencies and threats to the state's energy security.

When facing energy emergencies, a variety of energy data and the capability to analyze it is particularly essential to define the magnitude, scope and estimated duration of the emergency energy disruption and to determine whether and to what extent any government intervention may be warranted and appropriate. This capability also allows ongoing situational analyses and reports, and adjustments to response measures over the course of the energy emergency. Without this quantitative and qualitative capacity to accurately assess and appropriately respond to such situations, Government risks inadequate response which puts public health and safety at risk. This function must also be adequately resourced.

- (3) **Issue: How to Maintain or Improve Program Effectiveness while Program Revenues Decline.** Like other programs, there has been a downward trend in State appropriations for this Division. State revenues from oil overcharge funds are declining, and Federal appropriations and formula energy program grants for State energy programs have been substantially reduced. SID actively seeks and obtains grants from competitively awarded proposals from Federal funds, but State funding must be maintained to provide cost match normally required by the Federal government.

**b. Program change recommendations to remedy problems.**

- (1) To address Issue 1, above, DBEDT developed and proposed a new organizational structure for SID. However, significant improvements must be made to certain energy-related State statutes, Chapter 196, HRS, and Chapter 125C, HRS, for which the department has proposed amendments, which would be consistent with Act 182, SLH 2007 amendments of Chapter 486J, HRS. SID's proposed new organizational structure is designed to provide optimum focus of available resources in support of these and other statutes but resources to fully conduct the mandated functions must be provided.
- (2) To address Issue 2, above, DBEDT must be authorized and provided adequate resources to collect and conduct relevant analyses of petroleum volumes, throughputs, infrastructure, and price information from all classes of trade to effectively monitor petroleum markets and facilitate competition. Additionally, Chapters 125C must be amended to restore authorization to DBEDT to obtain critical energy information from energy companies.
- (3) To address Issue 3, above, reductions of state funding for SID's program activities must be addressed. Continued cuts in state funding support for SID will decrease Hawaii's competitiveness for Federal or other grants. These grants are extremely competitive and require non-federal cost-sharing. Continued availability of state funding will enable SID to continue to seek and receive external grant funding.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

- (1) To address Issue 1, above, the program plans to continue to support the Administration's energy initiatives, and State energy policies via proposing and implementing organizational structures and functional processes to focus available resources to achieve expected levels of efficiency and effectiveness.
- (2) To address Issue 2, above, the program plans to continue to support the recommendations related to energy data and analytic staff capabilities in DBEDT's information briefings to the Legislature, subsequently updated and validated by additional analysis, which remains current.



(3) To address Issue 3, above, SID will continue to pursue non-State funding, especially from federal government sources. In addition, approval of resources requested in Section 5a, it is considered essential.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(9.00)				(9.00)	(9.00)
Personal Services	2,110,750	79,510			2,190,260	2,190,260
Current Expenses	3,296,092				3,296,092	3,296,092
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>5,406,842</b>	<b>79,510</b>			<b>5,486,352</b>	<b>5,486,352</b>

(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds	4,263,395	54,931			4,318,326	4,318,326
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund	(9.00) 1,143,447	24,579			(9.00) 1,168,026	(9.00) 1,168,026

**a. Explain all transfers within the Program I.D. and the impact on the program.**

None.

**b. Explain all transfers between Program I.D.'s and the impact on the Program.**

None.

**c. Explain any restrictions and the impact on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009**

**Provide the total position counts and funds requested:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(9.00)		(9.00)
Personal Services	2,110,884	423,390	2,534,274
Current Expenses	3,296,092	1,485,000	4,781,092
Equipment			
Motor Vehicles			
<b>Total</b>	<b>5,406,976</b>	<b>1,908,390</b>	<b>7,315,366</b>
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds	4,263,397		4,263,397
(Pos. Counts) Other Funds		1,623,390	1,623,390
(Pos. Counts) General Funds	(9.00) 1,143,579	285,000	(9.00) 1,428,579

**a. Workload or program request:**

The FY09 Executive Budget includes the following requests:

**(1) Funding Support for DBEDT as Intervener in PUC Intragovernmental Wheeling Docket #2007-0176; Establish/Fund Energy Economist, and Energy Research Statistician Positions.**

- i. Description of the request. To request one-time, lump-sum \$300,000 funding for specialized technical consultant/witnesses, and specialized external legal counsel to support DBEDT intervention in PUC Docket 2007-0176, Intragovernmental Wheeling of Electricity ("Wheeling Docket"). To request establishment and funding of \$197,582, annual recurring (includes salaries and fringe benefits) of two (2.00) FTE (T) budgeted, exempt positions: one (1.00) FTE (T) Energy Economist, SRNA; and, one (1.00) FTE (T) Energy Research Statistician, SRNA within DBEDT-SID, Energy Planning & Policy Branch (EPPB). Total amount of this FY 09 request is \$497,582. Positions are considered essential to implement and evaluate effectiveness of State energy policy initiatives, the comprehensive new foundation of statutory energy

programs and plans, including energy emergency preparedness program and plan.

Reasons for the request. \$300,000 – *Support DBEDT as Intervener in PUC Intragovernmental Wheeling Docket #2007-0176.* As the second largest electricity consumer behind only the USDOD, for the State government the significance of this docket is profound. PUC approved DBEDT/State ERC as an intervener in the Wheeling Docket and SID is spearheading this effort to boost the State government's own use of renewable energy via wheeling of renewable energy between State facilities, and directly from independent renewable energy power producers (Please see Sections 1 & 2 above). This docket case involves issues of extraordinary technical complexity and the potential for significant change in Hawaii's regulated utility industry. To credibly formulate and argue its case within the formal, quasi-judicial PUC proceedings, DBEDT requires the funding to contract with consultants, expert witnesses and expert legal representation (outside experts in engineering, energy economics, utility regulatory & ratemaking procedures, and relevant utility law) with equivalent depth of technical expertise as those the utilities. DBEDT intends to deploy a similar case strategy as the utilities, which requires the best team of expert professionals, both hired outside experts and from within the organization. DBEDT will also need dedicated legal counsel throughout the PUC proceedings. In consultation with the AG, due to the complexities and high profile of this Docket, a team of both internal and external legal counsel to represent DBEDT has been deemed is the advisable course, requiring DBEDT to fund the special legal counsel through the AG.

The Wheeling Docket will be a data and analytic-intensive effort, as are virtually all Energy Program functions. Similarly, all energy-related policy issues, planning, decision-making, and energy emergency preparedness involve data and statistical analyses, translated into useful and usable information on Hawaii's energy resources (traditional and renewable, and energy efficiency), systems and markets; i.e., energy economics, and energy data services and statistical support, covering all energy sectors.. Thus, while included under the same budget request, DBEDT emphasizes that requested positions are posed as a recurring request.

*\$197,582 Annual Recurring – Establish/Fund FTE Temporary Positions: One (1.00) Energy Economist; and, One (1.00) Energy Research Statistician, within DBEDT-SID-EPPB.* The requested Energy Economist and Energy Research Statistician positions would provide complementary technical, quantitative energy data and information analytic functional support, required by the State to effectively address and inform energy-related policy and resource issues and decision-making, including those related to energy emergency planning and preparedness. The comprehensive energy data and statistical analytic functions supported by these positions are critical to all of DBEDT's interrelated energy program functions, which support DBEDT's energy-

related energy mission and objectives, and roles and responsibilities as required by law.

Approval and funding of these positions would establish the necessary in-house capability for systematic quantitative and qualitative technical analyses of integrated energy systems and markets, assess effectiveness of, and develop unbiased analytic proposals for policy and regulatory decisions, conduct energy emergency planning, and assessments of renewable energy, energy efficiency, and fossil fuels in all energy sectors. These are key support functions for DBEDT/State ERC's mandate to reduce Hawaii's oil over dependency, while preserving the state's energy and economic security.

As explained in Section 2 above, the two State agencies with the most visible data analytic functions are DBEDT and PUC. These agencies (DBEDT and PUC) have distinctive, non-redundant energy-related missions and functions, and each agency is required to conduct discernibly different types of energy data and statistical analyses. Their respective analytic functions are designed produce different kinds of information for definitively differentiated purposes. The law differentiates DBEDT's energy analytic role from the PUC's.

PUC gathers petroleum industry data and information for analyses with the main focus on petroleum prices and petroleum industry profits, a necessary and appropriate State "watchdog" role. PUC also uses data and information from regulated energy utilities for regulatory purposes.

DBEDT/State ERC's role requires SID's statistical and energy economic analyses function to support the comprehensive strategic energy policy planning, described above, as well as energy emergency preparedness and response, aimed at preserving energy and economic stability and security. SID requires energy data and information on all energy sectors, and acquires it from several sources, including the PUC – expansive volumes of data. In fact, this was the impetus for Act 182, SLH 2007 direction to DBEDT to use this data "to effectuate the purposes of Chapters 125C, 196, and other relevant laws."

Information above generally describes SID's energy analytic support needs mainly in regards to HRS Chapter 196; i.e., State ERC law, strategic energy policy planning. Under Chapter 125C, HRS, when a fuel shortage or a disaster disrupts Hawaii's energy systems, the capacity and capability to implement DBEDT's energy analytic functions enables the State to determine the nature of such an event, its severity in terms of economic and other impacts, and expected duration of the energy emergency or crisis. DBEDT-SID is responsible to continuously monitor and conduct ongoing situational analyses and reports, such that emergency response measures are evaluated and adjusted as necessary over the course of the energy emergency. Lacking the staff capacity and capabilities to accurately assess and appropriately respond to such situations risks government overreaction or ineffectual response to energy crises, which can exacerbate economic impacts, and even put the

public's health and safety at risk. DBEDT's functions in all these areas of energy analysis are unique to the department.

Currently, DBEDT-SID has only one (1) Research Statistician assigned to fulfill all such requirements, including the analytic requirements that support implementation and evaluation of the comprehensive new energy laws enacted in 2006 (Energy for Tomorrow), Wheeling Docket, etc. Approval and funding of these positions would restore SID's professional analytic staff count (i.e., total of three (3)) to the FY06 level, the staff level required to develop the 2006 energy policy proposals. Approved funding and establishment of the requested Energy Economist and Energy Research Statistician positions would enable DBEDT to fulfill the Act 182, SLH 2007 directive (§486J-5.3, HRS) and its other statutory mandates regarding these energy data functions.

Desired outcomes/objectives to be accomplished by the proposed program include. These positions are essential to achieve the mandated mission and objectives, and roles and responsibilities of SID's energy program. Approval would provide the capability and resources to provide essential analytic support needed to achieve such high priority outcomes and results as:

- Develop and analyze costs and benefits of comprehensive, integrated energy legislation, implementation and evaluation strategies, and provide continued support for policy improvements for energy and economic security, energy emergency preparedness and consumer benefits.
- Provide DBEDT/State ERC, Governor, and Legislature with valuable information on how best to achieve EFT-based 2006 energy policies for Renewable Portfolio Standards (RPS), Energy Cost Adjustment Clause (ECAC), and via the Public Benefits Fund (PBF) for demand-side management and renewable energy program deployment by other than electric utilities, and de-linking oil prices from renewable energy contracts and payments (De-linking).
- Provide in-house energy analytic staff capacity and capabilities for analytic-intensive energy regulatory proceedings such as the Wheeling Docket, while also servicing all of DBEDT-SID's energy economics, and data and statistical support requirements.
- Maintain a systematic and quantitative understanding of Hawaii's statewide energy systems and their relationships with the economy, a critical function of the State's energy emergency preparedness and response capability (DBEDT's required emergency functions in support of State Civil Defense, and in DBEDT's role as designated lead agency to plan for an respond to emergency fuel market disruptions):
  - Evaluate, determine and recommend what, if any, energy emergency government intervention is necessary; i.e., targeting response measures to the specific requirements of the problem.

- Conduct ongoing situational analyses and reports; assess and recommend adjustments to energy emergency response measures; and
  - Analyze and develop post-energy emergency assessments to improve readiness, reduce and mitigate energy emergency vulnerabilities.
  - Plan and conduct economic studies and analysis on wide-ranging energy issues including but not limited to Hawaii's energy industry and markets, State and private sector energy efficiency programs, and renewable energy and alternate fuels industry and markets.
  - Provide the capacity to represent to the Public Utilities Commission broad societal, economic and overall energy systems views articulated by Governor and Legislature.
  - Improve the State's capabilities and capacity to conduct comprehensive, data-based analyses related to Hawaii's energy systems, markets, and policies.
- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

<b>Cost Category</b>	<b>MOF</b>	<b>FY 2009</b>
Permanent Position	-	0
Temporary Position	-	2.00
Personal Services. (Salaries – combined total)	U	140,000
Fringe Benefits	U	57,582
Other Current Expenses	U	300,000
Equipment	-	0
Motor Vehicle	-	0
<b>Total</b>		<b>497,582</b>

MOF-U: Requested interdepartmental transfer of funding from Environmental Response Revolving Fund (ERRF), §128D-2, HRS; ERRF revenue stream is Environmental Response Tax (ERT), §243-3.5, HRS.<sup>1</sup>

<sup>1</sup> Environmental Response Revolving Fund (ERRF), §128D-2, HRS, DOH is administering agency. Purposes: Deposit assessments, court settlements, and awards from unlawful release of hazardous substances; rapid response to emergency releases of hazardous substances; clean-up of existing, non-emergency, and hazardous substance releases, and revenue sources expanded to include penalties for violations of rules on air emissions, water, noise, solid waste pollution, hazardous waste disposal, underground storage tanks, and used oil disposal; and, **a wide variety of environmental and natural resources protection programs and activities, not limited to; e.g., energy conservation and alternative energy development, air quality, global warming,** clean water, polluted runoff, solid and hazardous waste, drinking water; supports DOH underground storage tank program. Environmental Response Tax (ERT), §243-3.5, Hawaii Revised Statutes (HRS) levies five cents (\$0.05) per barrel (1 barrel = 42 U.S. gallons) or fractional thereof on petroleum product sold to retail dealer or end user, other than a refiner. Tax collected from "distributors" (i.e., refiners, wholesalers, importer-resellers/users, and bulk users/purchasers from wholesalers), deposited into Environmental Response Revolving Fund (ERRF). Tax collected from "distributors" (i.e., refiners, wholesalers, importer-resellers/users, and bulk users/purchasers from wholesalers), deposited into ERRF. ERRF ceiling is currently \$20 million. When ceiling is reached, ERT is suspended, and reinstated if/when ERRF balance falls under \$3 million.

iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

Specialized technical consultant/witnesses	175,000
Specialized external legal counsel	125,000
Total	300,000

**(2) Establish/Fund Renewable Energy Facilitator Position.**

- i. Description of the request. To request establishment and funding of one (1.00) FTE (T) budgeted, exempt position (Renewable Energy Facilitator, SRNA); totaling \$112,904, annual recurring cost (includes salaries and fringe benefits)..

Reasons for the request. The Renewable Energy Facilitator position will provide staffing to facilitate the efficient permitting of renewable energy projects, and to initiate the implementation of key renewable energy project permitting efficiency improvement strategies as identified in a study, conducted by DBEDT pursuant to SCR 164, Regular Session of 2007, that examined the feasibility of a one-stop permit shop for renewable energy projects.

Renewable energy resources offer Hawaii important economic, environmental, and energy security benefits. To encourage the development of renewable energy resources in Hawaii, project applicants should have access to clear and appropriate information, and assistance, to meet requirements of state, county and federal regulations, permits, and agency rule-making processes. The public utilities commission reported to the Legislature in 1996 that the complex and lengthy permitting process was one of the barriers to renewable energy development in Hawaii. Improving the efficiency of the permitting process and elevating the priority for renewable energy projects' permits was also identified as a top priority for biofuels industry development during the Governor's Hawaii Biofuels Summit held in August 2006.

Desired outcomes/objectives to be accomplished by the proposed position include:

- A centralized permitting information resource to reduce agency and applicant difficulty with information gathering.
- Improved agency cooperation and coordination resulting in increased efficiency.
- Improved efficiency and elevated priority of permitting of renewable energy projects.
- More projects developed within shorter timeframes.

- Enhanced perception of the State as business friendly.

<b>Cost Category</b>	<b>MOF</b>	<b>FY 2009</b>
Permanent Position	-	0
Temporary Position	-	1.00
Personal Services (Salary)	U	80,000
Fringe Benefits	U	32,904
Other Current Expenses	-	0
Equipment	-	0
Motor Vehicle	-	0
<b>Total</b>		<b>112,904</b>

MOF-U: Please see Footnote 1.

**(3) Establish/Fund Bioenergy Program, and Bioenergy Program Manager Position.**

- i. Description of the request. To request funding to establish a Bioenergy Program within SID, with one-time, lump-sum of \$700,000 funding requested for completion of the statewide bioenergy master plan (The comprehensive scope of the bioenergy master plan project will require nearly complete focus of the proposed program for its initial two years; thereafter, annual recurring funding will be necessary for continued operations). To request establishment and funding (\$112,504, annual recurring (includes salary and fringe benefits)) of one (1.00) FTE (T) budgeted, exempt position (Bioenergy Program Manager, SRNA) within DBEDT-SID. Total amount of this FY09 request is \$812,904.

Reasons for the request. Under the banner of the Administration's "Energy for Tomorrow" program, Acts 240 and 162 were passed and enacted in 2006. Act 240 established State support for the objective of 20% of highway vehicle energy to be provided by alternative fuels, such as ethanol or biodiesel, by 2020. Act 162 requires a minimum amount of electricity production to be from renewable sources, including solid or liquid biofuels.

Energy prices are climbing: oil prices have increased 400% over the past 4 years (from \$24 per barrel in May of 2003 to \$96 per barrel in November of 2007). Petroleum is used to produce fuels critical to Hawaii's economy: jet fuel, gasoline, diesel fuel, and fuel for electricity production. Global demand (and prices) for petroleum are projected to continue to rise. Alternative energy sources and fuels are needed -- and required by statute. Solid and liquid biofuels, for the production of electricity and for transportation, are the renewable sources most similar to the fossil-based fuels in use today in terms of energy density and portability, and, thus, fossil fuels are readily replaceable by such bioenergy resources.

The position is essential to identify high priority areas for research, development, or assessments; coordinate efforts and provide information to the many State, Federal, and County agencies involved; apply for grants and funding from outside the state; respond to opportunities and



inquiries from potential project developers, landowners, researchers, consultants, other government agencies, environmental groups, and the public; contract for technical assistance; prepare procurement documents to secure the technical assistance; coordinate and collect information to prepare and provide reports to the Governor and the Legislature; and other support functions related to Act 240, SLH 2006; Acts 159 and 253, SLH 2007; and HRS Chapters 196-1 through 4, 196-41, and 196-42.

Desired outcomes/objectives to be accomplished by the proposed program include. Implementation of a sustainable and successful bioenergy program has the potential to provide Hawaii with economic diversification; environmental benefits; preservation of open space; and a more energy secure future. Conversely, neglect of this area could result in increased energy and economic hardship.

ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

<b>Cost Category</b>	<b>MOF</b>	<b>FY 2009</b>
Permanent Position	-	0
Temporary Position	-	1.00
Personal Services (Salary)	U	80,000
Fringe Benefits	U	32,904
Other Current Expenses	U	700,000
Equipment	-	0
Motor Vehicle	-	0
<b>Total</b>		<b>812,904</b>

MOF-U: Please see Footnote 1.

iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

Completion and coordinate initial implementation activities of bioenergy master plan, pursuant to Act 253, SLH 2007.	700,000
<b>Total</b>	<b>700,000</b>

**(4) Funding Support for Expanded Activities of Lead by Example Program.**

- i. Description of the request. \$200,000 funding is requested to continue to expand this essential program – Lead by Example – initiated in 2006, to increase energy efficiency and the use of renewable energy in State government facilities, as means by which State government is setting energy leadership by example by achieving demonstrable improvements in these high priority areas of energy and economic security. The funding is required to further expand collection, refine, and assess data, activities, and plans for Lead by Example program achievements.

Reasons for the request. As described in Sections 1 and 2 above, significant progress with the initiation of the LBE program. To sustain and expand the achievements of LBE, DBEDT-SID must continue to provide coordinated

support to agencies/departments by conducting, monitoring, and following up on technical assistance and training; initiating and bringing to full implementation efficiency and renewable energy projects; preparing evaluations of the technical assistance and training; assessing and developing strategies for participation in the public benefits fund administrator efforts; coordinating and collecting information to prepare and provide reports to the Governor and the Legislature, and other required support functions, for which DBEDT is designated the lead coordinating agency. DBEDT's in-house staff capacity requires supplemental technical support from expert consultants in order to continue the expanded support functions necessary to ensure that all State agencies and attached agencies receive adequate technical support for compliance with statutory mandates and complementary administrative directives, which set incremental targets for increasing energy efficiency, increased use of renewable energy and alternate fuels in state facilities, motor vehicles, and equipment, as well as other sustainable building standards and procurement practices (Act 96 SLH 2006, Act 160 SLH 2006 (Section 168.5), Administrative Directive 06-01, and Executive Memo 06-04).

Desired Outcomes/Objectives to be Accomplished by the Proposed Program Include: The requested funding for hiring supplemental external consultants is essential to achieve the mandated energy savings within state facilities:

- Develop and implement plans and set targets for energy efficiency for state facilities and equipment so that state agencies “Lead by Example.”
- Organize technical assistance and training for agencies and set targets for newly constructed or renovated state facilities to meet minimum standards for energy and resource efficiency, and meet LEED Silver or other nationally recognized consensus-based green building guidelines.
- Provide technical assistance to agencies, now required to purchase state vehicles that meet minimum federal and state alternate fuel requirements, efficiency, and use alternate fuels such as ethanol blends and biodiesel.
- Provide technical assistance to agencies, now required to purchase Energy Star products when cost-effective.
- Provide technical assistance to agencies that are incorporating commissioning and retrocommissioning in their building construction and operating practices. Commissioning and retrocommissioning are disciplines to improve energy efficiency in building design, operations, and maintenance.
- Qualify and benchmark state buildings for ENERGY STAR certification which identifies buildings as meeting the USEPA’s standard for being in the top 25 percent of all office buildings in the nation.
- Provide technical assistance for renewable energy technology use in state agencies.

- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

<b>Cost Category</b>	<b>MOF</b>	<b>FY 2009</b>
Permanent Position	-	0
Temporary Position	-	0
Personal Services	-	0
Other Current Expenses	U	200,000
Equipment	-	0
Motor Vehicle	-	0
<b>Total</b>		<b>200,000</b>

MOF-U: Please see Footnote 1.

- iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

Technical assistance and cost benefit analyses	150,000
Training and information	50,000
<b>Total</b>	<b>200,000</b>

**(5) Funding Support for Expanded Activities of Science & Technology Branch in Science Technology, Engineering and Math (STEM) Education.**

- i. Description of the request. To request supplemental funding (\$50,000.00) to conduct the expanded responsibilities of the Science & Technology Branch related to the Science Technology, Engineering and Math (STEM) education priorities of the Governor's Innovation Initiative, primarily through the development and implementation of an effective communications program.

Reasons for the request. The need to diversify Hawaii's economy by focusing economic development efforts on industries that do not rely on land and natural resources for sustainable growth was emphasized by Governor Lingle's Innovation Initiative, introduced to the 2007 Legislature. That initiative recognized the accelerating need to compete in the global economy. A key strategy is to direct more attention to expanding and diversifying Hawaii's science & technology (S&T) sectors which may be based on our unique resources but are nonconsumptive, including preparing Hawaii's workforce to fill the expanding demand for highly skilled employees in these sectors, as well as tech-related jobs in all sectors of the economy. The foundation of creating this workforce is improving the State's ability to deliver a quality education in science, technology, engineering, and math (STEM).

Additional funds are requested to support a communications strategy focused on fostering a sustainable change in the way STEM education is delivered in Hawaii. There must be broad support in the public, business and education communities that translates as demand for a new way of doing things. Creating this kind of change in thinking cannot be accomplished quickly or without a sustained and coherent effort. The proposed funding would be used to engage professional help in developing and implementing a communications strategy, based on the Communications Toolkit developed by the National Governors Association Center for Best Practices, and

adapted for use in Hawaii to reflect local culture and attitudes. The strategy would likely include:

1. A survey of attitudes toward science & technology in general and STEM education in particular, to help develop the appropriate tactics and provide a benchmark for measuring progress.
2. Messages tailored to specific target audiences.
3. Recommended methods of delivering the messages.
4. Ways to measure the effectiveness of the strategy.

Desired outcomes. A well-conceived communication strategy should result in a measurable change in the perceptions and attitudes of the target audience(s) and ultimately a shift in education policy and funding to support a strong STEM program in Hawaii's schools.

- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

<b>Cost Category</b>	<b>MOF</b>	<b>FY 2009</b>
Permanent Position	-	0
Temporary Position	-	0
Personal Services	-	0
Other Current Expenses	A	50,000
Equipment	-	0
Motor Vehicle	-	0
<b>Total</b>		<b>50,000</b>

- iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

Strategy Development	10,000
Strategy Implementation	40,000
<b>Total</b>	<b>50,000</b>

**(6) Funding Support to Continue Office of Aerospace Development (OAD) Operations.**

- i. Description of the request. To request funding (\$235,000) for continued FY09 operations of the OAD, established and funded for FY08 by Act 149, SLH 2007.

Reasons for the request. The aerospace industry has played a pivotal role in expanding and diversifying our national economy. Hawaii's diverse natural resources, first-class technological infrastructure, and resident scientific and engineering expertise provide an ideal location to both support NASA's vision for space exploration and develop a robust aerospace industry in The Islands. New opportunities in aerospace are ideally suited for our state – many with scientific, educational and commercial promise. For example, the Institute for Astronomy is seeking to apply its resident expertise in adaptive optics and remote sensing toward development of advanced sensor

technologies for commercialization. Local companies such as Oceanit, Textron, Solipsys, NovaSol and Trex Enterprises are working to develop new commercial products and services to support atmospheric monitoring and weather forecasting, land and coastal resource assessment, and advanced optical communications and electro-optical tracking systems. Major aerospace corporations such as Boeing, Raytheon, BAE Systems, Lockheed Martin, and Northrop Grumman are seeking to expand their operations in Hawaii as a bridge to Asia-Pacific markets. Finally, Hawaii's strategic environmental and technological assets are ideally suited to support the commercial launch of small satellites and other payloads for university research, private telecommunications networks, monitoring/management/mitigation of regional disasters, and the development of space power systems to capture sunlight as a renewable energy resource for both interplanetary spacecraft and earth-based applications.

Desired outcomes/objectives to be accomplished by the proposed program include:

- Identify and promote opportunities for expanding and diversifying aerospace-related industries in Hawaii.
- Act as a catalyst in forging partnerships between the UH and local businesses.
- Assist UH, local companies, research institutions, and other interested organizations in establishing partnerships with corporate, government, and university entities overseas that can promote and enhance aerospace industry development in Hawaii.
- Help leverage aerospace and related technological capabilities in our state's government, academic and private sectors.
- Promote innovative education and workforce development programs.
- Monitor national and global trends in the aerospace industry and recommend programs and policies that can support aerospace industry development statewide.
- Serve as a central point of contact for State government that can respond to both local and out-of-state inquiries concerning Hawaii's aerospace-related interests and activities.

ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

<b>Cost Category</b>	<b>MOF</b>	<b>FY 2009</b>
Permanent Position	-	0
Temporary Position	-	0
Personal Services	-	0
Other Current Expenses	A	235,000
Equipment	-	0
Motor Vehicle	-	0
<b>Total</b>		<b>235,000</b>

iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

Preliminary Assessment of Hawaii's Aerospace Industry	50,000
Aerospace Advisory Committee	10,000
Annual JUSTSAP/PISCES Conferences	70,000
Government/Industry Networking and Program Development	55,000
Public Education/Community Outreach	50,000
Total	<u>235,000</u>

b. **For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:**

None.

**8. Proposed Lapses of CIP Projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 107 BA - Foreign Trade Zone**

**1. Introduction:**

**a. Summary of program objectives.**

To encourage-value added and international trading activities that will create new investment and job opportunities in Hawaii by operating a statewide Foreign-Trade Zone program that reduces the barriers and costs associated with international trade.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

The Foreign-Trade Zone (FTZ) Division of the Department of Business, Economic Development & Tourism administers the federal grant, issued in 1965 to the State of Hawaii, for the Foreign-Trade Zone 9 (FTZ9). There are currently 14 sites on the islands of Oahu, Maui, and Hawaii that have received a foreign-trade zone designation of which three general-purpose zone and four special-purpose subzone sites are activated. As the grantee, the FTZ9 staff is responsible for ensuring that U.S. Customs and Foreign-Trade Zones Board regulations are followed by the operators of the subzones at these sites.

The FTZ Division's primary responsibility is to administer the FTZ program in Hawaii. In addition, the FTZ Division provides advice and direction to potential users of the program and operates a general-purpose zone at Pier 2. Any company that imports and exports merchandise can take advantage of the benefits of the Foreign-Trade Zone program at this Pier 2 incubation-type, shared-use facility. The FTZ also provides important port services to the Department of Homeland Security's U.S. Customs and Border Protection.

Specific program objectives include:

- Oversee the implementation of the FTZ program on a statewide basis to make the advantages of the FTZ program available to as many qualifying firms as possible.
- Operate the FTZ public warehouse facility at Pier 2; provide office, exhibit, warehouse, and industrial space to qualified individual businesses.
- Provide information to local, national, and international firms to explain the advantages of doing business in Hawaii under the auspices of the FTZ program.
- Partner with both private and public sector entities to encourage greater participation in the FTZ program and attract new economic activity to Hawaii.
- Continue operating the program in a self-sustaining manner without the use of general funds.

- Implement information technology to reduce the transaction costs of complying with federal regulations.
- Plan for the expansion of services and facilities to meet the needs of businesses that qualify for FTZ utilization.
- Work in conjunction with U.S. Customs and Border Protection in streamlining the admittance process in easing barriers for Foreign-Trade Zone users while increasing utilization to maximize benefits to clients.
- Align with DBEDT's other Business Development Programs and it's strategic plans to increase Hawaii exports and business development.
- Provide and promote Export Import Bank of the United States and its great potential to small –medium size businesses with loan guarantees, financing and export credit insurance.
- Actively promote the FTZ program through various chambers of commerce and business associations and initiate and build relationships with key groups to utilize the FTZ for the “International Hub Program” implemented.
- Maintain FTZ9 relationships with the National Foreign-Trade Zone board and officials and it's updating policies and regulations to ensure the most up to date information is available to FTZ9 customers.

Short Term desired results include:

- Increased growth of Hawaii small-medium size business export
- Increase in new companies/investments to the Hawaii market
- Increase employment of Hawaii residents
- Increase in special fund revenues

Long Term desired results include:

- Companies utilizing Hawaii's natural resources in start up companies
- Increased participants in the FTZ9 program and Pier 2 site
- More activated users in JCIP, NELHA and Mililani that can qualify under FTZ program policies.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

The FTZ Division will operate a general-purpose zone at Pier 2, and, as grantee, administrator will oversee the compliance of the 13 other designated sites on the islands of Oahu, Maui, and Hawaii. Marketing efforts will be designed to target firms that are importing and exporting dutiable merchandise, firms who may import and export dutiable merchandise, and companies that can manufacture products for export.

The FTZ Division has five initiatives that will lead to greater use of the foreign-trade zone program:



- (1) Enhance marketing efforts directed toward small businesses that currently import or export dutiable merchandise.
- (2) Investigate and update Hawaii companies on how FTZ procedures are being used in manufacturing and value-added operations by companies on the U.S. mainland.
- (3) Improve our method of operations at Pier 2.
- (4) Invest in facility improvements at Pier 2.
- (5) Rebrand the FTZ as 'a place where international trade happens.'

## 2. Program Performance Results:

### a. Discuss the performance results achieved by each program in FY07.

- The combined value of merchandise received and delivered from all activated FTZ sites was \$8.66 billion in FY 2006.
- The combined value of merchandise received and delivered from *only* activated FTZ **subzone** sites was \$7.016 billion in FY 2006.
- The combined value of merchandise received and delivered from *only* activated FTZ **general-purpose zone** sites was \$1,646,054,488 in FY 2006.
- The combined value of merchandise received and delivered from *only* the **Pier 2** general-purpose zone was \$58,280,111 in FY 2006.
- Exports to foreign countries were \$744 million in FY 2006.
- The number of first-time Foreign-Trade Zone users in FY 2006 was 37 firms.
- The number of activated subzone sites remained the same at four sites.
- The combined value of merchandise received and delivered from all activated FTZ sites was \$8.56 billion\* in FY 2007.
- The combined value of merchandise received and delivered from *only* activated FTZ **subzone** sites was \$6.77 billion\* in FY 2007.
- The combined value of merchandise received and delivered from *only* activated FTZ **general-purpose zone** sites was \$1,828,271,615 in FY 2007.
- The combined value of merchandise received and delivered from *only* the **Pier 2** general-purpose zone was \$55,192,434 in FY 2007.
- Exports to foreign countries were \$744 million\* in FY 2007.
- The number of first-time Foreign-Trade Zone users in FY 2007 was 28 firms.
- The number of activated subzone sites remained the same at four sites.

\*Does not include statistics from Maui Pineapple.

### b. Explain how these results relate to the program's objectives and department's mission.

Use of the FTZ program has a significant impact on the levels of international trade in Hawaii and helps Hawaii companies compete in national and

international markets. In FY 2006, 391 firms used the FTZ9, handling over \$8.66 billion of merchandise using FTZ procedures, and with direct employment of 1,570 employees attributable in part to use of the Zone. Exports from activated FTZ sites totaled \$744 million.

In FY 2007, 378 firms used the FTZ9, handling over \$8.56 billion (does not include statistics from Maui Pineapple) of merchandise using FTZ procedures, and with direct employment of 1,317 employees (does not include statistics from Maui Pineapple) attributable in part to use of the Zone. Exports from activated FTZ sites totaled \$744 million.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The FTZ follows federal requirements for reporting yearly data. The FTZ uses these same data to also demonstrate our program's effectiveness.

To measure FTZ's effectiveness, the FTZ has constructed a theory of how the FTZ program impacts economic activity in Hawaii. Our logic model:

- (1) The FTZ program reduces costs and risks of engaging in international trading activity and is essential for handling certain types of international trade transactions.
- (2) To participate in the FTZ program, companies must first learn about the FTZ program or FTZ staff must learn about a company's international trading activity.
- (3) If the FTZ9 can market the benefits of the program effectively and provide appropriate facilities, firms will become aware of the advantages of the FTZ program and decide to participate.
- (4) Firms will benefit from participating in the FTZ program and eventually expand the scope of their business activities.
- (5) Firms will be able to hire additional employees.
- (6) Business activity will increase in Hawaii.

The FTZ focuses on outputs to gauge the FTZ program's performance. Generally, an increase in value and level of activity means a more effective FTZ program. The FTZ uses data generated by Foreign-Trade Zone use in Hawaii to measure a number of key indicators.

Key indicators of the value of the FTZ program to Hawaii's economy over the past five years in terms of employment, merchandise handled (received plus forwarded), and exports as a percentage of foreign merchandise received are shown in the table below.

*Foreign Trade Zone #9 Program Key Indicators*

	2003	2004	2005	2006	2007
Employment (direct)	1,457	1,370	1,201	1,570	1,317*
Total merchandise handled, in + out (\$ million)	3,584	4,763	6,474	8,662	8.56*
Pier 2 merchandise handled, in + out (\$ million)	78.1	77.8	62.4	58.3	55.2
Exports (\$ million)	336.2	432.4	632.0	744.2	744.2*
Capital improvements (\$ millions)	45.2	21.0	27.8	29.75	1.49*
Exports as percent of foreign merchandise received	35.2	30.8	28.3	24.29	23.02*

More information about the FTZ9 can be found at [www.ftz9.org](http://www.ftz9.org).

\*Does not include statistics from Maui Pineapple.

**d. Discuss the actions taken by each program to improve its performance results.**

The FTZ will continue to invest in information technology to reduce the transaction costs for using the general-purpose zone at Pier 2. In addition, an enhanced marketing program will be used to recruit additional users of the program.

Our efforts to reposition the Pier 2 facility as “a place where international trade happens” continues to gain momentum. The idea is that the FTZ benefit will be joined with other benefits, using an incubator model, to help small businesses participate in international trade. We now have many of the required elements in place: office space, access to customs brokers and shipping agents, complete warehousing facilities and the benefit of having both the Bureau of Customs and Border Protection and the U.S. Department of Commerce’s Export Assistance Center at our facility.

Our hope is that this synergy and interaction will result in more trade moving through our port. Members of the public looking to participate in trade will know where to go. We also expect better coordination among the parties engaged in international trade in Hawaii because they will be able to walk down the hall and work issues out. For example, a customs broker can walk down the hall and talk with a Customs agent or a shipping agent on behalf of a client.

**e. Please identify all modifications to your program’s performance measures and discuss the rationale for these modifications.**

Not applicable.

### **3. Problems and Issues:**

#### **a. Discussion of problems and issues encountered, if any.**

The FTZ9 energy costs at its Pier 2 facility continue to rise. There is a need to reduce and/or stabilize current and future facility operating costs related to energy. Likewise, the State is looking for ways to: 1) reduce its dependence on imported fuel oil; 2) reduce energy production-related pollutant emissions into the environment; and, 3) provide an example of a successful renewable energy project and show the State as a leader in development of renewable energy sources

In addition, the FTZ9 Pier 2 facility is over 50 years old and has not had any major repair to the roof which is approximately 5 acres. Repair leaks in the roof will lead to better utilization of the warehouse facility vital to ensuring that there is no water damage to merchandise.

#### **b. Program change recommendations to remedy problems.**

FTZ9 has issued a request for proposals to seek interested companies in developing a 1.3 MW photovoltaic renewable energy system for the FTZ9 Pier 2 site. We are working closely with the Department of Transportation and DBEDT's Energy Division to complete this project before the end of the year when Federal tax credits expire.

FTZ9 is requesting \$830,000 in CIP funds for FY 2008-2009. This request is further detailed in Item 7 below.

#### **c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Not applicable.

**4. Expenditures for FY08:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(19.00)				(19.00)	(19.00)
Personal Services	1,108,244	36,573			1,144,817	1,144,817
Current Expenses	902,097				902,097	902,097
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>2,010,341</b>	<b>36,573</b>			<b>2,046,914</b>	<b>2,046,914</b>

(Pos. Count)	(19.00)				(19.00)	(19.00)
Special Funds	2,010,341	36,573			2,046,914	2,046,914
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund					-	-

**a. Explain all transfers within the Program I.D. and the impact on the program.**

None.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

None.

**c. Explain any restrictions and the impacts on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(19.00)		(19.00)
Personal Services	1,108,244		1,108,244
Current Expenses	902,097		902,097
Equipment			
Motor Vehicles			
Total	2,010,341		2,010,341
(Pos. Counts)	(19.00)		(19.00)
Special Funds	2,010,341		2,010,341
(Pos. Counts)			-
Federal Funds			-
(Pos. Counts)			-
Other Funds			-
(Pos. Counts)			-
General Funds			-

**a. Workload or program request:**

None.

**b. For all position count reductions, please specify whether the positions were filled or vacant.**

None.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for FY09:**

CIP data for all projects within the agency being heard shall be combined into a single appendix in the department's testimony (if no request is being made, please indicate "none").

Each CIP request shall include the following:

**a. Project title and description.**

Title: Roof Repairs to the Foreign-Trade Zone Facility at Pier 2.

Description: Repair the roof of the FTZ Facility to include gutter lines and drains, skylight panels, and perimeter eaves. Waterproof the parapet wall. The roof is approximately 260,000 square feet.

**b. Financial requirements by project phase and means of financing.**

<u>Elements</u>	<u>Amount (in thousands)</u>	<u>MOF</u>
Plans	1	C
Design	130	C
Construction	798	C
Equipment	1	C

**c. Explanation and scope of project.**

The project will consist of repairs to the roof of the FTZ facility. The facility is over fifty years old. The existing building's roof consists of corrugated cement asbestos fiber panels with wired glass skylight panels. Water leakages have been observed around concrete columns, at the exposed downspouts by the area separation wall, damaged wire glass skylight panels and the gutters. During heavy rains water has leaked into tenants' offices and storage areas within the warehouse, at times damaging customer's equipment and merchandise. Repairs will be made to the gutter lines and drains, skylight panels, and perimeter eaves. Waterproof the parapet wall.

**d. Justification for the project.**

Hydrostop, a water sealant, has been applied to FTZ gutters in the past couple of years. Although this application has significantly reduced water leakage into the facility, this however, is a stop-gap measure and not a long-term solution. Even in the short term, heavy rains result in water leakage. This becomes a safety issue when water leaks into areas with electrical wiring and equipment.

**e. For all lump sum requests, please provide a specific breakout detailing specific projects for all planned expenditures.**

Not applicable.

**f. Senate and House district(s) for the project.**

Senate District 12; House District 28.

**8. Proposed Lapses of CIP projects:**

None.



**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 130 FA – Economic Planning and Research**

**1. Introduction:**

**a. Summary of program objectives.**

To enhance and contribute to the economic planning and development of the state by providing analyses, forecasts and policy recommendations; conducting and reporting on basic research into the state's economy, compiling and publishing data on tourism, business activity, the economy, and demographic characteristics; and maintaining a statewide statistical reporting system.

**b. Description of program objectives and activities as discussed in the Multi-Year and Financial Plan.**

Present your summary of the objectives and activities as discussed in the Multi-Year program and Financial Plan.

Activities of this Level IV program, Economic Planning and Research (BED 130) to accomplish the above objectives include the following:

Develop and produce short-range economic forecasts and long-range, state population and economic projections.

Publish monthly visitor arrival and characteristic reports, expenditure reports and information on cruise ship spending. The program is the only source of detailed state visitor statistics and endeavors to continually improve the quality and quantity of information on the industry.

Produce the *State of Hawaii Data Book*, containing more than 700 tables of key data widely used by government, business and residents. The State Data Book provides residents agencies and companies in Hawaii with access to a common, authoritative base of statistical information that saves users countless hours of research and compiling of information.

Conduct strategic economic and industry analyses and impact studies; A range of studies are undertaken to address economic development issues, industry development and trends, the economic impact of tourism and other major industries.

Update and utilize the Hawaii Input-Output models to guide state, county and private sector planning efforts. The program recently developed a new set of Input-Output models for each individual county. This will enable more accurate estimates of how economic activity affects a particular county.

Improve and add to the division's modeling tools based on emerging best practices in the field of econometrics.

Produce the web-based publications, *Quarterly Statistical and Economic Report* (QSER) and monthly, *Selected Economic Indicators* (SEA). As core data products, the QSER and SEA provide current detailed statistics on Hawaii's economy in a convenient on-line format.

Conduct Census-related workshops to enhance businesses' ability to mine census data for marketing and business development purposes. The free training sessions help business and agency staff learn how to obtain important census data from the Bureau's web site.

Maintain economic information and statistics on the department's web site. Approximately 60% of all hits to the DBEDT website are made to access data maintained by the research program.

Partner with agencies such as the Workforce Development Council, University of Hawaii, Enterprise Honolulu, Hawaii Science and Technology Council (HSTC) and others to develop an understanding of, and options for, addressing the workforce and development needs of key industries.

Respond through the DBEDT Library to nearly 4,000 annual requests for information and other inquiries to the department.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

In order to meet its objectives within the upcoming fiscal year (FY 2009), the program will:

Update the DBEDT short-run economic model and produce and publish four (quarterly) economic forecasts. (Update of the Long Range forecasting model update is scheduled for completion in FY 08).

Continue to improve the quality and timeliness of tourism data and publish an update report on the Tourism Satellite Account.

Publish the 2007 *State of Hawaii Data Books* in electronic form.

Update and expand bench mark estimates for the size and performance of Hawaii's growth and emerging industries (initial bench mark estimates are targeted for FY 08). Develop at least four reports on the trends and developments in key industries, with an emphasis on emerging growth activities.

Utilize the Hawaii Input-Output models (statewide and counties) for impact analyses as needed (Models were updated in FY 08).

Improve the performance of the short-run economic models and develop a new computerized model of Hawaii's economy using recent advances in econometric research tools, that will provide more insight into the way the economy responds to growth and change (Computerized General Equilibrium [CGE] Model).

Publish eight quarterly issues of the *Quarterly Statistical and Economic Report* and 12 *Selected Economic Indicators* reports.

Conduct at least two census workshops on emerging census data.

Publish "e-reports" on the DBEDT website providing information and data for technology, defense activity and education.

Full implementation of DBEDT's Data Warehouse web site is expected before the end of FY 08 with refinement and expansion in FY09. This effort will offer much more flexible and effective delivery of data and information to users of DBEDT statistics and economic information.

The program's partnership with the HSTC will result in a comprehensive report on the state's technology industry.

## **2. Program Performance Results:**

### **a. Discuss the performance results achieved by each program in FY07.**

During FY06-07, the program produced hundreds of products annually, ranging from updated website pages to major reports. Annually, this total included the update of over 1,800 economic and tourism data tables and the preparation of more than 1,000 analyses and data products. More 50 publications were posted on the DBEDT web site on average per year. The program achieved its core job of providing updated forecasts and economic analyses on a quarterly basis. Reports on economic and tourism statistics were published daily, monthly, quarterly and yearly. In addition, consulting services were provided to a range of organizations and agencies to support budgetary and fiscal planning, State bond sales, workforce development, technology industry development, and many others. In FY 08 the program is expanding capacity and output to meet the request for more research and information on emerging industries as requested in Act 148 (SLH 2007). It is also developing an on-line Data Warehouse to better serve the diverse need for data and information by the public and private sectors.

### **b. Explain how these results relate to the program's objectives and department's mission.**

The results show that the program is providing an abundant volume of data and analyses on the health and outlook for Hawaii's economy, population, industries and related issues. These efforts are focused on the priority economic development need to transition the economy to more high valued, high skill economic activity. It is also anticipating the emerging needs of the public and private sectors through the development of new data delivery systems (one-line data warehouse) and growth industry research.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The program measures of effectiveness include: 1) the number of requests satisfied for analyses, research and data products; 2) the number of publications produced in both hard copy and electronic forms; and 3) the accuracy of economic and demographic forecasts. As indicated above, the program generated about 1,800 economic and tourism data tables and prepared more than 1,000 analyses and data products in each of the last two fiscal years.

- d. Discuss the actions taken by each program to improve its performance results.**

The program actively pursues improvements in its work processes and integrates new technology and best practices whenever possible. The program is a major user of the internet not only to obtain information but also to disseminate information. As much as possible, all results of the program's research and data collection are made available on the internet for others to access. The program takes advantage of training whenever possible to improve staff skills and knowledge.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

No modifications have been made.

### **3. Problems and Issues:**

- a. Discussion of problems and issues encountered, if any.**

As the economy has been in a period of economic growth and investment over the last several years, the program has turned its attention to supporting that growth with its various research programs and assisting public and private sector partners to address growth related problems of labor shortage, and the transition to high value, high-skill-level industry that can help raise average wages in the state. A specific issue addressed over the last two years has been more effective delivery of information to the program's users. As indicated earlier, the program is addressing data delivery improvements with the implementation of a web-based, data warehouse system.

The program also remains poised to respond with economic analyses to unexpected crises situations such as strikes, natural disasters, or international conflicts that require immediate recommendations for action.

- b. Program change recommendations to remedy problems.**

No change recommended.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Over the last year, the legislature has provided the needed resources to bring best practices to the research program. Going forward the program looks forward to implementing its proposals for the data warehouse and growth industry research programs. The long-term emerging issue that will likely present the greatest challenge to this and other programs in the state is labor shortages. Over the next several decades the bulk of the huge baby boom generation will be retiring. New entrants to the labor market will not like be able to make up for this loss. The program is looking at ways to improve the flow of new entrants into staff positions as they become available in order to avoid staff shortages.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(21.00)				(21.00)	(21.00)
Personal Services	1,315,602	43,681			1,359,283	1,359,283
Current Expenses	1,419,555				1,419,555	1,419,555
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>2,735,157</b>	<b>43,681</b>			<b>2,778,838</b>	<b>2,778,838</b>
(Pos. Count) Special Funds	-				-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds	(4.00) 1,590,030	11,330			(4.00) 1,601,360	(4.00) 1,601,360
(Pos. Count) General Fund	(17.00) 1,145,127	32,351			(17.00) 1,177,478	(17.00) 1,177,478

**a. Explain all transfers within the Program I.D. and the impact on the program.**

None.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

None.

**c. Explain any restrictions and the impacts on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(21.00)	(1.00)	(22.00)
Personal Services	1,315,762		1,315,762
Current Expenses	1,365,555		1,365,555
Equipment			
Motor Vehicles			
<b>Total</b>	<b>2,681,317</b>		<b>2,681,317</b>
(Pos. Counts) Special Funds			
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds	(4.00) 1,590,030	(1.00)	(5.00) 1,590,030
(Pos. Counts) General Funds	(17.00) 1,091,287		(17.00) 1,091,287

**a. Workload or program request:**

For each program package or item being requested within the Program I.D., provide the following (if no request is being made, indicate "none"):

- i. A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.
- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

Item	Cost Category	MOF	FY 2009
Add permanent Statistician III (SR-20) position to Tourism Research Branch	Personal Services	U	\$0

Per Act 156 (SLH 1998), DBEDT is responsible for developing and reporting visitor statistics for the State of Hawaii. Currently, the Research and Economic Analysis Division's Tourism Research Branch conducts eight full-scale, on-going visitor surveys. Data collected include air and cruise visitor counts, expenditures and other characteristics from the domestic and international visitors to the state;

their satisfaction with Hawaii, activities visitors participated in while in the islands; and a census of visitor accommodations in the state by class of units, type of accommodations by island.

As the visitor industry has moved into new markets and demand for information has increased, the program has initiated new projects. These have included such efforts as more detailed cruise ship visitor data and quarterly visitor expenditure estimates. These data are processed, analyzed and published in nearly 40 monthly and annual reports, as well as about 250 reports per year on daily passenger counts. In order to effectively serve the needs of the industry and state for tourism information, the Tourism Research Branch is increasingly providing the HTA, other Government agencies, the visitor industry, other sectors of the business community with special data tabulations and a variety of specialized visitor reports upon request.

In addition to research, the current four-member staff of the branch has a heavy administrative load including the development of requests for proposals to conduct the many surveys, contract development and processing for consultant services to conduct the surveys, site monitoring of contractors, and fiscal monitoring and reporting.

These responsibilities have reached the capacity of the current staff and present a challenge going forward to maintaining a high quality statistical program, which is essential to support the state's major industry. The additional staff position requested will make it possible for the branch to address the increasing demands for more visitor information and maintain a quality program. The position can be accommodated within the current budget of the program through internal reallocation of funds.

- iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

Not applicable.

- b. **For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for FY2009:**

None.

**8. Proposed Lapses of CIP projects:**

None.



**Department of Business, Economic Development, and Tourism  
Supplemental Budget Requests for Fiscal Year 2008-2009**

**Program I.D. and Title: BED 142 AA – General Support for Economic Development**  
Departmental Administration (Office of the Director, Administrative Services Office)

**1. Introduction:**

**a. Summary of program objectives.**

To enhance the effectiveness and efficiency of economic development programs by formulating policies and plans, directing operations, allocating resources, providing staff support and other administrative services, and coordinating with and informing the public about programs, services, projects, and activities.

**b. Description of program objectives and activities as discussed in the Multi-Year and Financial Plan.**

Formulate and execute the economic development policies of the Governor and execute initiatives proposed and approved by the Legislature. Formulate and implement policies and plans, allocate resources, and administer fiscal, budgetary, personnel, contracting, and information technology operations for the Department. Assist and support the economic development and diversification efforts of the State by providing information to the Administration, Legislature, government agencies, the business community, and the general public on the Hawaii economy and society, and on the Department's programs and activities that relate to the development and growth of the Hawaii economy and businesses.

Propose, establish, and administer a broad range of Departmental programs that fulfill the goals and objectives of the executive and legislative branches in such areas as tourism, business development, business attraction, international trade, small business services, rural development, land use, economic data, energy, technology development and services, and housing. Maintain State emphasis on support for tourism and related industries, while concurrently fostering new industries that broaden Hawaii's economic base and business mix.

Directly oversee the administration of all Departmental operations, including supervision of program offices, management, and staff. Establish and implement policies governing such administration, including fiscal, budgetary, personnel, and contractual matters. Oversee agencies and special programs and projects assigned to the Department by either the legislative or executive branch.

Establish and maintain links to business and industry in Hawaii, on the mainland and overseas, chambers of commerce, government agencies, and other organizations to promote business expansion or relocation to the state.

Develop and administer, in cooperation with other State agencies, programs and projects that effectively combine and maximize the use of existing funding and personnel resources to achieve mutual goals (e.g., diversification of special economic areas and cross-marketing of Hawaii commodities).

Coordinate the Department's legislative proposals and responses.  
Serve as the State's chief liaison with businesses seeking to establish operations in Hawaii.

Draft and distribute reports and other materials on the varied functions and activities of, and economic data compiled by the Department. Assist all divisions and agencies in drafting, editing, printing, and distributing publications, newsletters, reports, etc., which assist Hawaii businesses.

**c. Explain how your program intends to meet its objectives within the upcoming supplemental year.**

The Department administration will continue to provide guidance and support to successful programs in such areas as business attraction, international trade, small business services, and technology industry development.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each Program in FY 2007.**

The target percentage of contracts and LOAs processed and reviewed within ten days was 100% for FY07; 100% of contracts and LOAs were processed and reviewed within ten days in FY07. The target percentage of error-free vouchers processed was 95% for FY07; 99% were error-free in FY07.

**b. Explain how these results relate to the program's objectives and department's mission.**

As the Director's Office oversees all Departmental functions, its ability to allocate and direct the Department's resources efficiently allows the formulation and implementation of better policies and programs to help stimulate the economy. Effectively informing the business community of DBEDT's activities builds awareness of, and therefore utilization of and participation in, the Department's services and programs.

**c. Explain how the effectiveness of the program is measured (i.e.: outcome, measures of effectiveness, benchmarks, etc.) and compare with the performance results achieved during the past two years.**

The effectiveness of the Director's Office and the Administrative Services Office (ASO) is measured by how well they provide the Department's programs with the administrative assistance and support they need to achieve their respective goals and objectives. ASO's performance is measured in the areas of contracts processing and voucher (payment) processing. The number of contracts and letters of agreement (LOAs) executed by the ASO is a measure of the services that are provided to help the economy. The percentage of error-free vouchers processed by the ASO for the programs is an indication of the quality of support provided to the programs to enable them to efficiently procure the goods and services they require for their operations.

**d. Discuss actions taken by each program to improve its performance results.**

We are expanding our training programs in contracting, procurement, budgeting and fiscal operations. With increased training in these essential operations, error rates should decrease and program efficiency will increase.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

**3. Problems and Issues:**

- a. Discuss any Problems and Issues Encountered, if any.**

None.

- b. Program Change Recommendations to Remedy Problems.**

Not applicable.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Not applicable.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(34.00)				(34.00)	(34.00)
Personal Services	1,901,431	60,093			1,961,524	1,961,524
Current Expenses	601,093				601,093	601,093
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>2,502,524</b>	<b>60,093</b>			<b>2,562,617</b>	<b>2,562,617</b>

(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund	(34.00) 2,502,524	60,093			(34.00) 2,562,617	(34.00) 2,562,617

**a. Explanation of all Transfers within the Program I.D. and the Impact on the Program.**

Not applicable.

**b. Explanation of all Transfers between Program I.D. and the Impact on the Program.**

Not applicable.

**c. Explanation of all Restrictions and the Impact on the Program.**

**As applicable, provide a description of the impact of the transfers that have occurred within the program I.D. between the various cost elements, transfers occurring between different program I.D.'s, and restrictions imposed.**

Not applicable.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(34.00)		(34.00)
Personal Services	1,901,713		1,901,713
Current Expenses	201,093	2,028,568	2,229,661
Equipment			
Motor Vehicles			
Total	2,102,806	2,028,568	4,131,374
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds		2,028,568	2,028,568
(Pos. Counts) General Funds	(34.00) 2,102,806		(34.00) 2,102,806

**a. Workload or Program Request.**

Add \$2,028,568 expenditure ceiling for funds to be received from Department of Human Services under the Temporary Assistance for Needy Families (TANF) grant for the Hawaii Excellence through Science and Technology Academy Program (HiEST) and Robotics Competition Program.

**b. Position Count Reductions— please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program Requests for Fiscal Year 2008-2009:**

None.

**8. Proposed Lapses of Capital Improvement Program Projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 142 TL – Office of the Tourism Liaison**

**1. Introduction:**

**a. Summary of program objectives.**

The objective of the Tourism program, within DBEDT, is to coordinate with the Hawaii Tourism Authority (HTA), visitor industry businesses, organizations and state agencies on all tourism related matters that will enhance the visitor experience and further tourism's growth within our state.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

- To coordinate and communicate with the visitor industry on all tourism related issues.
- To communicate and coordinate with all state agencies on tourism related issues and assist state agencies in developing programs that address the concerns of tourism, especially those raised in the Tourism Strategic Plan.
- To coordinate with the Hawaii Tourism Authority on all tourism issues and participate on the HTA Board of Directors.
- To coordinate with the Department of Transportation, Airports Division, the visitor industry, HTA and airlines on the Airport Modernization Plan and encourage airlines to increase capacity to Hawaii.
- To coordinate with Federal agencies on tourism related issues.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

- Facilitate communications and coordination between the tourism industry, the executive branch and state agencies.
- Provide assistance in resolving concerns between tourism businesses and state agencies.
- Work with the visitor industry businesses and state agencies in determining action plans to address the critical issues identified in the Strategic Tourism Plan.
- Encourage airlines to increase service to Hawaii.
- Meet regularly with stakeholders in the tourism industry on all islands and coordinate with them on all issues affecting tourism's economic growth.
- Facilitate communications and coordination between federal agencies on homeland security initiatives, visa issues and tourism development.

## **2. Program Performance Results:**

### **a. Discuss the performance results achieved by each program in FY07.**

- Worked cooperatively and assisted HTA in implementing the Statewide Strategic Tourism Plan.
- Garnered support and initiated discussions between state agencies and visitor industry groups and organizations on various issues.
- Worked cooperatively with the island visitor bureaus, HTA, Transportation Security Administration (TSA), Department of Transportation, Airports Division (DOT-A) in creating and implementing holiday and higher visitor traffic month optimization plans for our airports. The plans objective is to communicate and educate the public on the security screening process and increase efficiency in processing passengers through our airport system.
- Worked cooperatively with Customs and Border Protection (CBP), TSA, the airlines and DOT-A to develop and implement a plan to increase customer satisfaction and decrease wait times in the Customs and Immigration facility.
- Coordinated with the Consular sections of the U.S. Embassy and assisted groups and diplomats in obtaining visas to visit Hawaii.
- Worked cooperatively with DOT-A and the Airline Committee of Hawaii on the Airport Modernization Plan and communicated details of the plan and the objective to the visitor industry.
- Worked cooperatively with CBP, TSA, HTA and its marketing contractors, airlines and wholesalers to communicate and educate travel sellers, media and potential visitors on the US Visit program process, new security rules and regulations and Hawaii's new no smoking laws.
- Coordinated communications between State Civil Defense, HTA and the visitor industry on several natural disasters including floods, sewage spills, earthquake and tsunamis.
- Coordinated communications between state agencies and the visitor industry.
- Represented the visitor industry and participated in crisis planning with multiple state agencies.
- Worked cooperatively with visitor industry businesses and federal agencies on the new Department of Homeland Security's visa waiver law.

### **b. Explain how these results relate to the program's objectives and department's mission.**

The department's mission is to facilitate coordination between the tourism industry, community and state government agencies in order to foster economic growth in our state.

By communicating and coordinating with the visitor industry on the critical issues and concerns they face, we have been able to implement programs that facilitate better customer satisfaction.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The effectiveness of the program is measured by increased communications and new program implementation that leads to increased customer satisfaction resulting in economic growth in the tourism industry.

New procedures were implemented at our airports to provide better customer satisfaction and communications increased between the state agencies and the visitor industry.

- d. Discuss the actions taken by each program to improve its performance results.**

The Tourism Liaison position performance and effectiveness will improve with continued coordination and communication with visitor industry stakeholders and state agencies.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

**3. Problems and Issues:**

- a. Discussion of problems and issues encountered, if any.**

Not applicable.

- b. Program change recommendations to remedy problems.**

Not applicable.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Not applicable.



**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(1.00)				(1.00)	(1.00)
Personal Services	97,120	3,276			100,396	100,396
Current Expenses	6,104				6,104	6,104
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>103,224</b>	<b>3,276</b>			<b>106,500</b>	<b>106,500</b>
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund	(1.00) 103,224				(1.00) 106,500	(1.00) 106,500

**a. Explain all transfers within the Program I.D. and the impact on the program.**

Not applicable.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

Not applicable.

**c. Explain any restrictions and the impacts on the program.**

Not applicable.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(1.00)		(1.00)
Personal Services	97,135		97,135
Current Expenses	6,104		6,104
Equipment			
Motor Vehicles			
Total	<u>103,239</u>		<u>103,239</u>
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds			-
(Pos. Counts) General Funds	(1.00)		(1.00)
General Funds	103,239		103,239

**a. Workload or program request:**

None.

**b. For all position count reductions, please specify whether the positions were filled or vacant.**

None.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for FY09:**

None.

**8. Proposed Lapses of CIP projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 143 TE – High Technology Development Corporation**

**1. Introduction:**

**a. Summary of program objectives.**

HTDC's objectives are to develop and promote Hawaii's science and technology assets and resources; implement programs to support attraction, expansion, and retention of technology companies; support firms engaged in technology research & investment, and projects that support national and State interests; utilize facilities and infrastructure in Hawaii to foster commercial technology development; and promote and provide support for businesses involved in information & telecommunication technology, biotechnology, medical healthcare technology and earth/ocean/space science technologies.

HTDC's technology-focused objectives are aligned with the Department of Business, Economic Development and Tourism's (DBEDT) strategic objectives that support general economic development in the State: 1) workforce housing and development of the core urban areas, 2) workforce development, 3) "Energy for Tomorrow", 4) export of goods and services, 5) creation of an "innovation infrastructure", and 6) improve Hawaii's small business environment.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

HTDC's primary objectives are continuously monitored and updated to best serve the quickly changing tech industry and to develop and promote Hawaii's science and technology assets and resources. HTDC's focus areas for the supplemental year are:

1. Enhance high tech incubation programs;
2. Facilitate federal and dual use opportunities;
3. Focus marketing and promotion narrowly;
4. Provide support to technology companies;
5. Assess the status of high tech in Hawaii;
6. Improve the physical infrastructure for the high tech industry; and
7. Enhance Hawaii's educational system and workforce to support high technology.

Specifics for each focus area follows:

Enhance incubation programs at the Manoa Innovation Center (MIC), Maui Research and Technology Center (MRTC), Hawaii Innovation Center at Hilo (HICH), continue to develop and market the virtual incubation program to

companies in need of incubation services, but not in need of occupying physical space at the centers. Programs for incubation tenants include entrepreneur-in-residence, executive power lunch business reviews, and more. HTDC is currently developing the project which explores markets in Asia, such as China and Japan. HTDC is better leveraging resources available from other economic development groups and trade associations to bring more significant programs and services to the innovation sector in Hawaii

The Life Sciences Cluster by continuing to have discussions with a developer to build a Life Science Incubation and Innovation Center in the vicinity of Kakaako to support the UH Medical School and Research Center, as well as other programs such as the Pacific Biomedical Research Center, and to nurture local science companies so they do not have to leave to the mainland.

Facilitate federal and dual use opportunities by continuing the Small Business Innovation Research (SBIR) program, the purpose of which is to expand research and development activities in science, tech and agricultural-based economic development and commercialization to better leverage Federal dollars to bridge the financing gap; continue to develop alternative energy projects in Hawaii with partners including Hickam Air Force Base, the U.S. Air Force by the Hawaii Center for Advanced Transportation Technologies (HCATT); continue the Manufacturing Extension Partnership (MEP) program funded by the federal Dept. of Commerce—National Institute of Standards and Technology to assist small companies become more globally competitive by improving their business operation and expanding business through new product development.

The UH's Office of Technology Transfer and Economic Development (OTTED) maintains an office at MIC which allows tenants to interact with UH research programs regarding potential commercial opportunities.

Focused marketing and promotion narrowly of HTDC and other Hawaii programs that support tech company development, such as conducting or sponsoring conferences and workshops such as the Hawaii SBIR Grant Program Workshops, marketing for tech companies, and other activities by partnering with private sector organizations. HTDC also promotes Hawaii's technology advantages and business support programs as part of its awareness campaign through websites that it administers, including the State's tech Web Site: [www.hitechhawaii.com](http://www.hitechhawaii.com) that is a one-stop web portal for visitors and local companies that promotes Hawaii's high tech capabilities including, information on Act 221/Act 215 and, tech events in Hawaii, local tech job opportunities [www.techjobshawaii.com](http://www.techjobshawaii.com) (free job/resume postings), HTDC programs and tech industry reports at [www.htdc.org](http://www.htdc.org) including, HTDC directory of local tech companies, links to other technology resources statewide, and a help sites to establish business in Hawaii; public relations, publications, editorials, spots on tech-related television programs, participation in the trade mission to Asia.

Assess the status of high tech in Hawaii and provide support to technology companies by continuing the biennial assessment of the local technology industry to determine current needs, trends, and policies; promote and support initiatives at the legislature that enhance the business climate for the high tech industry; and continue efforts to provide skilled tech workers by recruiting former

Hawaii residents through the TechJobsHawaii.com website. HTDC is providing administrative support to the Hawaii Innovation Council, a newly established advisory board created by an Executive Order from the Governor. HTDC's Executive Director is heavily involved in the Hawaii Technology Enterprise Network (HiTEN) which is comprised of representatives from various organizations within the technology sector.

Continue to improve the infrastructure for high tech by supporting other organizations directly involved in building additional high tech infrastructure and working on solutions to develop and finance tech facilities through partnerships and other means of financing (non-state funding). The lack of state and federal capital improvement program funding to finance needed local tech facilities and lack of incentives for private sector to construct have created a problem of stagnant growth and expansion for local industry. Current incubation and innovation facilities with ongoing "graduation programs" for years have been at full capacity. Competition for private-activity general obligation bond funding within the state has marginalized our ability to facilitate the growth of this emerging industry with needs of subsidized space, limiting our hope for improved economic diversification.

Enhance Hawaii's educational system and workforce to support high tech by coordinating with other organizations that directly impact these essential support functions. Education and workforce development enables high tech companies to attract and recruit a top-notch workforce, including experienced management and multi disciplined engineering talent. HTDC is coordinating meetings amongst organizations to address the challenges in putting together a database of workforce development opportunities. HTDC had also convened meetings to realize Kihei Charter School's Science, Technology, Engineering and Math (STEM) academy to be in our incubation center as a pilot program. An objective of the charter school is to reinvent education for a tech-based economy by attracting students interested in these fields and provide a solid foundation for them to later pursue careers in these fields, thus building a steady pool of tech-qualified workers locally.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

Action Plan:

1. Continue to explore opportunities to develop biotech laboratory and office space, and technology incubation space in Kakaako.
2. Continue discussions with organizations involved in the planning of a potential science and technology charter school in the Kakaako area.
3. Seek continued funding from federal agencies like the U.S. Air Force for the HCATT and the National Institute of Science and Technology for MEP.
4. Continue measures of performance surveys and analysis, and partnerships with major stakeholders to advance policies and programs to support growth of the high tech industry in Hawaii.

5. Continue to collaborate with DBEDT and other stakeholders on high tech related projects and issues.
6. Partner with other stakeholders on providing entrepreneurial training to accelerate tech start-up companies' success rate.
7. Continue to develop the representative office established in a large Beijing technology park.
8. Explore to establish other representative offices and partnerships in Asia if business opportunities are promising.

## 2. Program Performance Results:

### a. Discuss the performance results achieved by each program in FY07.

<u>Description</u>	<u>FY06 Actual</u>	<u>FY07 Actual</u>
<u>Measures of Effectiveness:</u>		
(1) # of cos. assisted at incub. ctrs.	117	152
(2) Mktg: # of companies. assisted	58,721	33,805
<u>Program Target Group:</u>		
(3) # of potential tech-based cos.	2,030	1,476
(4) # of cos. applied for incub. svc.	19	15
<u>Program Activities:</u>		
(5) # of contacts & responses	235,517	136,184

#### Primary reasons for variances:

(1) # of cos. assisted at incubation centers: The FY07 actual is in-line with the planned amount. The increase in activity in FY07 is primarily due to interest in vacant space created by the departure of several anchor tenants at MRTC and graduation of maturing companies from MIC which opened potential opportunities for new companies to become tenants at both facilities. Although more companies were assisted in exploring the opportunity for tenancy, the space at MRTC is suitable for a large tenant (thus not feasible for interested small start-ups) and priority at MIC is given to existing occupants to expand into available space. The virtual incubation program has been slow to generate interest due to lack of funding for marketing.

(2) Mktg: # of companies assisted: The Internet has significantly broadened HTDC's ability to reach and assist individuals and companies remotely thus this statistic reflects the impact the websites have had in assisting those beyond our shores. With this said the vendor that physically hosts HTDC's websites changed in FY07. The methodology of tracking website activity differed from the previous vendor and is the main reason for the disparity in the numbers between the two years.

(3) # of potential tech-based companies: The variance between years' is primarily due to the reduced pool of companies MEP was actually able to pursue due to the need for a focused strategy. MEP had to target companies that can deliver "quality" results to compare against MEP performance benchmarks, plus delays in opening the China office and changes in regulations for foreign companies further restricted their ability to conduct business in China.

(4) # of companies applied for incubation services: The demand by existing occupants to expand when space became available has limited opportunities for new companies to apply at the centers. Even in the rare instance where a large anchor tenant space was available, a limited number of large tech companies on Maui are available or interested in the space. The space is too large for most start-up companies and not easy to subdivide, thus limiting applications for the space. The large MRTC space was leased to a nearby STEM academy.

(5) # of contacts & responses: See the explanation to (2).

**b. Explain how these results relate to the program's objectives and department's mission.**

The program performance results directly monitor the success of HTDC in supporting the growth of Hawaii's high technology companies at its innovation centers and facilitating the overall growth of the high tech industry in Hawaii.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

Program Effectiveness measures focus on the number of companies and individuals being assisted both within and outside of the incubation centers. The results of these measurements should also be an indicator of the overall activity or interest in the high technology industry in the state.

**d. Discuss the actions taken by each program to improve its performance results.**

HTDC will continue to focus on improvements or enhancements to its incubation and virtual programs. The Incubation Program provides tenants and non-tenant clients with management, marketing and business development expertise, access to financing options, and general administrative support. HTDC continues to refine and revise its programs to meet the changing needs of the industry and the small startup companies participating in the incubation program. HTDC is expanding its incubation program by exploring opportunities in Asia as potential new markets for our clients, and utilizing the Internet to market Hawaii's technology assets globally.

HTDC will continue to provide workshops and outreach to companies on topics relevant to our target group or outsource to private sector companies to provide the expertise.

- e. **Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

No changes.

### **3. Problems and Issues:**

#### **a. Discussion of problems and issues encountered, if any.**

1. **Lack of Capital Financing for Tech Startups:** While new and small funds are originating, Hawaii continues to face the challenge of developing a sufficient capital base to finance the early stages of small start-up technology companies. While both the State and the private sector continue efforts to provide a network of investment capital to these companies, it remains difficult to compete for the limited dollars available.
2. **Decrease in federal funding for projects that provides informational outreach to tech companies about federal programs that are available partially due to redirected resources to fund other priorities of the nation.** This in combination with prior years' reductions in general fund assistance to HTDC has resulted in the reduction or elimination of these informational outreach type projects that are no longer funded.
3. **Many of our tech companies are inexperienced start-ups or university researchers that lack the necessary business knowledge to successfully commercialize their innovations.** Focused business training is needed to assist these firms accelerate their product to market. Lack of business knowledge also negatively affects start-up companies' ability to attract investment capital.
4. **Hawaii lacks a sufficient number of qualified technology trained workers to support the growing tech industry.**
5. **Bio-tech opportunities passing Hawaii by:** Hawaii needs to be more proactive in investing its resources towards supporting industry sectors that can generate huge economic returns to the State. For example, over the last ten years, other states have implemented aggressive strategies to attract the high-value biotechnology sector. Hawaii has done little to support this opportunity, which is largely passing us by.
6. **There is a need to explore business opportunities beyond Hawaii for tech based companies.** Opportunities in Asia, especially China are an untapped market for local companies. Local companies do not have the time or resources to navigate through the unique laws and requirements of foreign countries in order to explore potential opportunities.

#### **b. Program change recommendations to remedy problems.**

1. **Lack of Capital:**

The Hawaii Small Business Innovation Research (SBIR) program under HTDC (HRS 206M) continues to be a successful program helping local tech companies to receive federal research and development grants with potential



for commercialization. An increase in the general fund appropriation for this grant program will mean more matching federal funds for the state and tech jobs. It will also allow HTDC to develop and fund the sister STTR program that encourages businesses to work with Hawaii's universities in R&D related programs.

In collaboration with other agencies and organizations, HTDC plans to market Act 221 and Act 215 and any successor capital formation benefits at targeted investment groups.

2. Decrease in Federal Funding:

HTDC will continue to pursue funding opportunities for other tech related projects.

3. Lack of qualified technology trained workers:

Continue to coordinate meetings amongst organizations such as the DOE, UH, community college system and other key organizations to address workforce development issues, and assessing the feasibility and development of a plan for a science and technology charter school which will attract and prepare students to later pursue careers in these fields.

4. Explore business opportunities beyond Hawaii:

Continue to develop the representative office in Beijing and explore business opportunities in other Asian countries.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

HTDC will continue its efforts to assist in the development of the high tech industry and assistance of companies as best as it can while the issues and problems identified above are resolved.

**4. Expenditures for Fiscal Year 2007 - 2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(3.00)				(3.00)	(3.00)
Personal Services	1,887,024	96,333			1,970,357	1,970,357
Current Expenses	7,957,859				7,957,859	7,957,859
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>9,844,883</b>	<b>96,333</b>			<b>9,928,216</b>	<b>9,928,216</b>
(Pos. Count)	(1.50)				(1.50)	(1.50)
Special Funds	3,827,732	22,606			3,850,338	3,850,338
(Pos. Count)					-	-
Federal Funds	3,548,750	28,868			3,577,618	3,577,618
(Pos. Count)					-	-
Other Funds	1,500,000				1,500,000	1,500,000
(Pos. Count)	(1.50)				(1.50)	(1.50)
General Fund	968,401	44,859			1,000,260	1,000,260

**a. Explain all transfers within the Program I.D. and the impact on the program.**

None.

**b. Explain all transfers between Program I.D's. and the impact on the program.**

None.

**c. Explain any restrictions and the impacts on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008 – 2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(3.00)		(3.00)
Personal Services	1,784,424		1,784,424
Current Expenses	8,060,523	300,000	8,360,523
Equipment			
Motor Vehicles			
<b>Total</b>	<b>9,844,947</b>	<b>300,000</b>	<b>10,144,947</b>
(Pos. Counts)	(1.50)		(1.50)
Special Funds	3,827,732		3,827,732
(Pos. Counts)			-
Federal Funds	3,548,750		3,548,750
(Pos. Counts)			-
Other Funds	1,500,000		1,500,000
(Pos. Counts)	(1.50)		(1.50)
General Funds	968,465	300,000	1,268,465

**a. Workload or program request:**

The Supplemental Budget request includes the following requests:

Item	Cost Category	MOF	FY 09
Additional HSBIR funding	Other Current Expenses	A	200,000
	Total	A	200,000

(Description of Request: Additional funding for HSBIR grant awards.)

Item	Cost Category	MOF	FY 09
Funding for SBIR workshops, speaker fees and technical assistance services	Other Current Expenses	A	100,000
	Total	A	100,000

(Description of Request: Funding to expand the size of SBIR workshops, speaker fees and technical assistance to workshop attendees interested in submitting proposals for federal SBIR grants.)

Reasons for the Requests:

The purpose of the Hawaii SBIR/STTR programs is to expand research and development activities in science, tech and agricultural-based economic development and commercialization to better leverage federal dollars to bridge the financing gap for small local companies.

The Hawaii SBIR matching grant program continues to be a successful program. The \$200,000 increase in the general fund appropriation will mean additional State funds to match the increasing number and larger amounts of federal SBIR awards. The funds will also allow HTDC to develop and fund the sister STTR program which encourages businesses to work with Hawaii's universities in R&D related programs.

The SBIR/STTR programs have been awarding approx. \$2.3 billion annually, to small businesses that develop high risk innovations. A Congressional bill has been introduced to double the budget. Hawaii companies could be receiving a greater share of this federal funding but are disadvantaged in competing for awards. One of the major reasons is due to Hawaii's geographic distance from national SBIR training conferences where firms learn how to compete for these federal R&D grants. The \$100,000 request will provide Hawaii firms with training workshops and one-on-one grant proposal writing assistance. To-date the program has helped companies attract more than \$125 million to Hawaii.

These projects support the Governor's Innovation Initiative.

**c. For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008 - 2009:**

None.

**8. Proposed Lapses of CIP projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 145 VC – Hawaii Strategic Development Corporation**

**1. Introduction:**

**a. Summary of program objectives.**

Consistent with the strategic objectives of the Department of Business, Economic Development, and Tourism, the long-term objectives of HSDC are to promote innovation, and more specifically create funding mechanisms for investment in emerging technology companies. This goal is accomplished by developing networks to organize public and private sources of capital, and to establish infrastructure to support venture capital investment.

Near-term objectives are to train entrepreneurs to be able to commercialize their technologies and position their companies to raise growth capital.

The outcomes of HSDC's programs are the growth of new businesses and the development of Hawaii's innovation infrastructure including renewable energy sources.

**b. Description of program objectives/activities as discussed in the Multi-Year Program and Financial Plan.**

Through its "indirect investment" policy, the Hawaii Strategic Development Corporation's invests public funds in privately managed venture capital limited partnerships, which in turn invest in emerging Hawaii companies. The venture capitalists identify companies with promising products or technologies, high market potential, and strong management teams, and negotiate the investment directly with the firm.

By so doing HSDC assists in technology development and launching new companies and industries for the state. This policy benefits the State by providing entrepreneurs with access to venture capital expertise and private sources of capital to leverage public funds. It also results in reduced program costs. HSDC has made capital commitments to funds ranging from seed stage investment, to early/growth stage, to later stage mezzanine financing. This diversified investment policy is designed to provide different stages of financing to companies throughout their growth cycles.

The investments made by HSDC are typically for a ten year period.

To date HSDC has invested approximately \$16 million in ten venture capital limited partnerships which have invested or are investing in Hawaii companies. These venture funds have made over 60 investments in Hawaii. In FY08, HSDC is completing a new fund commitment which will support early stage companies

receiving investment from high net worth individuals collectively called angels. The fund is HEAVEN Fund I, LLC.

HSDC supports entrepreneurial development programs through conferences designed to assist firms in improving their management capabilities and attract capital. HSDC sponsors conferences bringing in venture capitalists to meet with entrepreneurs and positioning them for possible investment. Other conferences are provided for investors and support organizations to better understand private equity investing.

In the 2007 legislative session HSDC was appropriated \$5 million for a grant fund to support "dual use" companies, those which are developing applications for Department of Defense purposes as well as for commercial markets. Funds will be expended through a contract with the Pacific International Center for High Technology Research (PICHTR) and will be directed by that organization to companies which have received prior funding from the Center of Excellence for Research in Ocean Sciences (CEROS) or from the Hawaii Technology Development Venture (HTDV). In this manner the dual-use fund will be well leveraged with private investment and federal funds.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

In the upcoming biennium, HSDC will continue to work with companies to assist them to become "investment-ready." HSDC is working with other entrepreneurial support organizations such as the UH Office of Technology Transfer and Economic Development, Enterprise Honolulu, HiBEAM, and the Shidler College of Business to form a network to assist entrepreneurs. This network is being referred to as the Hawaii Technology Enterprise Network (HiTEN) which is being formed to have these agencies collaborate and work together on behalf of entrepreneurs. Results to date include assisting with business planning and introductions of entrepreneurs to venture capitalists on the west coast, and these efforts will be continued in the future.

HSDC will contract with the Pacific International Center for High Technology Research to implement and expend moneys appropriated by the legislature under Act 267, 2007. The board and staff of HSDC will oversee the PICHTR contract to ensure proper management and progress against milestones.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

HSDC's portfolio is reaching a stage of maturity and some of its companies are accomplishing liquidity events. Recently Hoku Scientific, a Hawaii-based hydrogen fuel cell company, undertook an initial public offering (IPO) of its stock providing a significant cash distribution to HSDC. Another portfolio company was recently listed on the London Stock exchange.

Despite having limited funding availability, the HSDC was able to approve a small new commitment to the angel fund.

The HiTEN entrepreneurial support network is generating good collaborations and to date six companies have directly benefited.

**b. Explain how these results relate to the program's objectives and department's mission.**

These results are directly related to HSDC's and DBEDT's goals of diversifying the economy, commercializing UH research, advancing technology development, providing financial support for emerging and high-growth businesses, and ultimately creating high-skilled employment opportunities for Hawaii's citizens.

DBEDT has established six overriding goals for the development of the state's Innovation Infrastructure:

- Workforce Housing
- Human Capital Development
- "Energy for Tomorrow"
- Global Links
- Creation of an Innovation Infrastructure
- Improving Hawaii's Business Environment

HSDC's programs fully complement five of the six departmental objectives.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss performance results achieved during the past two years.**

A number of quantifiable measures are used for tracking HSDC results, including number of new investment partnerships funded, amount of private sector leveraging, and the number of venture capital conferences and entrepreneurial training programs supported by HSDC.

Results were very good, given limited capital availability, with a new commitment approved by the board, generating at least 20X private sector leveraging. Conferences held have been on par with prior years and companies have provided feedback to HSDC that they have received excellent information and support resources specifically as a result of the TechEnterprise conference organized and sponsored by HSDC.

**d. Discuss the actions taken by each program to improve its performance results.**

A major reason for limited investment activity in Hawaii is that the state lacks serial entrepreneurs to grow businesses, despite the efforts of many organizations to build successful companies. Thus, creation of the HiTEN network is intended to increase the likelihood of success by Hawaii's entrepreneurs.

- e. **Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Through the Yearly Activity Planning process, the HSDC board has evaluated past performance, current resources and is moving towards a transitional program focusing on entrepreneurial development. Specific program objectives have been identified in the yearly activity plan. The rationale for these changes relates to availability of resources. HSDC will not plan for major new venture capital investments given capital constraints. Resources do adequately allow for support of workshops and sponsorship of private sector technology events.

### **3. Problems and Issues:**

- a. **Discussion of problems and issues encountered, if any.**

HSDC's programs are closely linked to market externalities. The current IPO market remains weak, offset by larger venture capital investments. This has been the case within national and international markets for the last several years, and Hawaii cannot escape these environmental factors. The specific impact on Hawaii is that the scale of our companies does not make them suitable for the larger investments at higher valuations.

It is also recognized that capital is not the only deterrent to new business development. Investors seek to invest in firms with experienced, capable managers, and the HiTEN network is intended to assist in this area.

- b. **Program change recommendations to remedy problems.**

Given the above market trends, HSDC's current strategy is to shift focus to prepare entrepreneurs to grow their companies and make them attractive to venture investors.

- c. **Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Without new sources of funding, HSDC's ability to generate new investment pools for Hawaii companies is severely curtailed. HSDC will manage its resources to reflect realistic investment and expenditure capabilities relative to opportunities.



**4. Expenditures for FY 2007 – 2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)					-	-
Personal Services	200,878	3,345			204,223	204,223
Current Expenses	8,814,350				8,814,350	8,814,350
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>9,015,228</b>	<b>3,345</b>			<b>9,018,573</b>	<b>9,018,573</b>
(Pos. Count) Special Funds	4,742,500				-	-
(Pos. Count) Federal Funds					4,742,500	4,742,500
(Pos. Count) Other Funds	4,272,728	3,345			-	-
(Pos. Count) General Fund	-				4,276,073	4,276,073
					-	-

**a. Explain all transfers within the program I.D. and the impact on the program.**

Not applicable.

**b. Explain all transfers between program I.D.'s and the impact on the program.**

Not applicable.

**c. Explain any restrictions and the impacts on the program.**

Not applicable.

**5. Supplemental Budget Request for Fiscal Year 2008 – 2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)			
Personal Services	200,878	112,904	313,782
Current Expenses	6,681,225	5,900,000	12,581,225
Equipment			
Motor Vehicles			
Total	6,882,103	6,012,904	12,895,007
(Pos. Counts)			-
Special Funds	2,609,375	6,012,904	8,622,279
(Pos. Counts)			-
Federal Funds			-
(Pos. Counts)	-		-
Other Funds	4,272,728		4,272,728
(Pos. Counts)			-
General Funds			-

**a. Workload or Program Requests**

Having drawn down its investment funds, HSDC's activities will be programmatic in nature and scale, focusing on entrepreneurial training workshops, venture capital showcases, and the development of the dual use follow-on fund and the Hydrogen Investment Capital Special Fund.

The Fiscal Biennium 2008-2010 Executive Budget includes the following requests:

- i. A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.

**Dual Use Fund**

Funds are requested to implement the research and development follow-on funding program established under Act 267, SLH 2007. This act provided \$5 million in funding for companies which had received prior funding through the

National Defense Center of Excellence for Research in Ocean Sciences or the Hawaii Technology Development Venture.

A contract will be entered with the Pacific International Center for High Technology Research to oversee the fund and make contract awards. The outcomes of this program will be leveraging of state funds by federal funds by at least four times, and a strengthened tech sector better able to commercialize needed technologies. Such technologies could conceivably shorten the Iraq war and save American lives.

### **Hydrogen Investment Capital Special Fund**

These program and budget requests are managed within DBEDT's Strategic Industries Division. This is a supplemental request for funding from the Hydrogen Investment Capital Special Fund (Fund) of \$112,904 for one (1) FTE budgeted exempt position (Hydrogen Program Manager), to be funded out of a total of \$6,012,904 requested from the (Fund), to implement the Hawaii Renewable Hydrogen Program (Program) as established by Act 240, SLH 2006 under Section 196-10, HRS, and for Program-related cost share and investment.

The Program is a key component of the Governor's Energy For Tomorrow package. However, Act 240 did not provide the requested three positions and necessary funding to support the Program or to provide oversight of the \$10 million Fund, also established by Act 240, under Section 211F-5.7, HRS, for the purposes of the Program. One FTE position is needed to provide, at a minimum level, management support and oversight of the Program and Fund.

\$5,900,000 of the Fund is budgeted to be deployed during the fiscal year (i) to develop the Program pursuant to Section 196-10, HRS and to (ii) provide cost share for federal and private R&D projects; and seed capital and investment capital for emerging Hawaii-based advanced energy technology companies pursuant to Section 211F-5.7, HRS.

Desired Outcomes/Objectives to be accomplished by the proposed program include:

- Pursuant to Section 196-10, HRS, the Program shall design, implement, and administer activities that include:
  - Strategic partnerships;
  - Engineering and economic evaluations;
  - Electric grid reliability and security projects;
  - Hydrogen demonstration projects;
  - A statewide hydrogen economy public education and outreach plan;
  - Promotion of Hawaii's renewable hydrogen resources;
  - A plan, for implementation during the years 2007 to 2010;
  - A plan, for implementation during the years 2010 to 2020; and
  - Evaluation of policy recommendations.
  
- Pursuant to Section 211F-5.7, HRS, the Fund will be used to:

- Provide cost share for federal projects that will be implemented by Hawaii's hydrogen R&D agencies;
  - Provide needed investment capital to stimulate renewable hydrogen business and infrastructure development and commercialization; and
  - Provide funding for hydrogen program technical management services to work in conjunction with the Fund investment manager to ensure appropriate use of the Fund.
- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding. These new positions will be assigned to DBEDT's Strategic Industries Division.

<b>Cost Category</b>	<b>MOF</b>	<b>FY 2009</b>
Permanent Position	-	
Temporary Position	-	1.00
Personal Services	B	112,904
Other Current Expenses	B	5,900,000
Equipment	-	0
Motor Vehicle	-	0
<b>Total</b>		<b>6,012,904</b>

- iii. For all lump sum requests, please provide a detailed breakout indicating specific purposes for all planned expenditures.

Contracting specialized services for management of investments and program development; and cost match	5,840,000
Other expenses	60,000
<b>Total</b>	<b>5,900,000</b>

- b. For all position count reductions, specify whether the positions were new, filled or vacant.**

N/A

**6. Program Restrictions:**

N/A

**7. Capital Improvement Program (CIP) Request for FY09.**

N/A

**8. Proposed Lapses of CIP Projects:**

N/A

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request for Fiscal Year 2008 – 2009**

**Program I.D. and Title: BED 146 EL – Natural Energy Laboratory of Hawaii  
Authority (NELHA)**

**1. Introduction:**

**a. Summary of program objectives.**

The Natural Energy Laboratory of Hawaii Authority (NELHA) promotes sustainable business development and supports economic diversification by providing resources and facilities for energy and ocean related research, education, public outreach, and commercial activities in an environmentally sound and culturally sensitive manner. This is achieved through marketing, managing and operating facilities that support sustainable utilization of available natural resources such as cold deep seawater, warm surface seawater, and high solar insolation and alternative distributed energy resources. Facilities are located at Keahole Point in Kailua-Kona and in Puna, both on the Island of Hawaii.

The objectives of the National Defense Center of Excellence for Research in Ocean Sciences (CEROS), attached for administrative purposes to NELHA, are to solicit and support innovative technology development for national maritime military applications and sustained technology-based economic development in Hawaii, and to develop and demonstrate state-of-the-art ocean technologies to address Department of Defense requirements and build residual benefit for the State.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

NELHA's facilities at Keahole Point serve as the premiere site worldwide, where large volumes of both warm surface and cold deep seawater are consistently pumped ashore for use in aquaculture, marine biotechnology, manufacturing of highly valuable and desirable potable water, and other technologies. NELHA serves as a laboratory for research and development; as an incubator facility for developing innovative, new technologies and businesses; and as a base for commercial operations that utilize, or are otherwise related to the use of the seawater and other available resources. While NELHA continues to be recognized as the world leader in research on Ocean Thermal Energy Conversion (OTEC), NELHA is aggressively moving into other areas of energy research, development, demonstration, and deployment.

NELHA has continued to aggressively develop new and strengthen existing public-private sector collaborative efforts, thereby maximizing respective and collective resources to ensure outcomes that reflect higher achievement of success at quantitative levels.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

The NELHA Board of Directors has been reassessing NELHA in a comprehensive manner including and not limited to, such diverse issues as land and other resource use and policies, budget, revenue opportunities, privatization of services, and meeting NELHA's goal to sustain self-sufficiency. FY07 was the first year NELHA did not receive any General Fund augmentation. To meet this goal, NELHA raised the price of its seawater from \$0.1086/thousand gallons (Kgal) in 2005 to \$0.1728/Kgal in 2007 and subsequently in FY 2008 to .2062/Kgal. Despite such a price increase, NELHA still finds itself losing money on seawater deliveries due to the more rapid escalation in electricity prices. All seawater supplied at NELHA depends on electricity from the grid for the energy to produce and transport those waters. NELHA is actively pursuing several projects that, if successfully implemented, will give it its own sources of electricity and thus more self-control over its energy costs. This in turn, will ensure that financial objectives can be more accurately estimated and ultimately realized.

Included in the administration FY08 and FY09 budgets are \$365,000 in each period for a seawater subsidy for aquaculture farmers. This will aid, in an important fashion, the continued development of aquaculture in Hawaii. NELHA has developed guidelines for the application of these funds. The subsidy was limited to those aquaculture companies already in operation at NELHA as the time the subsidy was implemented, not new tenants. The subsidy is being given to these tenants based on their percentage of seawater use and the total amount of seawater used collectively by the aquaculture tenants. Aquaculture tenants were made aware that this subsidy is for the Biennium year only and that they will pay the actual cost of pumping seawater when the subsidy ends. Aquaculture tenants are to supply NELHA with a report stating how the subsidy assisted their projects.

CEROS continues to support economic diversification by funding technical development projects that demonstrate leading edge maritime technologies that provide enduring residual value for Hawaii through enhanced employment or improved facilities and corporate capabilities. CEROS program objectives are met through public solicitation, competitive evaluation and selection of diverse proposals for technology development with selected projects funded through negotiated State contracts. From initiation, CEROS has been funded by appropriated federal funds designated specifically for CEROS through federal legislation and distributed through agreements with the Defense Advanced Research Projects Agency (DARPA).

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

In FY06 and FY07, NELHA had a total of thirty-Seven (37) and forty-two (42) tenants respectively, including short-term research projects. Approximately 48% of NELHA's 870 acres of land at Keahole Point is in use including about 125 acres that are not leasable due to their classification as archeological preserves, pump stations, access roads, and the like. Marketing is achieved through a combination of public outreach and collaboration with the private sector.

In FY06 and FY07, the number of individuals participating in NELHA's public outreach programs increased. The increase in participation has been due to very active participation by the educational efforts of the Friends of NELHA, a non-profit group of citizens who provide seminars and tours for the public. The Friends of NELHA, at its own expense, provided furnishings for the Gateway Center, thus enabling the opening of this Leeds Platinum building to the public. The office and laboratory portions of the Gateway Center have been fully leased, thus mitigating the cash drain of the building on the NELHA budget.

CIP Planning and design and construction monies received for expansion of the 55" seawater distribution system will enable NELHA to attract new tenants and allow current tenants to expand, thereby adding to NELHA's future revenues.

NELHA and CEROS have also forged strong ties with several federal agencies including and not limited to, the U.S. Department of Defense, U.S. Department of Energy and National Laboratories, U.S. Department of Interior, and the U.S. Department of Agriculture.

NELHA, in collaboration with the State Department of Transportation Highways, has been working on a request for professional services for the planning, design and engineering of a connector road between NELHA and the Kona International Airport. NELHA will work with both the U.S. and State of Hawaii Departments of Transportation to coordinate and implement this project. NELHA continues to work with our congressional delegates for funding the construction phase.

NELHA spent a good portion of FY07 working with FEMA and State Department of Civil Defense on getting funding and approvals for repairs to NELHA seawater pipelines from the October 16, 2006 earthquake. Repair work should begin in early 2008.

In FY06 and FY07 negotiations with several alternative energy projects its seeing its fruition in FY08. Several have either signed lease agreements or in the process of finalizing. NELHA continues to work with alternative energy prospective tenants and plans to see more fruition in later FY08.

**b. Explain how these results relate to the program's objectives and department's mission.**

All of the aforementioned results demonstrate NELHA's on-going efforts and commitment to growth and expansion and to development and diversification of Hawaii's economy. NELHA's ongoing commitment in securing alternative energy projects keeps in line with the Governor's energy awareness mandates.

NELHA's participation in projects along with projects funded by CEROS for concept development and demonstration of ocean technologies and applied ocean sciences for military maritime purposes support both State and National security interests. These efforts also help to create sustainable technology-based employment and economic growth for Hawaii companies.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

NELHA's measures of effectiveness include the total number of tenants (which have increased); increase and/or decrease in number of tenants (which have increased as can be seen from the tables below); tenants' gross sales (which have dramatically increased due to the increased sales volume of desalinated seawater); amount of investment at NELHA from both public and private sector sources (one company alone has invested \$90 million, for example); the number of current tenants expanding and leasing additional space at NELHA (two); the number of individuals served through outreach and interface activities (significantly through the efforts of the non-profit Friends of NELHA); the number of CEROS projects funded and completed; and the dollar value of grants distributed by CEROS.

The results of NELHA and CEROS work during the past year ensure continued opportunities for additional and increased federal funding; establishment of new and stronger alliances with both federal and private sector entities; and strengthening and diversifying Hawaii's economy.

Continued perseverance in establishing market-based lease rates for future tenants as well as those whose leases come up for renewal and incrementally raising the price at which seawater is sold by NELHA has materially aided in obtaining the goal of financial self-sufficiency.

- d. Discuss the actions taken by each program to improve its performance results.**

By increasing seawater and base land rates and decreasing and maintaining expenses at a minimum in FY07, NELHA has been able to establish its baseline for ensuring fiscal stability. The NELHA Board and staff have worked diligently to improve their efficiency in reviewing and processing tenant proposals and lease agreements. The Board has broadened its expertise base by including members of the community to participate in strategic planning sessions, and has ardently sought to "reinvent" a government agency and stay self-sufficient.

Increased costs for electricity and other components of pumping seawater to tenants are being addressed. The rapid nearly unabated increase in electricity costs has caused a tremendous hardship on NELHA tenants, which NELHA has sought to mitigate through increasing its rates more slowly and thus NELHA sought a subsidy for aquaculture for the benefit of all Hawaii.

Infrastructure challenges such as potable water transmission and land use are either under construction and/or in review. NELHA is seeking non-governmental funding to bring in more tenants and revenue opportunities.

Recent securing of Federal funds for the design of the airport connector road will lead to efforts to secure construction funds such that when the road is completed, about 200 acres of currently inaccessible land will be available to NELHA to lease and increase revenues.



- e. **Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

None. NELHA intends to make adjustments to its' measurements, when allowed, during preparation for the upcoming biennium budget preparation.

**3. Problems and Issues:**

- a. **Discussion of problems and issues encountered, if any.**

Special Fund Ceiling

As NELHA continues to grow and attract new tenants, additional demand is place on all resources including potable water and seawater. The costs involved to pump seawater to tenants are incurred by NELHA then reimbursed through monthly charges to tenants. An increase in the special fund ceiling is necessary to address both increased utility costs.

Potable Water

NELHA continues to require potable water in excess of its allocation. Although NELHA is in the final stage of construction on its freshwater main, the County of Hawaii Department of Water Supply (DWS) has indicated that NELHA will not be allowed to dedicate its freshwater system to the County until such time that NELHA can reduce its demand to within the established allocation or receive a larger allocation from BLNR. Meeting with key personnel from BLNR continue to mitigate the shortfall.

Security

On-going security problems are a source of concern. While funding has been provided for a greater level of security this year, increased public use of the facility dictates that levels be continued, if not increased.

55" Pipeline Expansion

This project is vitally necessary to meet projected tenant demand for DSW in future years. Planning and design funding allocated by the legislature in 2006 will enable NELHA to reach the point of construction, late in 2008. Part of this project, for which \$5.25 million in funding was appropriated in the 2007 legislative session, is essential for the construction of the proposed Ocean Thermal Energy Conversion plant at NELHA.

Inability to Estimate Seawater Demand

Tenant estimates of their seawater demand is the only basis upon which NELHA is able to forecast anticipated water and deliverability requirements. Past records indicate tenants' eyes are much larger than their realized appetites.

### Executive Order

An Executive Order, separating the NELHA acreage from that of the Kona International Airport is vital to the future well-being of NELHA in a financial sense. The Federal Aviation Administration has called for the airport to collect what the FAA believes is due from NELHA since NELHA lands technically are considered a part of the DOT airport lands. Payment of a further percentage of NELHA revenues to the DOT and hence the FAA, on top of the 20% already paid to OHA and the administrative fees to DBEDT and Central Services would have a crippling effect on both NELHA and all the private businesses that rely on its operations.

**b. Program change recommendations to remedy problems.**

To ensure that NELHA is able to maintain its operations and support growth and expansion, the Special Fund ceiling is being increased.

NELHA continues to work with its tenants on forecasting seawater delivery demands. NELHA is addressing the seawater appetite dilemma by assigning a staff person full time to the critical area of seawater forecasting, pricing, management and implementation.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

NELHA staff continues to work both DWS and tenants to ensure effective compliance with water conservation measures. The original allocation to NELHA was clearly not intended to provide for the expansion that NELHA has experienced and continues to support. NELHA will continue to work with DWS, DLNR, BLNR and others to identify and implement opportunities to enhance conservation efforts and also to increase the allocation of water to NELHA specifically and to the Keahole Point area in general. NELHA is also looking at possible tenants who would desalinate the seawater for cooling and their excess freshwater would become available for other current tenant use.

**4. Expenditures for Fiscal Year 2007-2008:**

**Provide the appropriation data, transfers, restrictions, available resources, and the estimated expenditures for fiscal year 2007-2008. For new Program I.D.'s, please present the data as best as can be determined.**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)					-	
Personal Services	2,104,906	78,138			2,183,044	2,183,044
Current Expenses	10,477,328				10,477,328	10,477,328
Equipment	53,550				53,550	53,550
Motor Vehicles					-	
<b>Total</b>	<b>12,635,784</b>	<b>78,138</b>			<b>12,713,922</b>	<b>12,713,922</b>
(Pos. Count)					-	-
Special Funds	5,387,491	51,836			5,439,327	5,439,327
(Pos. Count)					-	-
Federal Funds	6,883,293	26,302			6,909,595	6,909,595
(Pos. Count)					-	-
Other Funds					-	-
(Pos. Count)					-	-
General Fund	365,000				365,000	365,000

**a. Explain all transfers within the Program I.D. and the impact on the program.**

Not applicable.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

None.

**c. Explain any restrictions and the impacts on the program.**

**As applicable, provide a description of the impact of the transfers that have occurred within the program I.D. between the various cost elements, transfers occurring between different program I.D.'s, and restrictions imposed.**

Not applicable.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)			
Personal Services	2,104,907		2,104,907
Current Expenses	10,419,331		10,419,331
Equipment	118,397		118,397
Motor Vehicles			
Total	12,642,635		12,642,635
(Pos. Counts)			-
Special Funds	5,394,341		5,394,341
(Pos. Counts)			-
Federal Funds	6,883,294		6,883,294
(Pos. Counts)			-
Other Funds			-
(Pos. Counts)			-
General Funds	365,000		365,000

**Provide the total position counts and funds requested.**

**a. Workload or program request:**

None.

**b. For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:  
CIP data for all projects within the agency being heard shall be combined into a  
single appendix in the department's testimony (if no request is being made,  
please indicate "none").**

None.

**8. Proposed Lapses of CIP projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 113 TO – Tourism/Hawai'i Tourism Authority (HTA)**

**1. Introduction:**

**a. Summary of program objectives.**

The objective of the Tourism program is to achieve a strong and sustainable tourism industry that values and perpetuates Hawai'i's natural and cultural resources, honors Hawai'i's people and heritage, and supports a vital economy.

**b. Description of program objectives.**

The HTA is mandated to create a vision and develop a long-range plan for tourism in Hawai'i. As such, in October 2004, using research from tourism studies and input solicited from the community, industry and other government entities, the HTA completed the "*Hawai'i Tourism Strategic Plan: 2005-2015*" (State TSP). The State TSP is a 10-year plan for the State that:

- Outlines a shared vision for Hawai'i tourism in the year 2015 by Hawai'i's tourism stakeholders – the government entities, private industry, residents and visitors who are involved in tourism; and
- Provides a roadmap – strategic directions, specific goals and responsible and supporting partners – for achieving that vision.

The State TSP is comprised of nine strategic initiatives: Access; Communications and Outreach; Hawaiian Culture; Marketing; Natural Resources; Research and Planning; Safety and Security; Tourism Product Development; and Workforce Development. While the State TSP does not identify the HTA as the lead agency for all of the nine initiatives, it does provide the framework under which the HTA has developed its annual agency budget and action plan. The HTA's action plan details the Authority's specific activities and resource allocations within each of the nine initiatives for the year, and is described in the following section.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

During the upcoming fiscal year, the HTA will implement activities within its various program areas (e.g., Leisure and Business Marketing, Sporting Events, Product Development, Strategic Planning) that are based on the nine initiatives of the *State TSP*, described below:

- **Access.** Efforts in this initiative will include an enhanced statewide greetings program for airports and harbors, an airlift development program, and facilitation and advocacy of airlift, cruise and other transportation issues.

- **Communications and Outreach** will include efforts to communicate and educate tourism stakeholders about HTA programs, state tourism policy and industry activities through informational materials (e.g., press releases, newsletters, and other collateral), media relations, HTA's web site and outreach efforts (e.g., stakeholder meetings in each county and presentations).
- **Hawaiian Culture** will include the following:
  - Partnership with the Council for Native Hawaiian Advancement to support projects that strengthen, support and perpetuate the Hawaiian culture and community;
  - Coordination and implementation of the Keep It Hawai'i Program;
  - Support for several major Hawaiian festivals; and
  - Work with the Native Hawaiian Hospitality Association on their action plan for Hawaiian culture and capacity-building with the organization.
- **Marketing** will include more focus on business marketing efforts and improvements to leisure marketing efforts including the sports marketing programs.
- **Natural Resources** will include implementation of HTA's Natural Resources Program.
- **Research and Planning** will include various projects such as the leisure marketing effectiveness study in Hawai'i's three core markets: U.S. East, U.S. West and Japan, the Resident Sentiment Survey, the Hawai'i Cruise Industry Study and efforts to update the State TSP.
- **Safety and Security** will include support for the Visitor Assistance Program (VAP), crime prevention efforts and emergency preparedness efforts.
- **Tourism Product Development** will include Product Enrichment Programs (PEP) for the state and counties, Major Festivals Program which supports various festivals throughout the state; technical assistance and capacity-building for event organizers and a continuation of the post-arrival Festival Promotional Campaign.
- **Workforce Development** will include enhanced support for travel industry career training programs throughout the state and a partnership with the University of Hawai'i Travel Industry Management School on its workforce plan.

## 2. Program Performance Results:

### a. Discuss the performance results achieved by each program in FY07.

Performance results achieved within each initiative in CY 2007 (through October 31, 2007) are listed below.

- **Access.**

- The *Greetings Program* is designed to facilitate positive arrival and departure experiences and ensure a "Hawaiian sense of place." For 2007, the HTA provided support for a Statewide Greetings Program which included entertainment, informational collateral, hospitality services, physical amenities and other support at harbors and airports throughout Hawai'i. Services were expanded at all major harbors in 2007 due to increased cruise ship activity. Services at all major airports were also enhanced including the launch of a new greetings program at the Kona and Hilo Airports.
- *Airlift Development Program.* Ensuring adequate lift to Hawai'i is a primary objective within this initiative. As such, HTA invested in 25 cooperative programs in conjunction with airlines and travel wholesalers to support the following:
  - Travel during the spring shoulder period;
  - Seek untapped marketing opportunities;
  - Expand exposure for the destination;
  - Help sustain routes that are at risk of cancellation.

Proposals were submitted by airline/wholesale partners and reviewed through HTA's marketing contractors. All Major Market Areas (MMAs) received funding, although the majority of programs funded were in the North America and Japan markets. Examples of 2007 cooperative programs included the following:

- Spring and fall campaigns in North America with airline partners Alaska Airlines, Air Canada and Hawaiian Airlines and with wholesale partners Creative Leisure, Pleasant Holidays, and United Vacations;
  - Joint promotion with Hyundai home shopping channel and Korean Airlines (KAL) to support KAL's increased flight frequency to Hawai'i as well as another promotion with KAL in support of the honeymoon visa program;
  - Co-op advertising campaign with Hawaiian Air (HA) and Travelscene AMEX in support of HA's Australian route; and
  - Promotion with four major Japanese tour wholesalers – JALPAK, JTB, KNT and NTA – on cooperative campaign focusing on seniors and multi-generational travel.
- *Airline and Cruise Industry Meetings.* In an effort to promote and facilitate close relations with airlines serving Hawai'i, HTA executives met with their airline counterparts to discuss concerns, operating issues and outlooks. This year, meetings were held with airlines from U.S. East, U.S. West, Japan, Other Asia, Oceania and locally. Additionally, HTA met with representatives from the cruise industry to talk about mutual concerns.

- **Communications & Outreach.**

- *Communications Efforts.* To communicate and educate tourism stakeholders about the agency, its programs and the industry, monthly press releases and electronic newsletters were prepared and



disseminated, speeches and presentations were given to over 70 tourism and non-tourism organizations both within and outside of Hawai'i and media briefings on O'ahu, Kaua'i, Hawai'i and Maui were held. Enhancements were made to HTA's Web Site ([www.hawaiitourismauthority.org](http://www.hawaiitourismauthority.org)) including a logo gallery and to the Travel Smart Hawai'i Web Site ([www.travelsmarthawaii.com](http://www.travelsmarthawaii.com)) which provided updates about weather-related impacts, natural disasters, Hawai'i's new smoking law and airport security measures.

- *Hawai'i Tourism Conference.* On August 28-29, 2007, HTA held its 4<sup>th</sup> Hawai'i Tourism Conference – *Aloha Aku, Aloha Mai ~ The Responsibility of Aloha III* at the Hawai'i Convention Center. The purpose of the conference was to bring together Hawaii's visitor industry to learn about current trends, market developments and issues occurring in the global and local visitor industry. The 2-day conference included presentations on a variety of topics including China and Korea markets, family travel, the meetings and conventions market, the Hawai'i SuperFerry and 2008 tourism marketing plans. More than 750 people attended the highest attendance in the event's history.
- *Visitor Industry Campaign.* This campaign highlights programs around the state that are supported by the visitor industry and that demonstrate how the visitor industry and community are working together to make Hawai'i better for all. The campaign featured the following projects:
  - o A trail restoration project on Kaua'i;
  - o Restoration and preservation of Moku'ula on Maui, the royal compound of Kamehameha III;
  - o Academy of Hospitality and Tourism (AOHT) Program on the islands of O'ahu;
  - o Annual Visitor Industry Charity Walk;
  - o Employees at the Fairmont Kea Lani on Maui and the Princeville Resort on Kaua'i who do volunteer work in their respective communities.
- *Stakeholder Outreach.* In preparation for the 2007 legislative session, HTA met with representatives from the community, industry and government in each county to discuss issues and establish priorities. During the session, HTA maintained communication with legislative leadership, committee chairs and administration personnel to advocate for measures that strengthen and support the agency, industry and state; and countered opposing measures.
- **Hawaiian Culture.**
  - *Hawaiian Culture Community Program.* Last year, the HTA, with guidance from its Hawaiian Cultural Program Advisory Council (HCPAC), provided over \$500,000 in funding to 19 organizations for various projects in 2007 that were designed to address the goal and objectives identified in the State TSP. Projects supported include Friends of Hawai'i Volcanoes National Park's *'Ike Hana No'eau*, Cox Radio Hawai'i's *Sixty Seconds Around the Islands*, The Friends of 'Iolani Palace's *Japanese*

*Language Audio Tour*, and Maui Community Arts and Cultural Center's *Kahekili* (a complete list of projects is available on HTA's Web site).

This year, the program was enhanced through a partnership with the Council for Native Hawaiian Advancement (CNHA). The result is the **Kūkulu Ola – Living Hawai'i Culture Program** – which offered funding support through a public request for proposals to organizations for projects that strengthen, support and perpetuate the Hawaiian culture and community. In the new partnership, the HTA will serve as a funding source, CNHA will administer the program, include improved outreach to the Hawaiian community, and HCPAC will guide the review and selection process.

- *Keep It Hawai'i Program*. This annual program provides a venue for recognizing individuals, community organizations and businesses across the state and "out of state" who authentically portray the Hawaiian culture and who have demonstrated commitment to honor and perpetuate the Hawaiian culture and community. To reach a broader audience within the industry and community, this year's award ceremony was held as part of the Hawai'i Tourism Conference. (A complete list of projects is available on HTA's Web Site.)
- *Native Hawaiian Signature Events Program*. The HTA provided funding and organizational and structural support to event organizers of three signature events that help to preserve and perpetuate the Hawaiian culture and history:
  - o Prince Kūhiō Celebration held annually in March to educate residents and visitors on Prince Kūhiō's many achievements and contributions;
  - o King Kamehameha Celebration held annually in June to honor Hawai'i's first monarch; and
  - o Aloha Festivals held in the fall across the state in celebration of the Hawaiian culture.
- *Native Hawaiian Hospitality Association (NaHHA)*. HTA has continued to support organizational capacity building of NaHHA to enable them to take the lead in the Hawaiian Culture initiative of the State TSP, including their development of an action plan by year-end.
- **Marketing.**
  - *Leisure Marketing*. In 2007, HTA continued to meet with industry partners, monitor Hawai'i's visitor industry and visitor markets, and focus on three areas:
    - o Collaboration with and management of its marketing contractors;
    - o Other marketing efforts such as the 2007 Hawai'i Arts Program and the HTA Style & Resource Guide; and
    - o Implementation of research studies to measure marketing effectiveness and a variety of issues, including awareness of programs; perceptions by U.S. and Japanese long distance travelers and visitors to Hawai'i and visitor segmentation analysis (which will be discussed under Research & Planning).

The HTA works with five marketing partners to promote Hawai'i as a leisure destination in the major market areas of U.S. East, U.S. West, Japan, Canada, and other countries designated as developing international markets. The partners include the Hawai'i Visitors & Convention Bureau (HVCB), Hawai'i Tourism Japan (HTJ), Hawai'i Tourism Asia (HTAsia), Hawai'i Tourism Europe (HTE), and Hawai'i Tourism Oceania (HTO). Brief highlights from each contractor and the various markets are provided below:

- North America is Hawai'i's largest source market for visitors, including Canada, U.S. West and U.S. East. HVCB's efforts included a third successful *Aloha Swing* golf promotion on *The Golf Channel*, enhancements to its web site (e.g., photo gallery), promotion of Hawai'i in *Bravo Network's* hit culinary show, *Top Chef*, spring and fall promotional campaigns, a destination weddings initiative with *The Knot* and a cooperative campaign to publicize the many changes in Waikīkī.
- Japan is Hawai'i's top generator of international visitors. With visitor arrivals down this year, efforts were made throughout the year to boost travel to the islands including conducting research to understand travelers' needs and perceptions of Hawai'i, working with travel trade and consumer media, and strengthening advertising campaigns. Specific efforts by HTJ included enhancements to its *Discover Aloha* campaign, a joint promotion around Hokulea's historical voyage to Japan which included stops at various Japanese cities, an educational campaign to help change misconceptions about Hawai'i's smoking law enacted in 2006, and execution of more than 60 travel trade educational programs, seminars and workshops.
- In 2007, there were many exciting breakthroughs in reducing the barriers to travel from the Korea and China markets to the United States, including President Bush's signing of a bill that raised the visa rejection rate from 3 percent to 10 percent and the growing momentum for Approved Destination Status between the U.S. and China. In anticipation of these new markets for Hawai'i, HTAsia's 2007 marketing plan positioned Hawai'i as a compelling choice for a growing segment of the upscale traveling population from three main geographic markets. Their efforts included support of key travel agents participating in various wedding fairs in Korea, travel missions, joint promotions with China Airlines and American Express.
- HTEurope's 2007 marketing plan is designed to increase brand awareness for Hawai'i in the European market. Highlights include the first *Aloha Up and Over* European sales and media mission throughout the U.K. and Germany, launch of the Aloha Academy Continental Europe – an online travel agent program conducted in German, Italian and French, and cooperative partnerships with European companies to promote Hawai'i as a preferred leisure destination.

- HTOceania's 2007 marketing plan is aimed to support current airlift, increase travel agents' and consumers' destination knowledge of Hawai'i and position Hawai'i as a leisure and business destination. Highlights include successful execution of *Aloha Down Under Roadshow* to showcase Hawai'i's visitor industry in Australia, promotion of Hawai'i Regional Cuisine in Sydney, and the broadcast of Hawai'i on the *Golf Club TV Program* to an audience of 69 million.

Other leisure marketing efforts are listed below:

- To promote Hawai'i's arts and culture, the HTA collaborated with the Hawai'i Arts Alliance to implement public relations efforts for the *Hawai'i Arts Program*. This year-round initiative showcases the islands' arts and culture happenings in North America and Japan through a media blitz, on HVCB's web site and to concierges.
  - In 2007, the HTA developed the *Style & Resource Guide*, a handy resource tool to help clarify facts about the island that have sometimes been miscommunicated. It includes useful Hawaiian cultural information for individuals and organizations such as journalists and promoters who feature Hawai'i and may not be familiar with the Hawaiian language, culture and protocol. This living document which will be updated as needed also provides guidance for the accurate depiction of sites and culture and insights into promoting Hawai'i sensitively and safely.
- **Business Marketing.** The strategy for business marketing is to promote Hawai'i as a preferred destination for business tourism (to attend a meeting, convention or incentive conference) by increasing promotional presence and brand identity on a global basis. In 2007, the HTA worked with two entities (as listed below) to brand Hawai'i as a business destination and increase "top of mind" awareness for Hawai'i:
- Hawai'i Convention Center's (HCC) Sales and Marketing Department; and
  - Hawai'i Visitors & Convention Bureau's (HVCB) Corporate Meetings and Incentives (CMI) Department

**HCC Sales and Marketing.** With respect to marketing the Hawai'i Convention Center (HCC), below are highlights of SMG Hawai'i's marketing activities and accomplishments:

- Creation of an International Attendance Building Program to build convention attendance;
- Partnership with Professional Convention & Meetings to showcase Hawai'i as a premier meeting destination; and
- Development of new advertising campaigns featuring the taglines of "Perfect Climate," "Sudden Brainstorm," and "Alternate Energy Solution."

**Corporate Meetings and Incentives.** Below are highlights of HVCB's marketing activities and accomplishments:

- Enhanced efforts in international markets including direct sales opportunities in Asia and the United States;
  - Development of additional sales tools in English and four Asian languages including a destination business video, the new BusinessAloha.com Web site, PowerPoint presentation, press kit, and e-postcards to help build attendance;
  - Recipient of the 2007 Gold Service Award for the 18<sup>th</sup> consecutive year by readers of *Meetings & Convention* magazine; and
  - Recipient of the 2006 Planners' Choice Award for the third time by readers of *Meeting News*.
- Sports Marketing. Sporting events provide several benefits for Hawai'i such as economic impact and national and international media coverage. Recognizing these benefits, HTA has developed a Sports Marketing Program that will increase Hawai'i's sports presence to a globally competitive level and facilitate sports business development in the state. Additionally, the program stimulates visitor travel during non-peak travel periods, supports local sports organizations, sports intrinsic to the islands, residents' quality of life, and initiatives that showcase the islands, the host culture, and distinctive cultural assets. Efforts in CY 2007 included the following activities:
- Partnership with the National Football League for the 2007 NFL Pro Bowl which brought in approximately 27,625 visitors, of which 75 percent specifically came to Hawai'i to attend the game, accounting for \$28.03 million in visitor spending and \$2.72 million in state taxes.
  - Partnership with the PGA TOUR for seven Hawai'i-based tournaments, providing over 20-hours of television coverage, broadcast nationally during the winter months. The HTA is working with the PGA Tour to establish a new tournament, replacing the PGA Grand Slam that was relocated to another destination outside of Hawai'i.
  - Partnership with the sports marketing firm, Hawkeye Sports & Entertainment, to provide services that complement and expand HTA's sports efforts.
  - In addition to the above, the HTA also invested in other sports events in 2007 including the Ford Ironman World Championships, EA Sports Maui Invitational, Haili Men's Volleyball Tournament, Kaua'i World Challenge and Moloka'i Hoe.
  - Publication titled *Hawai'i's Sports Facility Guide*, an information source and marketing tool that provides detailed information on sporting facilities throughout the state.

- **Natural Resources.**

The HTA, together with members of its Natural Resources Advisory Group (NRAG), focused on setting policies and priorities through the agency's Natural Resources Program. Specifically through this program, the HTA:

- Provided \$2 million to support the Hawai'i State Department of Land and Natural Resources (DLNR) to address priority site and projects identified

- by the 2003 Natural Resources Assessment and 20 community-based projects throughout the state; and
  - Conducted its second survey of Hawai'i's state-owned parks. The survey which will be completed by OmniTrak Group by December 2007, will include an in-depth inventory and assessment of more than 60 highly visited parks statewide. The information gathered will assist DLNR prioritize its efforts, identify problem areas and possible solutions, and clarify and substantiate the need for support of Hawai'i's park facilities.
- **Research and Planning.**
    - TNS. With TNS, HTA continues its accountability measurement system to track the impact and effectiveness of its marketing programs in three major market areas (MMAs) – U.S. West, U.S. East and Japan. This year, TNS conducted a new assessment of Hawai'i via-a-vis its competition, shifting from awareness of destination characteristics to preference of Hawai'i and its competitors in the MMAs. The results are compared against the previous quarter to gauge consumers' attitudes about Hawai'i as a destination (reports are available on the HTA's Web site). Additional questions were added to the survey to examine the reasons why the Japanese may not be considering or intending to visit Hawai'i. The final 2007 report is due in February 2008.
    - County Tourism Strategic Plan Oversight and Implementation. In 2007, HTA provided funding support to each county to assist with planning oversight and implementation of its individual plans. These plans reflect unique county tourism needs and opportunities, and ultimately help support the vision in the State TSP. Copies of each plan are available on the individual web sites for each county.
    - Hawai'i Cruise Industry Study. In June 2007, HTA, in collaboration with the State Department of Transportation (DOT), issued a request for proposal for a study to be conducted on Hawai'i's cruise industry. With the growth of the international and domestic cruise ship market, the Hawai'i Cruise Industry Study will assess the cumulative impacts and benefits the cruise industry has on each island as well as on the state of Hawai'i. The study, funded by HTA and DOT, will provide policy makers with comprehensive, reliable and objective information on this industry.
    - Resident Sentiment Survey. One of the performance benchmarks in the State TSP is an assessment of resident attitudes. Fielding for the 2007 Resident Sentiment Survey began in October 2007 and will be completed by year-end.
    - Emergency Preparedness Planning. HTA's primary role in emergency preparedness is in pre-planning and recovery efforts. In 2007, HTA's activities included:
      - o Participation in the joint Makani Pāhili (hurricane) exercise in May which was organized by State Civil Defense with state, county, public/private sector, and visitor industry organizations;
      - o Assembly of crisis response teams in August to communicate pertinent information to various stakeholder groups and discuss the

- handling of "what if" scenarios in anticipation of Hurricane Flossie affecting Hawai'i;
  - Acquisition of additional equipment for HTA's command center at the Hawai'i Convention Center including a back-up phone system and satellite phones; and
  - Contract with Convention TV to develop video and messaging for broadcast in Waikīkī hotel rooms.
- **Safety and Security.**
  - Visitor Assistance Program (VAP) assists individuals who have met with unfortunate circumstances or adversity while vacationing in Hawai'i. Examples of services provided to such visitors include financial aid, transportation services, airline ticket changes, funeral arrangements, and hotel accommodations. In 2007, HTA and the visitor industry provided funding to VAP in each county - Visitor Aloha Society of Hawaii (VASH) on O'ahu, VASH West Hawai'i and East Hawai'i on Hawai'i Island; Maui Visitors Bureau and the Visitor Aloha Society of Kaua'i (VASK). The visitor industry also contributed in-kind support to VAP.
  - Within the area of prevention and deterrence, HTA undertook various activities:
    - Initiated a Crisis and Trauma Peer Support Program and a peer support network for VAP agents statewide;
    - Continued support for a security camera pilot program at the Pali Lookout and 'Ehukai Beach Park on O'ahu. Partners included Sensormatic Hawai'i, Honolulu Police Department, City & County of Honolulu, Department of Parks and Recreation, DLNR's State Parks Division, and Akal Security; and
    - Provided financial assistance to the Hawai'i Lifeguard Association for development and implementation of [www.hawaiibeachsafety.org](http://www.hawaiibeachsafety.org), a Web site with accurate and up-to-date information about beaches throughout the state.
  - Safety and Security Assessment and Recommendations. In April 2007, HTA contracted with Tourism & More (T&M) to conduct an assessment and to make recommendations regarding priority areas for HTA relating to visitor safety and security. While HTA is not identified as the lead agency for this initiative, HTA will use the recommendations as a basis for the development of agency programs in this area.
- **Tourism Product Development.**
  - *Product Enrichment Program (PEP)*. The County PEP (CPEP) involves partnerships between the HTA and each of the four counties to support tourism activities in the niches of agritourism, cultural tourism, ecotourism, health and wellness tourism, edutourism, and technotourism. In 2007, each county was allocated \$500,000. More than 100 projects received support from CPEP and an additional five projects totaling \$200,000 were supported under the Statewide PEP (SPEP) that covers multi-county or

special activities (a complete listing of all projects is available on the HTA Web site).

- *Major Festivals Program.* The strategy of the Major Festivals Program is to support events that portray the diversity and culture of Hawai'i and draw significant attendance. Festivals that receive support under this program also market and promote their activities locally and outside of the state. Examples are Honolulu Festival on O'ahu, Kōloa Plantation Days on Kaua'i, Kona Coffee Cultural Festival on Hawai'i Island and Mau Film Festival.
- *Technical Assistance and Capacity Building.* In May 2007, HTA sponsored its third Hawai'i Festivals and Events Seminar. The seminar, conducted in each county, attracted over 300 attendees who participated in various professional development opportunities.
- *Post-Arrival Festival Campaign.* In January 2007, the Post-Arrival Promotional Campaign was launched to inform and educate post-arrival visitors and residents, of the many quality festivals and events in Hawai'i. Using print, television, radio and internet media as well as a promotional effort targeted at hotel concierges throughout the state, the campaign positions Hawai'i's festivals as a unique and recognizable brand while helping to enhance the image of Hawai'i as a destination. In September 2007, the HTA received eight awards from the International Festivals & Events Association (IFEA) for this campaign.
- **Workforce Development.**
  - *Academy of Hospitality and Tourism (AOHT).* This program provides high school students with the necessary skills and knowledge for a successful career in one of the world's largest service industries through curriculum that provides an in-depth look at all aspects of tourism and hospitality. Currently this program serves six high schools on O'ahu, Kaua'i, and Maui and receives significant support from Hawai'i's visitor industry. HTA's partnership supported the following:
    - Overall AOHT program;
    - Annual AOHT workshop, student conference and career fair day; and
    - Statewide coordinator for the AOHT program.
  - *'Aha Pūnana Leo (APL) Program* – The HTA, in partnership with APL, has developed a workforce development program modeled after the AOHT program for Hawaiian immersion high school students. This program will address the goals and objectives of both the State TSP Workforce Development and Hawaiian Culture initiatives; and
  - *Workforce Development Strategic Plan 2007 – 2015* developed in partnership with the University of Hawai'i at Mānoa, School of Travel Industry Management, was completed. From this plan, a suggested HTA-specific action plan for the initiative will be developed.



**b. Explain how these results relate to the program’s objectives and department’s mission.**

HTA’s mission is: “To strategically manage Hawai’i tourism in a sustainable manner consistent with our economic goals, cultural values, preservation of natural resources, community desires and visitor industry needs. The results of HTA’s programs and initiatives are consistent with the State TSP vision of a sustainable tourism industry that values and perpetuates Hawai’i’s natural and cultural resources, honors Hawai’i’s people and heritage, and supports a vital economy.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The overall health of the visitor industry is measured by four high-level performance indicators that are noted in the State TSP:

- Visitor expenditures
- Visitor satisfaction
- Resident sentiments
- Tax receipts.

The following information demonstrates Hawai’i’s visitor industry performance:

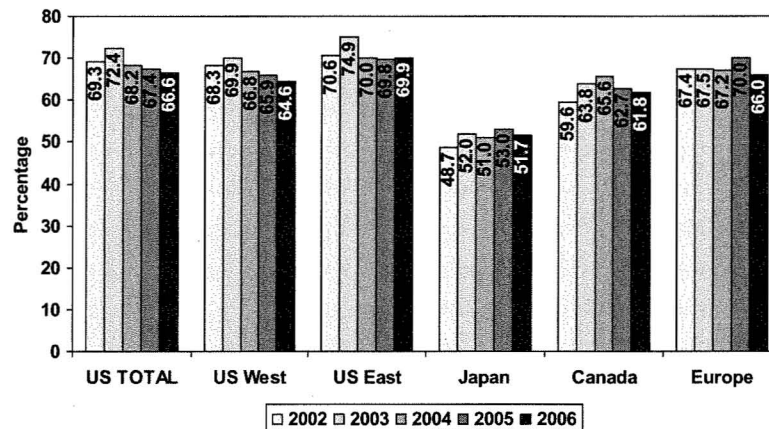
**Table 1: Visitor Industry Performance**

Visitor Statistics	2006	2007 Projections*
Visitor Expenditures	\$12.3810 billion	\$12.6970 billion
Visitor Days	69.216 million	68.488 million
Visitor Arrivals	7.561 million	7.540 million

\*Projections are based on DBEDT statistics using actual information from January - September and projections for the months of October, November and December 2007.

Source: Department of Business, Economic Development & Tourism

**Table 2: Visitor Satisfaction by select Major Market Areas**



Source: Department of Business, Economic Development & Tourism

**Table 3: Resident Sentiment Survey**

Another measurement of the State TSP is resident sentiments. An important question on the survey is listed below:

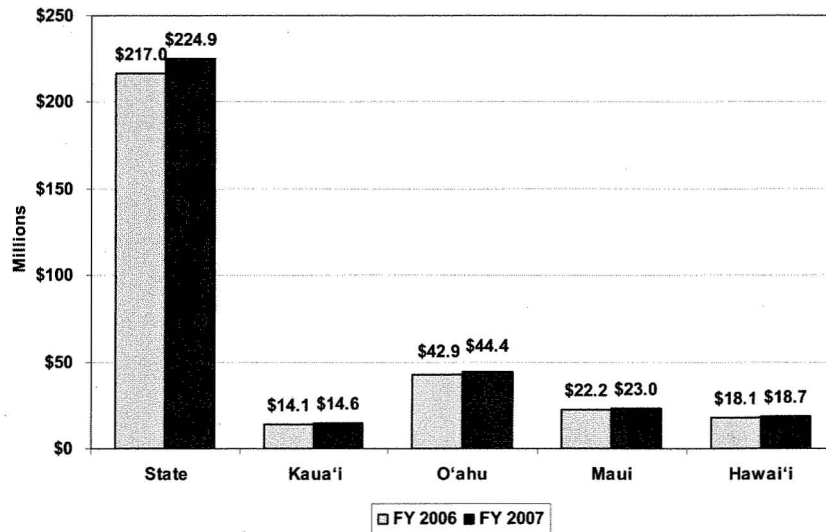
Do you agree or disagree: *“Overall, tourism has brought more benefits than problems to this island.”*

- Survey conducted in 2006 74 percent agree
- Survey conducted in 2005 71 percent agree
- Survey conducted in 2002 77 percent agree

Source: Market Trends Pacific, Inc., and John M. Knox & Associates

**Table 4: Comparison of TAT collections to the state and to each county for FY 06 and FY 07.**

Another measurement of the health of the visitor industry is the amount of TAT collections the state receives each month. The more TAT collected, the more benefits that are accrued to the state as a whole, to the individual counties and also to Hawai'i's residents. Below, is a breakdown of TAT collections to the state and to the counties for FY 2005 and FY 2006:



Source: Department of Business, Economic Development & Tourism

The following information demonstrates how the visitor industry contributes to Hawai'i's economy. In 2006, Hawai'i's Visitor Industry:

- Produced \$13.1 billion or 22.4 percent of Gross State Product;
- Accounted for approximately 219,900 jobs or 25.7 percent of total employment for the state; and

- Contributed \$1.37 billion tax dollars to the state and county government or 24.8 percent of total state and county tax revenue.

Besides the above indicators for Hawai'i's visitor industry, the HTA has also been reviewing the results from its various program areas in an effort to evaluate and improve their effectiveness.

**d. Discuss the actions taken by each program to improve its performance results.**

**Marketing.** To improve performance in marketing, HTA has undertaken the following activities:

- Initiated evaluation of its marketing partners through a "360" evaluation of their performance and programs which incorporated a self-assessment as well as comments by the industry and community. The results of this evaluation will lead to continuous improvement of their programs and reporting.
- Through a contract with TNS, conducted a new assessment of Hawai'i compared to its competition, with respect to preference of Hawai'i and its competitors in the MMAs. The results are continuously compared against the previous quarter to gauge consumers' attitudes about Hawai'i as a destination.
- Meet on an ongoing basis with stakeholders both in-state and abroad to talk about marketing issues, analyze trends, and plan future efforts.

**Sports Marketing.** To improve performance and results, the HTA conducted research to evaluate the 2007 Pro Bowl Game.

**Other.** To improve performance and results in other program areas, the HTA performed contract compliance and conducted ongoing meetings with partners in various program areas in the nine initiatives of the State TSP. These meetings have provided an avenue for networking, ongoing assessment and improvement of the program and problem-solving of various issues on a collective basis.

**e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

None.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

**1. Increased resources needed to successfully implement the State TSP.**

The State TSP describes a vision of Hawai'i's visitor industry in 2015 by Hawai'i's stakeholders in the community, government and the industry. In order to achieve this vision, 9 initiatives (each with its respective goal) were

identified that are vital to the long-term health and sustainability of the industry. They include but are not limited to:

- **Access:** To maintain and improve transportation access, infrastructure and services to facilitate travel to, from and within Hawai'i.
- **Hawaiian Culture:** To honor and perpetuate the Hawaiian culture and community.
- **Marketing:** To develop marketing programs that contribute to sustainable growth.
- **Natural Resources:** To respect, enhance and perpetuate Hawai'i's natural resources to ensure a high level of satisfaction for residents and visitors.
- **Safety & Security:** To achieve a safe Hawai'i visitor experience.

It is important to understand that the comprehensive nature of the State TSP has broadened the role and responsibilities of the HTA by identifying the HTA as the lead or support entity in all of the strategic initiatives, and has tasked the HTA with the responsibility for the overall management of this plan. As such, the HTA's present fiscal and staffing resources are insufficient to impact to any great degree the additional directives identified in this plan. Therefore, more resources are needed by HTA and other identified entities to successfully implement this plan.

## **2. Declining performance of Hawai'i's visitor industry in 2008 and beyond.**

In 2005 and 2006, Hawai'i's visitor industry saw record level performances in terms of visitor expenditures, visitor days and visitor arrivals. As of November 2007, year-end performance for CY 2007 is expected to be consistent with the industry's 2006 performance however, 2008 industry performance is forecasted to be soft as evidenced from reports by industry players in Hawai'i and to-date visitor arrivals down 2 percent from 2006. Areas of concern include:

- Decreased airlift to Hawai'i; and
- Decreased leisure and business marketing performance in North America and Japan.

### **b. Program change recommendations to remedy problems.**

#### **1. Increased resources needed to successfully implement the State TSP.**

To achieve the vision of the State TSP and the goals within each of the nine initiatives, HTA will undertake the following actions in CY 2008:

- Seek more resources for the agency from public and private sources;
- Enlist the help of others by strengthening existing and developing new partnerships;
- Advocate for more resources to its government counterparts including the State Department of Transportation, State Department of Land and Natural Resources, public safety and county agencies.

#### **2. Declining performance of Hawai'i's visitor industry in 2008 and beyond.**

To remedy this situation, HTA has taken the following steps during FY 2007:

- To support airlift to Hawai'i, HTA executives met with 15 airlines in the Japan, Asia, Oceania and North American markets to talk about this issue. Additionally, HTA, along with its marketing partners, invested in several airline cooperative programs to improve airlift to Hawai'i.
- To support marketing performance in North America, HTA convened a special November 2007 meeting. The purpose of this meeting was to allow HVCB to amend its Annual Tourism Marketing Plan and Budget for CY 2007 and CY 2008 by reallocating funds for authorized expenditures from 2008 to 2007. HVCB requested this allocation so that it could launch its Spring 2008 programs in January 2008 as a result of the softening in the marketplace.
- To support marketing performance in Japan, HTA, together with HTJ and the Japan subcommittee held meetings in Japan in September 2007 at the Japan Association of Travel Agents' World Travel Fair to talk about airlift from Hawai'i to Japan as well as the need for improvements to the state's airports and the arrival experience for Hawai'i's international travelers. As a result of these discussions, a new initiative, the Japan/Hawai'i Tourism Summit has been established. The summit will be made up of hotel, air, ground transportation, attraction and retail segments that will meet twice a year to discuss mutual areas of concern and ways to collaboratively resolve them.
- To improve business marketing efforts, HTA, through the HVCB's CMI Department appointed Shigeru Nishi, a long-time industry veteran, to a new position to strengthen the MICE market in Japan. Mr. Nishi will be working out of HTJ's office, taking direction from HVCB's MICE department.

In addition to the above, for CY 2008, the following will be investigated:

- Increased resources for airline development programs, leisure and business marketing efforts from public and private sources; and
- Legislation and other efforts to support industry partners.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Not applicable.

**4. Expenditures for FY08:**

	Act 213/ SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(2.00)				(2.00)	(2.00)
Personal Services	2,066,500	67,167			2,133,667	2,133,667
Current Expenses	85,613,500				85,613,500	85,613,500
Equipment						
Motor Vehicles						
<b>Total</b>	<b>87,680,000</b>	<b>67,167</b>			<b>87,747,167</b>	<b>87,747,167</b>
(Pos. Count) Special Funds	(2.00)				(2.00)	(2.00)
	87,655,000	67,167			87,722,167	87,722,167
(Pos. Count) Federal Funds						
(Pos. Count) Other Funds						
(Pos. Count) General Fund	25,000				25,000	25,000

- a. **Explain all transfers within the Program I.D. and the impact on the program.**  
None.
- b. **Explain all transfers between Program I.D.'s and the impact on the program.**  
None.

- c. **Explain any restrictions and the impacts on the program.**  
 Not applicable.

**5. Supplemental Budget Requests for FY09:**

	Appropriation FY 2006-07	Budget Adjustmer	Supplemental Request FY 2006-07
(Pos. Counts)	2.00)		(2.00)
Personal Services	2,200,000		2,200,000
Current Expenses	84,855,000		84,855,000
Equipment			
Motor Vehicles			
<b>Total</b>	<b>87,055,000</b>		<b>87,055,000</b>
(Pos. Counts)	(2.00)		(2.00)
Special Funds	87,055,000		87,055,000
(Pos. Counts) Federal Funds			
(Pos. Counts) Other Funds			
(Pos. Counts) General Funds			

**a. Workload or program request:**

None.

**b. For all position count reductions, please specify whether the positions were filled or vacant.**

None.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for FY09:**  
None.

**8. Proposed Lapses of CIP projects:**           None.



**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 113 XC – Tourism/Hawai'i Tourism Authority**

**1. Introduction:**

**a. Summary of program objectives.**

The objective of the Tourism program is to achieve a strong and sustainable tourism industry that values and perpetuates Hawai'i's natural and cultural resources, honors Hawai'i's people and heritage, and supports a vital economy.

With respect to the Hawaii Convention Center (HCC), the HTA's responsibility includes operating and marketing the center. Specifically, the HTA's efforts are to ensure that the center is operated as a world-class facility and that it attracts the kind of business meetings that contribute to revenue growth for the state.

**b. Description of program objectives.**

The objective of the HTA's program as it relates to the Hawai'i Convention Center is to provide for the marketing, management, use, operation, and maintenance of the convention center facility, and doing all the things that are necessary for the use of the facility as a commercial enterprise. Specifically, the HTA's focus with respect to the Center includes working with its contractor for the center – SMG – on the following:

- Increasing the effectiveness of marketing efforts to promote Hawai'i as a preferred destination for business tourism (to attend a meeting, convention, or incentive conference);
- Quality servicing of clientele through the facility's operating manager; and
- Continuing community relations efforts.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

During the upcoming fiscal year, the HTA will continue its oversight of the following:

- SMG's implementation of its 2008 and 2009 Annual Tourism Marketing Plans for the sales and marketing of the center to ensure maximum use of the facility; and
- SMG's management and operation of the center to ensure the facility is well-maintained, managed efficiently, and receives high ratings by users of the center through various mechanisms.

## 2. Program Performance Results:

### a. Discuss the performance results achieved by each program in FY07.

Management and operational highlights for CY 2007 are listed below:

- Recipient of Facilities Magazine's "Prime Site" award for the ninth consecutive year (1999-2007);
- Received Editor's Choice award from Facilitiesonline.com, the premier source for professional planners of conventions, meetings, entertainment, and special events;
- Awarded Scenic Hawai'i's Betty Crocker Landscape Award in the Professional Gardens Award of Excellence category for the Rooftop Terrace Garden;
- Recognized by the City & County of Honolulu with a Certificate of Merit in recognition and appreciation for its participation in the Tour de Trash recycling program;
- Established an international sales and marketing team with presence in Japan, China and Korea;
- Expanded market reach for the attendance-building program into Japan, Korea, China, and Australia; and
- Concentrated on Web-based marketing resources, most notably the new microsites that were developed to enhance the international attendance-building program.

The HTA continued its oversight of SMG's management of the facility which included the Client Survey Evaluation by users of the HCC. The Client Survey report reflected an excellent year-end average rating of 98 percent. Clients have consistently rated the facility and staff performance with excellent in most categories since the opening of the Center in 1998.

In terms of marketing, highlights from SMG's marketing activities for HCC for CY 2007 are listed below:

- Development of an International Attendance Building Program which creates opportunities and tools to build convention attendance;
- Partnership with Professional Convention & Meetings Association (PCMA) which provides HCC the opportunity to showcase Hawai'i as a premier meeting destination;
- Development of new advertising campaigns featuring the taglines of "Perfect Climate. Sudden Brainstorm." and "Alternate Energy Solution," and
- Collaboration with HVCB to joint-market and target the meetings industry using the successful tagline – *Where Business and Aloha Meet*. An innovative ad campaign was featured in various national meetings publications and a new Web site, [www.BusinessAloha.com](http://www.BusinessAloha.com), was launched. The Web site is an enhanced resource for those hosting conventions and meetings in the islands. Planners have access to a new tool, a meeting planning timeline with topics including reasons for selecting Hawai'i, ways to

combat Hawai'i's boondoggle perception, and increase productivity. HCC and HVCB continued to build Hawai'i's new brand positioning using the themes of "rejuvenation" and "inspiration" and joint advertising and marketing efforts. The call-to-action used by both teams in print and online advertising drove customers to the Business Aloha Web site.

Some of the major events held at the Center this year, are listed below:

- **IEEE Microwave Theory & Technology Society**  
International Microwave Symposium 2007  
Delegates: 10,000  
Room nights: 80,400  
Tax revenue: \$4.6 million
  
- **National Medical Association**  
2007 Annual Convention & Scientific Assembly  
Delegates: 5,500  
Room nights: 44,220  
Tax revenue: \$2.5 million
  
- **Chartered Property and Casual Underwriters Society**  
Annual Meeting & Seminars  
Delegates: 7,500  
Room nights: 60,300  
Tax revenue: \$3.43 million
  
- **American Society for Bone & Mineral Research**  
Delegates: 5,100  
Room nights: 41,004  
Tax revenue: \$2.34 million
  
- **Toyota Motor Sales, U.S.A., Inc.**  
Delegates: 7,500  
Room nights: 52,260  
Tax revenue: \$2.98 million

**b. Explain how these results relate to the program's objectives and department's mission.**

The maintenance and operation of a quality facility with quality service is the key to the objective of the program which is the marketing, management, use, operation, and maintenance of the convention center facility, and doing all the things that are necessary for the use of the facility as a commercial enterprise.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

In FY 2005, HCC commissioned a study by an independent market research firm – OmniTrak Group – to evaluate the economic impact of conventions held at the Center. The findings, presented in FY 2006, showed that the total direct

spending from HCC delegates, organizers, exhibitors, and their respective travel party was \$908.3 million. In addition to the economic benefits, HCC continued to provide benefits for the local community, serving as a venue for consumer shows, concerts, civic and educational events throughout the year. As a result of this study, the HTA has adopted a new goal – room nights – to measure the effectiveness of the sales and marketing of the center (as shown below):

**Room Nights (as of September 2007)**

	2006	2007*	2008*	2009*	2010*	2011*
<b>Room Nights</b>	544,007	545,883	455,327	944,749	698,021	640,834
<b>Goal</b>	700,000	700,000	700,000	700,000	700,000	700,000

\* 2004 and 2005 are final numbers.

\*\* 2006 through 2008 are forecasted numbers based upon pace and added pick up.

The HTA also developed qualitative and quantitative evaluation criteria to assess the performance of SMG’s efforts to maintain, manage and operate the center. In addition to receiving monthly reports from SMG, the HTA meets with the SMG to monitor issues concerning operations and budget.

**d. Discuss the actions taken by each program to improve its performance results.**

In 2005, SMG, in conjunction with the HTA and its industry advisory board adopted a new goal – room nights – to measure the effectiveness of the sales and marketing of the center. The three entities continue to meet on a regular basis to discuss various issues relating to marketing of the center. Additionally, HVCB and SMG Hawai’i continue to work together to enhance business marketing efforts.

On an ongoing basis, the HTA meets regularly with SMG to monitor issues relating to the marketing of the center. With respect to operations and management of the center, the HTA will continue to work with SMG to explore and enhance the HCC facilities to benefit the Center’s users and the community at large.

**e. Please identify all modifications to your program’s performance measures and discuss the rationale for these modifications.**

None.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

1. The Hawai’i Convention Center has been in operation almost 10 years. Based on historical patterns, it has been identified that the years ending in 2 and 3 are non-cycle years, HTA and SMG Hawai’i have identified that years ended in 2 and 3 fall outside the marketing cycle and as such, the years 2012 and 2013 are looking soft in terms of performance.

2. The Hawaii Convention Center is a world-class facility that is currently in its 10th year of operation. Ongoing maintenance and replacement is essential to implementing the various programs that are needed to reach the center's goals. To partially remedy this situation, Act 209, SLH 2006 was enacted in July, which allowed for the increase of deposits for HCC from \$31 million annually up to \$33 million. The additional funds will go towards maintaining the center at the level expected of a world-class facility. Additionally, \$1 million in CIP was also provided for the center through the budget bill. However, maintenance for the center is a concern that needs to be reviewed on an ongoing basis.

**b. Program change recommendations to remedy problems.**

1. To address the current situation, during FY 2007, SMG Hawai'i introduced a new and unique product - multi-lingual microsites designed to provide convention delegates access to agendas and messages, information about the center, and the ability to make reservations from break-out meetings to housing information, ultimately providing for ease of use and generating increased international attendance.

To remedy the issue described above, HTA, together with SMG Hawai'i and the HVCB will be putting more emphasis on the years 2012 and 2013 for booking the Hawai'i Convention Center. HTA will undertake the following actions in CY 2008 and CY 2009:

- Seek more resources for the center's marketing efforts from public and private sources;
- Enlist the help of others by strengthening existing and developing new partnerships; and
- Research on other efforts including possible legislation to support the center.

2. In addition to doing yearly maintenance for the center with current funds available, the HTA will continue to work with SMG Hawai'i to identify solutions to address this situation so that the center continues to be maintained at a high quality level.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Not applicable.

**4. Expenditures for FY08:**

	Act 213/ SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)					-	
Personal Services	172,805	6,126			178,931	178,931
Current Expenses	50,836,174				50,836,174	50,836,174
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>51,008,979</b>	<b>6,126</b>			<b>51,015,105</b>	<b>51,015,105</b>

(Pos. Count)	-				-	-
Special Funds	51,008,979	6,126			51,015,105	51,015,105

(Pos. Count)					-	-
Federal Funds					-	-

(Pos. Count)					-	-
Other Funds					-	-

(Pos. Count)					-	-
General Fund					-	-

- a. **Explain all transfers within the Program I.D. and the impact on the program.**  
None.
- b. **Explain all transfers between Program I.D.'s and the impact on the program.**  
None.
- c. **Explain any restrictions and the impacts on the program.**

**As applicable, provide a description of the impact of the transfers that have occurred within the program I.D. between the various cost elements, transfers occurring between different program I.D.'s, and restrictions imposed.**

Not applicable.

**5. Supplemental Budget Requests for FY09:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)			
Personal Services	200,000		200,000
Current Expenses	49,808,979	2,000,000	51,808,979
Equipment			
Motor Vehicles			
Total	<u>50,008,979</u>	<u>2,000,000</u>	<u>52,008,979</u>
(Pos. Counts)			-
Special Funds	50,008,979	2,000,000	52,008,979
(Pos. Counts)			-
Federal Funds			-
(Pos. Counts)			-
Other Funds			-
(Pos. Counts)			-
General Funds			-

**a. Workload or program request:**

- i. **A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.**

Addition of \$2,000,000 in the Convention Center Enterprise Special Fund Appropriation to provide for the increase in event bookings at the Hawai'i Convention Center.

- ii. **A listing/description of the positions requested, and funding requirements by cost category and source of funding.**

None.

- iii. **For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.**

The anticipated increase in event bookings will cause an increase in expenditures to execute the services and related food and other sundry requirements.

- b. **For all position count reductions, please specify whether the positions were filled or vacant.**

None.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for FY09:**

None.

**8. Proposed Lapses of CIP projects:**

None.



**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 150 KA – Hawaii Community Development Authority**

**1. Introduction:**

**a. Summary of program objectives.**

The Hawaii Community Development Authority (HCDA) was established in 1976 to plan and implement initiatives that increase economic, social/cultural, and environmental value in Community Development Districts (“CDD”) as assigned by the Legislature. HCDA plans and implements capital improvement projects to upgrade infrastructure and develop public facilities. HCDA also implements long-term planning initiatives to support the development of mixed-use communities that strengthen and diversify Hawaii’s economy while enhancing the quality of life for Hawaii’s people. In sum, with the support of the Legislature and stakeholders, HCDA strives to create *better communities for tomorrow*.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

The Legislature designated the Kakaako area as the first community development district, recognizing that it was relatively underdeveloped and underutilized. Furthermore, the Legislature determined that the redevelopment of Kakaako offered an exceptional opportunity to address the need for more housing, parks, open areas, and new commercial and industrial space in urban Honolulu. HCDA’s goal for Kakaako is to create a community that is attractive and safe, with provisions for housing, recreation, and places to work, shop and socialize; in short, a desirable place to “live, work, play, learn, and visit.” By combining public and private investment and resources, opportunities for community building and economic development can be maximized.

HCDA was empowered with comprehensive planning, development, and financing authority to implement a range of programs to bring the vision for Kakaako to fruition. Following an intensive five-year planning process, the Kakaako Community Development District Plan was adopted by HCDA in 1982. This Plan serves as the basis for guiding development activities in the revitalization of Kakaako. Plan implementation activities include: (1) improvements to infrastructure systems and improvement district assessment activities; (2) planning and regulatory functions in the administration of the plan and rules; (3) development of public facilities (parks, schools, community centers/amenities, parking garages, etc.); (4) relocation program functions; and (5) development of State lands.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

Implementation of Improvement District (ID) Projects:

HCDA will continue with its infrastructure improvements program which facilitates development in the District. The completion of each ID project brings infrastructure systems up to current standards for existing users and enables redevelopment of previously deteriorating areas. Numerous infrastructure improvement projects throughout the Kakaako District have been completed, and HCDA will continue this program during the upcoming supplemental year. One such project are repairs to the open channel and box drain culvert to ensure the structural integrity and proper operation of the system that receives storm water effluent from within and outside of the Kakaako District. Additional ID work in Kakaako, not part of the budget request, is required and being programmed in order to upgrade substandard infrastructure to accommodate future development and the needs of the public at-large.

Administration of Land Use, Zoning, and Other Regulatory Provisions of the Kakaako Plans and Rules Relating to All Development Activities in Kakaako:

HCDA performs regulatory functions to ensure that any development occurring in the District meets the provisions of the Kakaako Plans. HCDA will continue to work with the community, private sector and other governmental agencies to facilitate development in the Kakaako District. Development-related activities include the Keola La'i Project, which includes 63 reserved housing units at below market prices for Hawaii residents, under construction on the corner of Queen and South Streets. Also under construction is 909 Kapiolani, a mixed-use residential project at the corner of Ward Avenue and Kapiolani Boulevard. The Authority has approved several projects, including residential lofts in the currently dilapidated, and abandoned, NCR Building on Kapiolani Boulevard; the Moana Vista project also on Kapiolani Boulevard that will include a minimum of 124 price controlled 2-bedroom rental units and between 100 and 200 public parking stalls; and the Ward Village Shops development that will transform that area into a live-work-play mixed-use urban village. The last phase of the 404 Piikoi Planned Development Project for approximately 280 market and 64 "gap-group income" units is currently under review. Preliminary concept plans have also been reviewed for Halekauwila Place, a 196-unit affordable rental project sponsored by the Hawaii Housing Finance and Development Corporation.

With respect to State lands in Kakaako, HCDA continues to: monitor the population base for development of a school adjacent to Mother Waldron Park; participate with the High Technology Development Corporation in responding to House Concurrent Resolution (HCR) 218, H. D. 1, adopted by the 2006 Legislature; stabilize the historic Ala Moana Pump Station; coordinate with the University of Hawaii and Office of Hawaiian Affairs on their respective plans; and work, with the recently formed Community Planning Advisory Council ("CPAC") pursuant to HCR 30, to meaningfully participate in the redevelopment of the Kakaako Waterfront to establish a special people-oriented gathering place that will comply with the requirements of Act 231, Session Laws of Hawaii 2005, to establish a State Cultural Public Market within the Kakaako Makai Area.

Additionally, the State Department of Transportation-Harbors Division (DOT-H) informed HCDA that it will relinquish jurisdictional and management responsibilities at Kewalo Basin as soon as a transfer of management can be programmed. Initially, it had been contemplated that the selected developer under the Kakaako Waterfront Request for Proposal (RFP) would be assuming managerial duties coinciding with the turnover. However, the RFP was terminated by the Authority on June 7, 2006. Jurisdictional issues may need to be resolved by the upcoming Legislature prior to establishing a transfer program.

Revisions to the Kakaako Plans and Rules to Encourage Private Sector Development Activities and Maximize Attainment of Overall Community Development Objectives:

HCDA continually re-evaluates and revises the Plans and Rules to adapt to changing economic and social factors. The EIS is underway, and due for completion within the biennium, for a major overhaul of the Kakaako Mauka Area Plan and Rules to incorporate principles of "smart growth" that promote a mixture of uses, a variety of transportation options (walking, bicycling, public transit), and helps achieve Kakaako's vision of a "live, work, play, learn, visit" model community; be sensitive to, and address the needs of, small lot owners; and identify ways to improve and simplify the reserved housing program.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

In FY 2007, \$175 million was spent on new private developments within the District and \$98 million is expected in FY 2008. These investments represent a total of 1,000,000 square feet of new building floor area, the vast majority being residential space. Over this time, the number of permanent jobs in Kakaako also increased by approximately 196 due to increased business investment. During FY 2007, HCDA processed approximately 140 development permits for building repairs, renovations and small projects and is on track to issue 100 more in FY 2008. Additionally, over the next two fiscal years, approximately \$1.6 million on new public improvements, mostly for improvements to open channel and box drain culvert adjacent to Kakaako Waterfront Park, will be expended in the District.

Construction of improvements to Ahui, Ohe, and Olomehani Streets began in early 2005 and have been recently completed. Various tenants have already relocated and the relocation of Honolulu Marine to Keehi Small Boat Harbor, pursuant to Senate Concurrent Resolution 134, S. D. 1, H. D. 1, adopted in the 2005 Regular Session, is pending. This project will help to provide improved access to recreational areas on what will eventually be a continuous promenade running from Ala Moana Boulevard to the ocean, as well as allow HCDA and its CPAC to better plan for the future.

During this period the research portion of UH JABSOM, between Cooke and Keawe Streets, Mauka of the Kakaako Waterfront Park and Makai of Ilalo Street, was completed. This new facility will be a major component in the

redevelopment of the Makai Area, not only providing employment for hundreds of local workers, but also spawning a new biomedical industry for Hawaii's economy. Kamehameha Schools, which owns adjacent lands in the Kakaako Makai Area, has announced selection of a developer for a facility called the Asia Pacific Research Center that will complement the UH JABSOM project. UH also has plans to develop the Cancer Research Center of Hawaii (CRCH) on lands immediately Ewa of UH JABSOM as well as build Phase II of UH JABSOM to include a Regional Biosafety Laboratory to serve not only the State, but the entire Pacific region.

**b. Explain how these results relate to the program's objectives and department's mission.**

The goal of HCDA is to revitalize Kakaako through the joint efforts of the public and private sectors while addressing the need in urban Honolulu for more housing, new commercial and industrial space, and parks and other public facilities. The performance results indicate that HCDA has made, and will continue to make, significant progress towards meeting its goals.

Furthermore, these results support each of the Department of Business, Economic Development and Tourism's (DBEDT) six strategic objectives. Creation of *workforce housing and development of the urban core* is clearly occurring. Production of new jobs, providing a place for those trained in *workforce development* programs to obtain employment, and encouraging the *export of goods and services* are all taking place. Incorporation of energy, water and other environmental standards into development plans, and ultimately Hawaii Administrative Rules, contributes to DBEDT's *energy for tomorrow* objective. HCDA also works to *improve the small business environment* by communicating what resources are available, focusing resources/energy on this category of business, as well as by upgrading the physical environment to allow entrepreneurship to occur and add toward Hawaii's *innovation infrastructure*.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

Measures of effectiveness include: value of new private developments; amount of new building floor space; number of new housing units; and number of new public facilities. Program target groups include residents, employees and businesses. Program activities measured include: number of development permits issued; number of infrastructure improvement projects begun; and value of new public improvements.

Performance results indicate that each measure was met or exceeded with the exception of those linked to the cancellation of HCDA's waterfront development plans and ID-11.

**d. Discuss the actions taken by each program to improve its performance results.**

Revisions in the Kakaako Plan and Rules for the Mauka Area are to encourage private sector development activities and help address the need for more housing, public facilities, and new commercial and industrial space in urban Honolulu started in earnest in FY 2006. These amendments, incorporating community and stakeholder input, are intended, as discussed above, to incorporate principles of "smart growth"; address small lot development; and identify ways to improve the reserved housing program. Additionally, initiatives are underway to develop a comprehensive public facilities plan/schedule as well as a program order and scope for future, necessary ID projects.

**e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

None.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

1) Infrastructure

Many parts of the infrastructure system in Kakaako were built some 60 to 75 years ago and are therefore inadequate for today's development requirements. To accommodate new development projects in Kakaako, the existing roadways, sewer, water, drainage, electrical, and communications systems must be improved.

The substantial cost of improving the infrastructure has inhibited redevelopment of the area in the past and continues to be a major factor affecting redevelopment in the unimproved areas of the District. While government, property owners, and the public utility companies share the total cost of the improvements, a substantial portion of the cost is for improvements that benefit the public in general and, accordingly, must be paid for by government. The continuation of the improvement program, therefore, is contingent upon continued capital improvement appropriations by the Legislature.

ID projects are undertaken by HCDA to upgrade outdated infrastructure systems within Kakaako. Side effects of these projects include noise, dust and difficult access on a day-to-day basis, which adversely affect both residents and businesses. HCDA has been working, and continues to work, with the Kakaako community to develop methods to lessen the negative impact of these projects. A major unresolved concern with ID projects are the assessments that State law, HRS Section 206E-6(b), in which the Authority is required to determine the cost to be assessed to specially benefiting property owners. To address this issue that arose during the ID-11 public hearings, the Authority agreed to cap assessments at the same level that property owners paid in past IDs and implement a sliding scale formula whereby large landowners, who have the most potential redevelopment benefit, receive no discount, and small landowners, who have the least potential redevelopment

benefit under existing Rules, receive the largest discount. This proved to still be inadequate for the landowners so the issue is yet to be resolved.

## 2) Kakaako Waterfront

One of the major activities that HCDA is currently undertaking is the development of a new overall plan for the Kakaako Waterfront lands included in the Waterfront RFP issued in January 2005. Since cancellation of the RFP in June 2006, the Authority has decided to establish a three-phase community participatory planning process. Until that process is completed, HCDA does not envision any activity in the Waterfront lands (defined by the 2006 Legislature in HCR 30, H. D. 1, S. D. 1, as "the area makai of Ala Moana Boulevard, between Kewalo Basin and the University of Hawaii, John A. Burns School of Medicine"), except month-to-month leases, that would foreclose future possibilities that the CPAC, and ultimately, the Authority, might wish to consider. Other Makai Area developments, for instance Phase II of the UH JABSOM and the CRCH continue in planning. The private commercial development proposed by Kamehameha Schools as well as the Office of Hawaiian Affairs proposal to build its headquarters and a Hawaiian Cultural Center on Waterfront lands adjacent to Kakaako Waterfront Park also continue in planning.

## 3. Mixed-Use District

The Legislature designated the Kakaako Community Development District as a mixed-use district with industrial, commercial, residential, and public uses coexisting in the same area. When development projects occur in mixed-use areas, existing problems resulting from the proximity of uses are often exacerbated. The challenge goes beyond conflict of use, but timing, and market economics. To address some of these issues, particularly those experienced by small lot owners, the Authority formed a Task Force to identify ways the Authority can support existing businesses while at the same time looking proactively to the future by evaluating prototypical developments that would help small landowners.

### **b. Program change recommendations to remedy problems.**

To address the complaints of area landowners who are impacted by assessments under HRS Chapter 206, the Legislature could either choose to: (1) fund all or most of all necessary improvement work itself, or (2) allow community development districts to utilize the Tax Increment Financing (TIF) mechanism that is provided for in HRS Sections 46-101 thru 46-113. Tax increment financing is a tool that governments use to publicly finance needed structural improvements and enhanced infrastructure within a defined area. The additional tax revenue that is received from the affected properties is referred to as the tax increment. In this way, future property tax revenues pay for part of the public improvements, thus supporting the growth and development of the specified area without having to pay additional assessments for the public improvements. TIF is the most logical, cost effective, and well-used mechanism for funding redevelopment in other redevelopment districts on the U.S. mainland. Typically, a portion of the tax revenue that is attributable to the increase in property values due to the improvements within the reinvestment zone is

dedicated toward funding the redevelopment of that area. General excise tax could also be used in a TIF structure, or a portion of the general excise tax generated in the District could be allotted to fund future improvements. The bigger obstacle to TIF is political.

- c. **Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

None.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(2.00)				(2.00)	(2.00)
Personal Services	177,183	5,664			171,847	171,847
Current Expenses	456,461				456,461	456,461
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>633,644</b>	<b>5,664</b>			<b>628,308</b>	<b>628,308</b>
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds	450,000				450,000	450,000
(Pos. Count) General Fund	2.00 183,644	5,664			2.00 178,308	2.00 178,308

- a. **Explain all transfers within the Program I.D. and the impact on the program.**

None.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

None.

**c. Explain any restrictions and the impacts on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

None.

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(2.00)		(2.00)
Personal Services	177,229		177,229
Current Expenses	456,461		456,461
Equipment			
Motor Vehicles			
Total	<u>633,690</u>		<u>633,690</u>
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds	450,000		450,000
(Pos. Counts) General Funds	(2.00) 183,690		(2.00) 183,690

**6. Program Restrictions:**

None.



**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:**  
**CIP data for all projects within the agency being heard shall be combined into a single appendix in the department's testimony (if no request is being made, please indicate "none").**

None.

**8. Proposed Lapses of CIP projects:**

<u>Project Title</u>	<u>Act/Yr</u>	<u>Item No.</u>	<u>Amount</u>	<u>MOF</u>	<u>Justification to Lapse the Project</u>
KAKAAKO COMM DEV, QUEEN ST IMP, OAHU- CON	A177/SL 02	5-A017A	\$4,726,568	C	Project cancelled
KAKAAKO COMM DEV, QUEEN ST IMP, OAHU - DES	A177/SL 02	5-A017A	\$133,685	C	Project cancelled
HCDA – CIP staff costs – various appropriations from prior years	A160/SL 06	5A010	\$367	C	Not required
	A178/SL 05	85-A010	\$2,610	C	Not required

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 150 KL – Hawaii Community Development Authority  
(Kalaeloa)**

**1. Introduction:**

**a. Summary of program objectives.**

The Hawaii Community Development Authority (HCDA) was established in 1976 to plan and implement initiatives that increase economic, social/cultural, and environmental value in community development districts as assigned by the Legislature. HCDA plans and implements capital improvement projects to upgrade infrastructure and develop public facilities. HCDA also implements long-term planning initiatives to support the development of mixed-use communities that strengthen and diversify Hawaii's economy while enhancing the quality of life for Hawaii's people. In sum, with the support of the Legislature and stakeholders, HCDA strives to create *better communities for tomorrow*.

Act 184, Session Laws of Hawaii 2002, designated the former Barbers Point Naval Air Station (BPNAS) in Kalaeloa as a new community development district under HCDA. This Act transferred the responsibilities for the redevelopment of the former base from the Barbers Point Naval Air Station Redevelopment Commission (BPNAS-RC) to HCDA and repealed the BPNAS-RC's enacting legislation, effective July 1, 2002. Recognizing the development potential of the former BPNAS 3,600+ acres, HCDA has adopted a Master Plan to transform Kalaeloa into a model community that will create new jobs, nurture new businesses, and provide much-needed housing and public facilities for the people of Hawaii.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

HCDA's goal in the Kalaeloa Community Development District (Kalaeloa) is to create an economically viable, environmentally sensitive, and socially vibrant community that will contribute to the well-being of the community and to Hawaii as a whole. To achieve this goal, HCDA will seek to encourage and develop active uses of the land in the Kalaeloa District.

The development of Kalaeloa has stalled, in part, because of a lack of federal, state, and county government commitment to the area. The viable land use plan, setting zoning, and beginning infrastructure improvements are critical to demonstrate a commitment to the region and to encourage private development. HCDA will work closely with government agencies, legislature, city council, and private developers to forge public/private partnerships.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

In the Kalaeloa Strategic Plan, HCDA identified a mission statement to lead a sustained, long-term public/private commitment for the realization of Kalaeloa as a Center for Excellence through *partnerships, planning, advocacy, and stewardship*. Most of the land in Kalaeloa will be owned by various government entities. Approximately half of the Navy-retained lands and some of the lands owned by the Department of Hawaiian Home Lands (DHHL) will likely be available for private development. The landownership scenario presented in Kalaeloa calls for HCDA to focus its efforts on facilitating and coordinating redevelopment efforts by, and among, the various stakeholders.

Implementation of the Kalaeloa Master Plan:

A 20-year horizon Kalaeloa Master Plan (Master Plan) was approved in August 2006 and now must be implemented. The next steps include promulgation of Hawaii Administrative Rules (Rules) and various infrastructure planning efforts. With regard to the first, community input is needed to delineate goals, objectives, and guidelines for Rules, which will then be followed by detailed language. With regard to infrastructure, a key area of necessary study is drainage. This, along with preliminary conceptual design of new roadways, is necessary.

Safety Improvements:

A litany of life safety needs has been identified in the District that is critical to counteract the real and perceived lack of Federal, State, and county government commitment to the area. This high-impact, high-touch initiative will demonstrate tangible progress, enhance public health/safety, and encourage private development. HCDA has, and will continue to, work closely with government agencies and private developers to forge public/private partnerships in this regard.

Coordination with Stakeholders

Given the landownership distribution within Kalaeloa, a key strategy is maintaining close coordination with key stakeholders: Navy, City and County of Honolulu (City), DHHL, Department of Transportation, etc. In other base closure situations, having the Local Reuse Authority controlling a significant amount of land is a critical success factor; thus, the logic to acquire lands to be brokered by the Navy in order to provide a better development product/greater public benefits, including more workforce housing.

Further, given the proximity of Kalaeloa within the Ewa/Leeward region, development strategies involve highlighting potential opportunities in Kalaeloa to attract developer interest in high-tech, alternative energy, research, transit, and transit-oriented development. Community support is central to any successful development project so utilizing HCDA's unique statutory authority to expedite development programs as well as maintaining close contact with community via HCDA's Kalaeloa Field Office provides such opportunities.

In Kalaeloa, a large part of HCDA's role will be to coordinate the timing of redevelopment projects with the various stakeholders to maximize the efficacy of the overall development program.

## **2. Program Performance Results:**

### **a. Discuss the performance results achieved by each program in FY07.**

Two major areas that the BPNAS-RC did not address were tackled by HCDA during FY07: (1) the fact that the Barbers Point Naval Air Station community reuse plan was actually a landownership plan, and not a redevelopment plan since it only notionally discussed the potential for strong economic development anchors and therefore does not substantially contribute to the successful redevelopment of the District; and (2) that not all lands within Kalaeloa were included as the redevelopment commission only had authority over the lands that were subject to Base Realignment and Closure (BRAC) disposal. In August 2006, the Governor approved the Kalaeloa Master Plan which updates the BPNAS Community Redevelopment Plan.

In March 2007, the Navy decided that an aircraft carrier would not be stationed in Hawaii. This lifted much of the Navy's hesitance to move forward on land conveyances. HCDA continued the activities necessary to facilitate the conveyance of surplus Navy properties with greater consideration given to the economic development potential of the District. HCDA measured performance by the number of parcels actively used and new private development within Kalaeloa. In 2005, DHHL had 20 tenants on its property in Kalaeloa, by 2007 DHHL now has 32 active leases. With the aircraft carrier decision out of the way, the Navy also began a short-term leasing program of 25 vacant parcels. The objective of the program was to place more people in Kalaeloa to help fight vandalism. With the monies from the short-term leasing program, the Navy would then also be able to upkeep its properties. In 2007, the Navy had leased out five of its vacant parcels.

In August 2006, HCDA contracted with Townscape, Inc. for the preparation of the Kalaeloa Community Development District Administrative Rules. The Rules, upon adoption, will supersede all other inconsistent ordinances and rules on the use, zoning, building, planning and development. HCDA formed the Kalaeloa Advisory Team made up of various community leaders, government agencies, and area stakeholders to assist in developing the Administrative Rules for the district.

A Kalaeloa field office was opened in May 2006. This field office has helped to increase HCDA presence in Kalaeloa. Thus, has resulted in better communication among various stakeholders. A direct result is in the formation of the Kalaeloa Public Safety (KPS) Group and Kalaeloa Community Network (KCN) Group.

The KPS has been focusing on safety and the reduction of illegal activity throughout the district. Through the coordination of Honolulu Police Department, Department of Transportation, City Department of Transportation Services, Navy

Public Safety Office, and U.S. Coast Guard working together in the Kalaeloa Public Safety Group, the group was able to accomplish a lot in the short amount of time. In August 2006, the Department of Transportation included Roosevelt Avenue, Enterprise Avenue and Coral Sea Road on the State Highway System. These roads can now be maintained and improved with State and Federal Funds. DOT and DTS have both restriped areas for crosswalks, edge lines, and lane dividers providing safer roadways. By the end of 2006, homeless people had set up encampments on White Plains Beach which became a problem. In August 2007, the KPS working with the City Parks Department, DLNR, US Navy, State Sheriffs and Hawaiian Humane Society was able to clear the beach for the public's use and enjoyment.

The Kalaeloa Community Network Group consists of various public and private stakeholders located in Kalaeloa. The group completed a joint beautification project at the intersection of Fort Barrette and Roosevelt Avenue. Though it was a small community project, it included landscaping, removing unused poles and signs and also removing graffiti. This group has also empowered the private sector to help maintain the area. For instance, Haseko cut back overgrowth of brush area protruding into Essex Road and the Kalaeloa Rental Homes demolished the ride share shelter which over the months had attracted illegal activities. The DOT has also removed overgrowth on Enterprise Avenue.

The Governor also opened another transitional shelter at Kalaeloa in October 2006. The facility houses 200 people of which half are children. Another building is currently being renovated to house more of the homeless. The transitional shelters have garnered much attention from the media, which has helped to introduce the Kalaeloa area to the general public.

**b. Explain how these results relate to the program's objectives and department's mission.**

HCDA's objectives for Kalaeloa are to provide the long-term planning and infrastructure necessary to develop Kalaeloa into an economically viable, environmentally sensitive, and socially/culturally vibrant community.

The performance results listed above indicate that Kalaeloa is slowly becoming a place where people can gather. Getting people into the area is a major improvement from the vacant ghost town in previous years.

The Kalaeloa Master Plan supports the Department of Business, Economic Development and Tourism's (DBEDT) *urban core development* strategic objective. Additionally, opportunities have been created for *workforce housing*; job creation in small and large businesses, *export* as well as service oriented; establishing an *innovation environment* for high technology and alternative energy sectors, including incorporation of the Leadership in Energy and Environmental Design standards into development plans in support of DBEDT's *energy for tomorrow* strategic objective. Further, the Master Plan provides for protection of open space, shoreline access, and the preservation of Kalaeloa's rich cultural and natural resources.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The measures of effectiveness that HCDA established to measure performance include: number of actively-used parcels within Kalaeloa; and new private development within Kalaeloa. Program target groups include landowners and residents. Program activities include: number of parcels covered by the economic development plan; new planning initiatives in Kalaeloa; the number of parcels and infrastructure systems conveyed in Kalaeloa; and number of projects completed and occupied in Kalaeloa. The details of the results achieved are listed in subsection a.

The Kalaeloa Master Plan's success will be measured by implementation of its flexible land use framework for mixed-use development and improved connectivity to surrounding communities. HCDA is currently going through the process of establishing Administrative Rules for the area.

- d. Discuss the actions taken by each program to improve its performance results.**

In 2006, HCDA established a field office to enhance its presence in the District. This, along with a regular monthly public safety meeting and a regular monthly community network meeting, has greatly improved communication and critically, provided a forum to respond to concerns and complaints concerning the District. While proper maintenance of Kalaeloa properties is an ongoing challenge, HCDA is very focused on working with stakeholder to improve performance.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

HCDA has requested that one of its measures of effectiveness, "number of actively-used parcels in Kalaeloa," be changed to "number of new actively-used parcels in Kalaeloa." This change is proposed in order to focus on the incremental impact of HCDA's activities.

### **3. Problems and Issues:**

- a. Discussion of problems and issues encountered, if any.**

1) Infrastructure

The entire area is characterized by substandard infrastructure systems, including water, wastewater, electrical, communications, drainage and roadways. Most of the land in Kalaeloa has been awarded through a public benefit conveyance process, but several parcels are still pending landownership designation. In addition, many of the parcels that have been awarded have not yet been conveyed, and approximately 1,055 acres have been retained by the Navy, some of which are planned for lease/sale to fund the redevelopment of Ford Island.

Kalaeloa's existing infrastructure systems do not meet county code. Drainage is a particular concern since Kalaeloa utilizes only percolation and a limited system of swales and drywells to address drainage. As this method of drainage does not meet City standards, either an upgrade of the drainage system or a modification of City requirements for the area is necessary. The condition of roads is another major problem - potholes, faded signage, lack of sidewalks/pedestrian amenities, faded striping, etc. Water, electrical and wastewater systems are also substandard. The lack of funding to provide the needed infrastructure is a problem.

## 2) Master Plan

Among the factors influencing development in Kalaeloa are: market demand and trends, responding to Administration or legislative priorities - i.e., homeless, alternative energy, and so on - and changes in surrounding public and private development projects University of Hawaii (UH) West Oahu, mass transit, DHHL, etc.

## 3) Restricted Land Uses

Under the 1993 BRAC process, the BPNAS-RC determined how the Federal government could transfer the land to the State and local governments and chose to have all surplus Navy lands conveyed under a public benefit conveyance. Under this type of conveyance, the local government entity applying for a specific parcel is sponsored by a Federal government agency. The property is then transferred from the Navy to the Federal agency, and finally from the Federal agency to the local agency. When the Federal agency transfers the parcel to the local agency, the Federal agency places deed covenants on the property that specify that the land can only be used for the designated public purpose for a period of up to 30 years.

As such, while HCDA can change zoning and land use designations to foster redevelopment, the deeds of the parcels conveyed through the process may have significant land use restrictions. For parcels that have yet to be conveyed, HCDA can still pursue an economic development conveyance (EDC) from the Navy, which would allow for commercial uses on the parcels, instead of them being limited to public facilities use. However, the EDC process is lengthy and time-consuming, and it is not yet clear whether such an approach for any of the remaining parcels would be advantageous for Kalaeloa. In addition, the Department of Defense could dispose of its surplus holdings via negotiated sales rather than EDCs. Another possibility is to purchase the brokered lands and then partner with the private sector to effectuate timely development.

## 4) Endangered Species

There are several areas in Kalaeloa that are habitats for the endangered plant, *Chamaesyce skottsbergii* or 'akoko. As State law forbids the "taking" of any endangered species, redevelopment of certain areas could be hindered.

HCDA is committed to determine ways to preserve the 'akoko and still create an economically viable community.

5) Archaeological Sites

Kalaeloa contains several areas with archaeological sites determined by the State Historic Preservation Office to be significant and which must be preserved. As with the 'akoko, HCDA has incorporate these archaeological sites into its overall Master Plan for the area.

6) Disposition of Navy "Brokered" Lands

During the BRAC process for BPNAS, 1,055 acres were retained by the Navy. Of this amount, 675 acres were set aside as part of the special, Federally-legislated Ford Island Master Development project whereby these lands would be brokered for sale with the proceeds used to support redevelopment activities on Ford Island. Approximately 176 acres of land and the housing units on them have been conveyed to Ford Island Properties as part of the Navy's agreement with Hunt – the private company chosen for the Ford Island development. Subsequently, two of the three housing areas were sold to another company, Carmel Partners Inc.

House Resolution 5122 was passed by the U.S. Congress on September 30, 2006, and was signed into law on October 17, 2006, as Public Law No. 109-364. Section 2841, Land Conveyance, Naval Air Station, Barbers Point, Hawaii requires the U.S. Navy to enter into a binding agreement for the conveyance, sale, or lease of the balance of the brokered land (approximately 499 acres), by September 30, 2008.

7) Lack of Funding

When the 2002 State Legislature transferred redevelopment responsibility for Kalaeloa to HCDA, it provided only for an expenditure ceiling for the Kalaeloa Community Development Revolving Fund and transfer of a very small fund balance. Since then, HCDA implemented a system in which it assesses land users at Kalaeloa for operating expenses, which it did once in 2003. Although collection of assessments has proven difficult since nearly all of the landowners are State or City government agencies, HCDA is seeking assessments from landowners in the upcoming biennium. The total annual amount, \$196,660, represents the budget for Kalaeloa District operations in FY07 and FY08 fiscal years. Thus far, only \$ 60,209 has been collected for FY 08. Unfortunately, until the Administrative Rules are in place HCDA does not have the leverage to collect on monies owed to us.

The 2007 legislature appropriated \$250,000.00 for life safety projects in Kalaeloa. Though the appropriation fell severely short of HCDA's original request of \$1.1 million, HCDA will continue to work with all stakeholders to address all of life-safety projects needed for the district. The \$1.1 million included lighting and traffic calming measures for areas were fatalities already occurred, walkways to allow district users to get off the roadways as they walk to the bus stops to get to work, and removal of overgrowth in the



area. Currently, HCDA is working to get the \$250,000.00 released this year, so we can move forward on the critical issues that can be addressed within the appropriation.

8) Environmental Issues

The use of the lands at Kalaeloa over the years as a military base has resulted in substantial levels of environmental contamination from lead and other hazardous substances in certain areas. While the Navy is responsible for re-mediating environmental contamination before it transfers properties, restrictive covenants may be placed on these properties, limiting the amount of development that can occur. This is an issue which HCDA must be mindful when proceeding with redevelopment activities.

9) Maintenance of Kalaeloa Properties

HCDA has received numerous complaints from the community about deteriorating conditions within Kalaeloa. The community is concerned that dry, overgrown grass is contributing to brushfires in the area, and that rubbish is left strewn about various properties. Other major problems include trespassing, theft, and vandalism. The landowners, all of whom are public agencies, explain that they do not have the funding necessary to maintain their properties at a higher level or to constantly monitor their tenant's condition/use of those properties. However, the aforementioned regular monthly public safety and community network meetings, has greatly improved communication and a forum for action to respond to concerns and complaints within the District.

These meetings resulted in maintenance funding request by other state and city agencies to address concerns in their upcoming budgets.

**b. Program change recommendations to remedy problems.**

HCDA is proposing legislation that establishes more "teeth" with regard to addressing maintenance issues. It is hoped that this more proactive approach will help to encourage better maintenance of properties in Kalaeloa.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

The major issues and problems that could affect implementation of the program are as identified previously, with an emphasis on proper funding.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)						
Personal Services	127,020	4,337			131,357	131,357
Current Expenses	200,000				200,000	200,000
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>327,020</b>	<b>4,337</b>			<b>331,357</b>	<b>331,357</b>

(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds	200,000				200,000	200,000
(Pos. Count) General Fund	127,020	4,337			31,357	131,357

**a. Explain all transfers within the Program I.D. and the impact on the program.**

None.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

None.

**c. Explain any restrictions and the impacts on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

None.

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)			
Personal Services	127,020		127,020
Current Expenses	200,000		200,000
Equipment			
Motor Vehicles			
Total	327,020		327,020
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds	200,000		200,000
(Pos. Counts) General Funds	127,020		127,020

**6. Program Restrictions:**

**Identify restrictions carried over from FY08 as well as additional reductions due to Department of Budget and Finance budget ceilings for FY09. If no reduction is being proposed, please indicate "none."**

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009: CIP data for all projects within the agency being heard shall be combined into a single appendix in the department's testimony (if no request is being made, please indicate "none").**

Funds for three CIP projects are requested. The proposed FY09 Supplement Budget includes an \$850,000 general obligation bond fund request for Kalaeloa safety improvements.

Kalaeloa Safety Improvements, Oahu

Plans, design, construction, and equipment to install life safety infrastructure in Kalaeloa. Projects may include: traffic signals, demolition, markings, signage, emergency call boxes, and lighting.

Financial Requirements by Project Phase and Means of Financing.

(Thousands of Dollars)		
Cost Element	FY 2009	MOF
Plans	\$ 49	C
Land		
Design	49	C
Construction	376	C
<u>Equipment</u>	<u>376</u>	<u>C</u>
TOTAL\$	850	C

Explanation and Scope of Project.

The CIP appropriation of \$850,000 in general obligation bonds (C) is required for plans, design, equipment and construction to install life safety infrastructure in Kalaeloa. Projects may include: traffic signal installation, demolition, markings, signage, call boxes, warning mechanisms, contracted security, closure of non-essential areas/roads, and lighting/landscaping to enhance public health, safety and security.

Justification for the Project.

The quality of infrastructure in Kalaeloa is dire. Since becoming open to the public, roadways, parks, beach areas, and other publicly accessible areas have fallen into disrepair resulting in illegal activities, vandalism, arson, and motor vehicle accidents (with several fatalities). Funding for improvements is necessary to respond to the need for maintenance and public safety especially as use of the area increases.

Senate and House District for the Project.

Senate District 19; House District 40.

**8. Proposed Lapses of CIP projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 151 AT - Aloha Tower Development Corporation**

**1. Introduction:**

**a. Summary of program objectives.**

The Aloha Tower Development Corporation (ATDC) is charged with overseeing developments within the waterfront area of the Honolulu downtown business district. The jurisdictional boundary includes lands adjoining Piers 5 and 6, and Piers 8 to 23 in Honolulu Harbor.

The ATDC is also authorized under its enabling statute, HRS Chapter 206-J, to plan, develop or redevelop lands located seaward of Nimitz Highway between Pier 4 and the Honolulu International Airport. In FY 06, the ATDC began working in partnership with the Department of Transportation, Harbors Division (DOT-H), to expedite implementation of selected harbor infrastructure projects in Honolulu Harbor.

In 2007, the Legislature adopted Act 127, which authorizes the ATDC to formally partner with the state Department of Transportation for the development of Honolulu Harbor infrastructure projects on an expedited basis to meet the critical demand for harbor expansion and upgrades. Governor Lingle signed Act 127 into law on June 4, 2007.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

ATDC has the statutory mandate of redeveloping, renovating, and/or improving the Aloha Tower Complex to: (1) strengthen the international base of the community in trade activities; (2) enhance the beautification of the waterfront; (3) improve modern maritime uses in concert with the Department of Transportation (DOT); and (4) provide for public access and use of waterfront property.

Proper development will result in the Aloha Tower Complex serving as a stimulus to enhance commercial activities within the downtown business district and help transform the waterfront urban core into a "people place." In addition, the infusion of new capital for the project will further stimulate the local economy as well as the construction industry and provide new jobs.

A major program objective is to attract investment capital to the downtown waterfront. The first phase of the Aloha Tower Complex was completed without any State funds. In addition, the developer provided public improvements such as the interim cruise ship facilities and refurbishment of Aloha Tower at no cost to the State. ATDC continues to pursue this strategy for the development of future phases.

Another program objective is to update the development and financial plan for the Aloha Tower Project Area through cohesive planning and the identification of

short-term, mid-term and long-term projects. The planning process will culminate in a comprehensive update to ATDC's Hawaii Administrative Rules.

As part of the development planning process, ATDC prioritizes public outreach and communication to bring the various interests and multiple jurisdictions in the harbor together to work towards mutual gain.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

In FY 07, the ATDC Board of Directors approved development rights to UC URBAN to develop a commercial mix use condo-hotel project at Piers 5 & 6 in the Aloha Tower Complex, subject to successful negotiation of a Development Agreement and Ground Lease. The project will not require the infusion of any state funds and meets the ATDC's objective of attracting investment capital to the downtown waterfront. ATDC has worked towards execution of the Development Agreement and Ground Lease and hopes to commence construction of the project in the fiscal biennium.

Another private investment in the Aloha Tower Complex Area is a project by New World Divers to construct a world-class diving facility off the water's edge at Piers 5 and 6. The developer has had difficulty in securing financing for construction although all other pre-development requirements have been met.

Update of the development and financial plan for ATDC is another objective to continue in the supplemental year. In furtherance of this goal, the ATDC's planning consultant will begin a comprehensive review of the ATDC Development Plan and the Hawaii Administrative Rules. Public outreach and community planning on the preferred development plan for the area and the drafting of updated plans and rules will be an implementation objective in the supplemental year.

The ATDC partnered with the DOT-H in FY 06 and was assigned the lead to expedite implementation efforts to develop selected harbor infrastructure projects in Honolulu Harbor. The Hawaii Harbors Task Force initiated several short-term projects targeted for completion in FY08, although redevelopment of the former Kapalama Military Reservation into the new Kapalama Container Terminal is expected to continue beyond FY08.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

**Aloha Tower Project Area**

- The Aloha Tower Marketplace showed improvement attaining near 100% occupancy in FY06 and tenant revenues up approximately 9.5% over revenues generated in 2005.
- The ATDC approved development rights to UC URBAN in FY 08 for the development of a commercial mix use condo-hotel project at Piers 5 & 6 in the Aloha Tower Complex, subject to successful negotiation of a

Development Agreement and Ground Lease. The development documents and project structure have been completed although the compensation value to the State and resolution of parking issues remain outstanding. ATDC retained Special Legal Counsel and a real estate appraiser/real estate consultant to assist in the project.

- The ATDC worked with New World Divers to construct a world-class diving facility off the water's edge at Piers 5 and 6. Pre-development requirements were completed in 2006. The developer has had difficulty in securing financing for construction although all other pre-development requirements have been met.
- A Public Advisory Group (PAG) was formed in FY07 to include the participation of volunteers to provide public input and community outreach on ATDC's projects. Over fifty (50) individuals applied or were nominated in the process. A group of sixteen (16) members, representing a wide range of experience and knowledge, were chosen to serve. The PAG has met monthly in FY08 to provide advice and comment to ATDC.
- The ATDC is working with a planning consultant to begin a comprehensive review of the ATDC Development Plan and the Hawaii Administrative Rules.

#### Hawaii Harbors Task Force

- An 8-year lease was negotiated and executed with Matson for a 9.6 acre portion of the Sand Island Expansion Area. Matson completed construction of site improvements and is fully utilizing the site as of November 2007.
- At Piers 1 and 2, Honolulu Harbor, \$2.7 million in design and construction funds were released for the demolition of the CFS#2 warehouse shed, and new lighting to provide a cargo yard expansion area of approximately 5.7 acres. Construction was completed in FY08.
- Property descriptions were drafted for the land parcels at Piers 1 and 2 that were included in Act 165, Session Laws of Hawaii 2006, for the return of these lands to DOT-Harbors and the Foreign Trade Zone No. 9 (FTZ) from the Kakaako Community Development District. The BLNR will consider final approval in December 2007 to revert the lands to DOT-Harbors and FTZ. Executive Orders conveying the lands to DOT-Harbors and FTZ are to be completed in FY08.
- Completed the development plan for the new Kapalama Container Terminal (redevelopment of the former Kapalama Military Reservation). A total of \$1 million in planning funds was appropriated by the Legislature and released by the Governor to establish a development plan for the new cargo container terminal consisting of approximately 70 acres. Three major contracts were procured and executed. The work completed to date include:
  - 1) JWD Group has completed the development plan and order of magnitude costs.

- 2) Belt Collins, Hawaii, Ltd. has completed a facilities assessment of the UH Marine Center facilities at the KMR harbor front and will be working on the relocation facility plan in 2008.
  - 3) Fung Associates completed the historical architectural survey of KMR, which has been accepted by the State Historic Preservation Division.
- A warehouse shed at Pier 40 was demolished to provide expansion area for Young Brothers to load cargo at its Honolulu inter-island barge operations site.
  - An agreement in principle was reached with the University of Hawaii for the relocation of the UH Marine Center from KMR. Relocation of the UH Marine Center is essential to start construction of the new Kapalama Container Terminal. Planning of new facilities was initiated in FY 08.
  - Relocation of Matson ro/ro operations from Pier 29 to Pier 2 clears the way for the relocation of Pacific Shipyard to Piers 27-28. Planning of new facilities was initiated in FY08.
  - A Request for Proposals (RFP) is issued for the redevelopment of the Keehi Industrial Lots area, a run-down 20-acre site off Sand Island Access Road, for an industrial park for maritime or maritime-related purposes.
- b. Explain how these results relate to the program's objectives and department's mission.**

The ATDC supports the following DBEDT strategic objectives:

- Development of Core Urban Areas

Development of the remainder of the Aloha Tower Complex will transform the waterfront, revitalize downtown Honolulu, provide significant new maritime and business facilities, beautify the area and stimulate economic development through private sector investment. Real estate development will create a significant number of jobs and a new economic basis of activity.

- Energy for Tomorrow

The ATDC-DOT-H partnership to develop and expand harbor infrastructure supports the State initiative to expand the ports for alternative energy facilities. The partnership works with DBEDT's Energy Division to support its energy package.

Redevelopment of harbor infrastructure, such as the planned Kapalama Container Terminal, will incorporate new energy technology and conservation/environmental initiatives such as solar photovoltaic systems. New terminal planning includes consideration of other environment friendly concepts such as shore-power for hotelling emissions and efficient high-tech gate systems that reduce trucking wait times and resultant emissions.



- Export of Goods and Services

The ATDC supports this DBEDT objective by promoting the Aloha Tower Project Area as a vibrant waterfront shopping/dining area for locals and visitors alike. The area is a major stop for the visitor industry, bringing people by bus/trolley, dinner boats and cruise ship. Opportunities for export of Hawaii-made products abound at the Aloha Tower Marketplace.

The ATDC's partnership effort with DOT-H in the expansion of harbor facilities promotes the export of goods. An example of this is the expansion of Piers 1 and 2 to accommodate the burgeoning growth of the NELHA deep sea bottled water exports to Japan and other countries.

- Improve Hawaii's Small Business Environment

The Aloha Tower Marketplace is home to over 70 small businesses and local restaurants. Marketing efforts have focused on showcasing local products and talent.

The ATDC-DOT partnership for the improvement of harbor infrastructure also supports many small businesses ranging from improved facilities for businesses, construction projects and facilities to handle cargo operations, particularly LCL cargo that is the mode of receiving cargo for a myriad of small businesses.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The ATDC will exceed its program measures with the successful start of the following projects:

- The Pacific Quay Project at Piers 5 and 6. The project cost is estimated at \$300 million.
- The New World Divers Project cost is estimated at \$5 million.
- In partnership with DOT-H, the project cost for the new Kapalama Container Terminal is estimated at \$250 million.

These projects will provide tax revenue and jobs to Hawaii's economy.

- d. Discuss the actions taken by each program to improve its performance results.**

ATDC has completed an evaluation assessment of its program under its Yearly Activity Plan and identified in detail its action plan for the fiscal biennium. Please see Exhibit A.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Performance measures were modified to include areas regarding number of initiatives developed, agreements entered into and developers attracted. The rationale for these changes was to conform the performance measures to the actual goals of the ATDC, which is to foster development. These indicators are designed to measure and illustrate the actual development activity of the ATDC and its success in generating new initiatives.

**3. Problems and Issues:**

- a. Discussion of problems and issues encountered, if any.**

Elusive business success at the Aloha Tower Marketplace is due in large part to the lack of adequate parking and the lack of critical mass due to the discontinuation of full-build out by the original developer.

The development and financial plan for the Aloha Tower Project Area needs to be updated and an implementation plan pursued to add to critical mass. The development plan incorporated under the ATDC Hawaii Administrative Rules was customized to the originally conceived development of the late '80's and is now outdated and in need of new and current thinking.

Honolulu Harbor infrastructure is antiquated and in need of a significant infusion of resources, both capital and focused staffing devoted to improving the harbor. The nationally recognized consultant retained to provide recommendations on the redevelopment of the former Kapalama Military Reservation stated that based on its experience nationally, Hawaii's ports are fifty years behind the majority of the ports on the West Coast. The situation has been of concern for many years and is now reaching a critical situation as certain island ports have reached capacity and others will do so within five years. Continued priority and resources must be committed immediately to avoid the predicted crisis in economic statewide commerce.

- b. Program change recommendations to remedy problems.**

The DOT-H recommends the expansion of the Hawaii Harbors Project partnership between ATDC and the DOT-H statewide for commercial ports. The ATDC is willing to accept this role but will require project funding, additional staffing, and development flexibility to expedite projects.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Funding and staffing will continue to be challenges to implement the program. The ATDC will continue to pursue public/private funding opportunities, grants and other funding sources.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)					-	-
Personal Services	588,258	19,311			607,569	607,569
Current Expenses	942,296				942,296	942,296
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>1,530,554</b>	<b>19,311</b>			<b>1,549,865</b>	<b>1,549,865</b>
(Pos. Count)	-				-	-
Special Funds	1,530,554	19,311			1,549,865	1,549,865
(Pos. Count)					-	-
Federal Funds					-	
(Pos. Count)					-	-
Other Funds					-	
(Pos. Count)					-	-
General Fund					-	

**a. Explain all transfers within the Program I.D. and the impact on the program.**

None.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

None.

**c. Explain any restrictions and the impacts on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)			-
Personal Services	588,258		588,258
Current Expenses	942,296		942,296
Equipment			
Motor Vehicles			
Total	<u>1,530,554</u>		<u>1,530,554</u>
(Pos. Counts)			-
Special Funds	1,530,554		1,530,554
(Pos. Counts)			-
Federal Funds			-
(Pos. Counts)			-
Other Funds			-
(Pos. Counts)			-
General Funds			-

**a. Workload or program request:**

None.

**b. For all position count reductions, please specify whether the positions were filled or vacant.**

None.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:**

None.

**8. Proposed Lapses of CIP projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program ID and Title: BED 160 HA - Hawaii Housing, Finance and Development Corporation (Housing Administration)**

**1. Introduction:**

BED 160 HA, HHFDC Administration, provides for the overall administration of the Hawaii Housing Finance and Development Corporation (HHFDC).

**a. Summary of program objectives.**

The HHFDC's objective is to support economic growth by increasing the supply of workforce and affordable housing and preserving the existing inventory of affordable housing.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

The objective of this program is to enhance the effectiveness and efficiency of housing programs by formulating policies, directing operations and personnel, and providing other administrative and support services. This program's activities consist of functions carried out by seven offices that provide direct supportive services to the other program areas within the HHFDC.

1. The Office of the Executive Director (OED) serves as the focal point for the execution of statutory provisions relating to the finance and development of affordable housing in the State of Hawaii. This office is responsible for the overall administration and management of all functions and activities related to the day-to-day operations of the Corporation, including coordination/integration of staff support services.
2. The Compliance Office ensures that the HHFDC manages and operates programs in accordance with Federal and State requirements and corporate policies and directives.
3. The Housing Information Office maintains regular communication within the HHFDC, with other government and private entities, the media and the general public regarding the HHFDC's programs, services, actions, plans and policies.
4. The Information Technology Office is responsible for the maintenance of all information technology systems and processing for the HHFDC.
5. The Personnel Office provides personnel staff support and advisory services to the Executive Director, managers and employees of the HHFDC.
6. The Planning and Evaluation Office conducts overall planning, evaluation and research activities for programs administered by the HHFDC and coordinates legislative activities.

7. The Fiscal Management Office (FMO) provides administrative and advisory services in fiscal management, budget, and accounting for the HHFDC. In addition, the FMO monitors and provides oversight for the HHFDC's assets, including real property.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

HHFDC Administration intends to meet its program objectives by continuing to provide administrative oversight and services, to support the HHFDC's affordable and workforce housing mission.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

The HHFDC was established on July 1, 2006 and, therefore, the following performance results are for FY 2007.

1. The organizational structure for HHFDC was approved on January 18, 2007.
2. An HHFDC action plan was formulated as a means to guide the agency forward.
3. Several key positions were filled including the Executive Director, Fiscal Manager, Housing Development Branch Chief, Housing Development Specialists, and Systems Analyst.
4. Financial and single audit services for HHFDC were procured.
5. Computer equipment was purchased to replace federally-funded equipment that was transferred to the Hawaii Public Housing Authority. Upgrades to the computer network, telecommunications system, and accounting system also commenced.
6. Work to review and promulgate new Hawaii Administrative Rules for HHFDC commenced; seven chapters were amended and renumbered.

**b. Explain how these results relate to the program's objectives and department's mission.**

The performance results met the program objectives of enhancing the effectiveness and efficiency of housing programs by formulating policies, directing operations and personnel, and providing other administrative and support services such as accounting and purchasing.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The HHFDC has adopted agency-wide, outcome-based program performance measures. The HHFDC's performance measures and actual results for FY 2007 were as follows:

	Benchmark	Actual
1. The number of homebuyers assisted	80	199
2. The number of new rental units	352	442
3. The number of existing affordable rental housing units preserved	70	72
4. The number of lease rents renegotiated	1	0
5. The number of single family leasehold lots converted to fee simple	0	0

**d. Discuss the actions taken by each program to improve its performance results.**

The HHFDC was able to exceed its target with respect to homebuyer assistance due to increased efforts to promote its Mortgage Credit Certificate program, which provides a direct federal tax credit of 20 percent of annual mortgage interest for eligible homebuyers, resulting in a dollar-for-dollar reduction of annual federal income tax liability.

The HHFDC was able to exceed its target with respect to rental units assisted due to higher than anticipated conveyance tax revenues deposited into the Rental Housing Trust Fund, which allowed a larger number of qualified affordable rental housing projects to receive project financing.

**e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

The HHFDC's primary administrative challenge in FY 07 was to fill personnel vacancies and functions. In FY 07, the HHFDC successfully recruited and hired qualified persons in several key administrative positions.

The HHFDC also continued to address ongoing administrative tasks stemming from the reorganization of State housing functions, including completion of the separation of the accounting system from the Hawaii Public Housing Authority, and the establishment of a new computer network.

**b. Program change recommendations to remedy problems.**

There are no program changes recommended to remedy problems.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

See above.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(26.00)				(26.00)	(26.00)
Personal Services	2,453,874	9,690			2,463,564	2,463,564
Current Expenses	1,610,000				1,610,000	1,610,000
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>4,063,874</b>	<b>9,690</b>			<b>4,073,564</b>	<b>4,073,564</b>
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds	(23.00) 3,262,891		1,745		(23.00) 3,264,636	(23.00) 3,264,636
(Pos. Count) General Fund	(3.00) 800,983		7,945		(3.00) 808,928	(3.00) 808,928

- a. Explain all transfers within the Program I.D. and the impact on the program.

Not applicable.

- b. Explain all transfers between Program I.D.'s and the impact on the program.

Not applicable.



**c. Explain any restrictions and the impacts on the program.**

Not applicable.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(26.00)		(26.00)
Personal Services	2,474,292		2,474,292
Current Expenses	1,100,000	408,567	1,508,567
Equipment			
Motor Vehicles			
Total	3,574,292	408,567	3,982,859
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds	(23.00) 3,312,891	408,567	(23.00) 3,721,458
(Pos. Counts) General Funds	(3.00) 261,401		(3.00) 261,401

**a. Workload or program request:**

As a result of the dissolution of the Housing and Community Development Corporation of Hawaii, the creation of the HHFDC, and the subsequent physical move of the Hawaii Public Housing Authority (HPHA) to their School Street office, there appears to have been an error in the calculation of rents for HHFDC in the Biennium Budget. The need for an increased allocation in Other Current Expenses for rents is due to the failure to include the portion of rent of the HHFDC's Queen Street office that had previously been allocated to the HPHA.

**b. For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

Identify restrictions carried over from FY 08 as well as additional reductions due to Department of Budget and Finance budget ceilings for FY 09. If no reduction is being proposed, please indicate "none".

- a. A description of the reduction, the reasons for the reduction, and the impacts to the objectives to be accomplished by the program.

None.

- b. A listing/description of the positions cut including source of funding, please specify whether the positions were filled or vacant.

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:**

See BED 160 HD testimony.

**8. Proposed Lapses of CIP projects:**

See BED 160 HD testimony.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program ID and Title: BED 160 HD - Hawaii Housing, Finance and Development  
Corporation (Housing Development)**

**1. Introduction:**

BED 160 HD, HHFDC Development, facilitates the development or preservation of affordable or workforce housing.

**a. Summary of program objectives.**

The HHFDC's objective is to support economic growth by increasing the supply of workforce and affordable housing and preserving the existing inventory of affordable housing.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

The Development Program's activities include facilitating the development of affordable and workforce housing projects through the provision of development resources and tools. These include the provision of developable land; interim construction loans from the Dwelling Unit Revolving Fund; expedited state and county land use approvals and exemptions from planning, zoning and construction standards utilizing HHFDC's Chapter 201H, HRS development powers; and exemptions from the State's general excise taxes for qualified housing projects. The Development Program also maintains infrastructure improvements in the Villages of Kapolei and Waiahole Valley Agricultural Park.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

The Program intends to meet its objectives by promoting the services as stated in II.a and working in partnership with the development community.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

The HHFDC was established on July 1, 2006 and, therefore, the following performance results are for FY 2007.

1. The HHFDC initiated an aggressive search for land suitable for the development of housing. Parcels of state land were identified for infill development on Oahu and Kauai.
2. Request for Proposals (RFP) were issued and awarded for the development of a high-rise rental complex of approximately 196 units in Kakaako and approximately 277 rental and for-sale units in the Villages of Kapolei.

3. A long-term, below market ground lease was executed with the developer of the Senior Residence at Iwilei, an affordable elderly rental housing project consisting of 159 units for the elderly.
4. A development agreement and long-term, below market ground lease were executed with the Hawaii Coalition of Christian Churches (HCCC) for Kahikolu Ohana Hale O Waianae. When completed in June 2008, the project will provide 72 emergency, transitional and affordable housing units and 40 dormitory beds.
5. Pursuant to a development agreement executed with Castle & Cooke Homes Hawaii, Inc. in FY 2006, development continues on 230 affordable for-sale and 64 affordable rental multi-family units.
6. HHFDC continued to support the Department of Hawaiian Home Lands (DHHL) in processing subdivision documents and permit drawings for the development of 326 single family homes in the Villages of Kapolei, Village 8. (This parcel was transferred to DHHL in FY 2005.)
7. The HHFDC utilized its Chapter 201H development powers to obtain zoning exemptions for Mokuola Vista, a 69 unit affordable, for-sale condominium to be built on state land in Waipahu, Oahu. Plantation Town Apartments, a 300 unit affordable, for-sale condominium on state land in Waipahu also obtained zoning exemptions pursuant to Chapter 201H.

**b. Explain how these results relate to the program's objectives and department's mission.**

The performance results facilitated private sector development of affordable and workforce housing.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The HHFDC has adopted agency-wide, outcome-based program performance measures. The HHFDC's performance measures and actual results for FY 2007 were as follows:

	<u>Benchmark</u>	<u>Actual</u>
1. The number of homebuyers assisted	80	199
2. The number of new rental units	352	442
3. The number of existing affordable rental housing units preserved	70	72
4. The number of lease rents renegotiated	1	0
5. The number of single family leasehold lots converted to fee simple	0	0

- d. Discuss the actions taken by each program to improve its performance results.**

Program staff has initiated an outreach campaign to build awareness of the tools and resources available to facilitate housing development. This has resulted in increased activity.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

None.

**3. Problems and Issues:**

- a. Discussion of problems and issues encountered, if any.**

The Development Program maintains infrastructure in Waiahole Valley, Oahu. The potable water system, which is owned and operated by the HHFDC, has required costly repairs which are funded by the Dwelling Unit Revolving Fund (DURF). Funds utilized from DURF for infrastructure improvements are not recouped and, thereby, reduce the balance of funds available for housing development. Compounding the problem is the water tank and transmission lines must be replaced.

- b. Program change recommendations to remedy problems.**

The HHFDC has submitted a supplemental request for Capital Improvement Program funds to replace the Waiahole Valley potable water system. When completed, the HHFDC plans to dedicate the system to the Board of Water Supply.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

None.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(4.00)				(4.00)	(4.00)
Personal Services	1,466,670	51,609			1,518,279	1,518,279
Current Expenses	113,926				113,926	113,926
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>1,580,596</b>	<b>51,609</b>			<b>1,632,205</b>	<b>1,632,205</b>
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds	(4.00)				(4.00)	(4.00)
	1,580,596	51,609			1,632,205	1,632,205
(Pos. Count) General Fund					-	-

**a. Explain all transfers within the Program I.D. and the impact on the program.**

None.

**b. Explain all transfers between Program I.D.'s and the impact on the program.**

None.

**c. Explain any restrictions and the impacts on the program.**

None.

As applicable, provide a description of the impact of the transfers that have occurred within the program I.D. between the various cost elements, transfers occurring between different program I.D.'s, and restrictions imposed.

Not applicable.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(4.00)		(4.00)
Personal Services	1,467,805		1,467,805
Current Expenses	63,926		63,926
Equipment			
Motor Vehicles			
Total	1,531,731		1,531,731
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds	(4.00) 1,531,731		(4.00) 1,531,731
(Pos. Counts) General Funds			-

**a. Workload or program request:**

None.

**b. For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

Identify restrictions carried over from FY 08 as well as additional reductions due to Department of Budget and Finance budget ceilings for FY 09. If no reduction is being proposed, please indicate "none".

- a. A description of the reduction, the reasons for the reduction, and the impacts to the objectives to be accomplished by the program.

None.

- b. A listing/description of the positions cut including source of funding, please specify whether the positions were filled or vacant.

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:**  
CIP data for all projects within the agency being heard shall be combined into a single appendix in the department's testimony (if no request is being made, please indicate "none").

Fiscal Year (w/MOF)		2008	2009
1.	HFDC 01 Waiahole Valley Portable Water System Replacement Construction C	0	2,800,000
	Total	0	2,800,000
2.	HFDC 03 Kukui Gardens Rental Housing Complex Construction C	25,000,000	26,000,000
	Total	25,000,000	26,000,000
3.	HFDC 04 Rental Housing Trust Fund Infusion Construction C		25,000,000
	Total		25,000,000
4.	HFDC 05 Dwelling Unit Revolving Fund Infusion Construction C		25,000,000
	Total		25,000,000



1. HFDC 01 Waiahole Valley Potable Water System Replacement: Construction of a new potable water reservoir tank and distribution system to replace existing dilapidated water system.

The HHFDC is the fee simple owner of the Waiahole Valley Agricultural Park and Residential Lots Subdivision, and administers 167 residential agricultural leases therein. In addition to the HHFDC lessees, the Waiahole Potable Water System serves 22 kuleana lots, 20 Department of Hawaiian Home Lands lessees, and the Waiahole Elementary School. Due to the poor condition of the tank and the transmission system and the current location of the tank, replacement is the only reasonable method of ensuring the potable water is available for Waiahole residents and students. If the water system is not replaced, it will likely fail and jeopardize the Waiahole Valley residents' health and safety. Additionally, the domestic water system provides water for the fire safety devices within the subdivision.

If the system fails, these fire safety devices will also fail. The existing potable water system, which has not been dedicated to the Board of Water Supply, has repeatedly failed, and requires replacement. Pursuant to Senate Concurrent Resolution 195 (2006), the HHFDC has consulted with the Board of Water Supply on the technical requirements and cost estimates of a replacement water system.

The existing potable water system is reaching the end of its useful life, and replacement of the system will avert costly repairs, and ensure that Waiahole Valley residents and schoolchildren continue to have safe drinking water.

2. HFDC 03 Relating to Kukui Gardens Rental Housing Complex: To preserve affordable housing by authorizing the issuance of General Obligation Bonds for the purchase of a portion of real property at Kukui Gardens.

HHFDC's goal is to preserve affordable housing by authorizing the issuance of General Obligation Bonds for the purchase of a portion of real property at Kukui Gardens. This request is for the second part of funding for the acquisition of a portion of Kukui Gardens to preserve it as affordable rental housing for low-income households in the Honolulu urban core.

3. HFDC 04 Rental Housing Trust Fund Infusion: There is a substantial need for affordable rental housing throughout the State of Hawaii. In 2006, monthly rents for existing renters averaged \$1,274. If additional funding is not provided, approximately 266 affordable rental units will not be developed or preserved.

As of October 31, 2007, the rental housing trust fund (RHTF) had \$13,884,571 in available funds with \$24,600,000 in pending applications. It is anticipated that an appropriation of \$15.0 million pursuant to Act 213, SLH 2007 and deposits of conveyance tax revenues into the RHTF will cover this immediate shortfall, but will not permit the HHFDC to pursue aggressively the development of additional affordable housing projects. The requested one-time infusion of \$25 million is needed to ensure that the HHFDC can act in response to the demand for affordable rentals.

4. HFDC 05 Dwelling Unit Revolving Fund Infusion: The dwelling unit revolving fund (DURF) may be used for various purposes such as the acquisition of real property,

the development of infrastructure, and for interim construction and permanent loans for the development of for-sale and rental housing. The infusion of a total of \$25 million into DURF would enable the HHFDC to partner with private developers and other government agencies, to produce workforce and affordable housing.

G.O. Bond funds infused into the DURF can be leveraged with other existing funding sources to finance the development of workforce and affordable housing. Upon the sale of improved land or dwelling units, the DURF funds will be repaid by the developers and made available for additional affordable housing development.

**a. Senate and House district(s) for the project.**

- |                |            |
|----------------|------------|
| 1. Senate: 23  | House: 47  |
| 2. Senate: 28  | House: 12  |
| 3. Senate: All | House: All |
| 4. Senate: All | House: All |

**8. Proposed Lapses of CIP projects:**

**a. Project Title**

Item No. A-17 HFDC 01 Waiahole Valley Potable Water System Replacement.

**b. Act and year of project appropriation (include all applicable amendments).**

Act 213, SLH 2007.

**c. Amount requested for lapse and means of financing.**

\$2,500,000 (W).

**d. Justification for lapse of the project.**

In place of this project, the HHFDC is requesting \$2,800,000 in CIP funds (MOF: C) in FY 2008-2009 to finance the replacement of the water system.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program ID and Title: BED 160 HF - Hawaii Housing, Finance and Development Corporation (Housing Finance)**

**1. Introduction:**

BED 160 HF, HHFDC Finance, facilitates the development or preservation of affordable housing for low- and moderate-income households.

**a. Summary of program objectives.**

The HHFDC's objective is to support economic growth by increasing the supply of workforce and affordable housing and preserving the existing inventory of affordable housing.

**b. Description of program objectives and activities as discussed in the Multi-Year program an Financial Plan.**

The Finance program's objectives are to assist low- and moderate-income individuals and families to rent or purchase adequate housing and to provide loans or grants for the predevelopment, development, construction, acquisition, and substantial rehabilitation of rental housing units by administering financing programs such as the Hula Mae Single and Multi-Family Programs, the Mortgage Credit Certificate Program, the Rental Assistance Program, the Hawaii Rental Housing System Revenue Bond Program, the Low Income Housing Tax Credit Program, and the Rental Housing Trust Fund Program.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

The Program intends to meet its objectives by continuing to provide financing services as stated in II.a.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

In FY 2007, HHFDC Finance provided financing to two projects comprising 96 units statewide that completed construction prior to the end of the fiscal year. Financing was also approved for six other affordable rental projects comprising of 290 units statewide in which construction was projected to be completed prior to the end of calendar year 2007. Finally, financing was also approved for eight additional projects comprising of 566 statewide units that are currently in the planning and design phases.

**b. Explain how these results relate to the program's objectives and department's mission.**

The performance results met the program objectives of increasing the supply of affordable and workforce housing.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The HHFDC has adopted agency-wide, outcome-based program performance measures. The HHFDC's performance measures and actual results for FY 2007 were as follows:

	<u>Benchmark</u>	<u>Actual</u>
1. The number of homebuyers assisted	80	199
2. The number of new rental units	352	442
3. The number of existing affordable rental housing units preserved	70	72
4. The number of lease rents renegotiated	1	0
5. The number of single family leasehold lots converted to fee simple	0	0

**d. Discuss the actions taken by each program to improve its performance results.**

The HHFDC has initiated an evaluation of its Hawaii Administrative Rules and procedures for its Housing Finance programs in an effort to streamline review and approvals.

**e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

None.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

With the need for more affordable rentals, the need for additional "gap" financing is crucial. This type of financing is typically provided by the State's Rental Housing Trust Fund.

**b. Program change recommendations to remedy problems.**

There is no need for large changes to the Rental Housing Trust Fund. What is needed to remedy the problem is a continued dedicated infusion of funds from sources including the conveyance tax at the current 50% or greater and/or a large infusion of cash or general obligation bond proceeds.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

None.

**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(4.00)				(4.00)	(4.00)
Personal Services	966,465	34,886			1,001,351	1,001,351
Current Expenses	55,018,949				55,018,949	55,018,949
Equipment					-	
Motor Vehicles					-	
<b>Total</b>	<b>55,985,414</b>	<b>34,886</b>			<b>56,020,300</b>	<b>56,020,300</b>
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds	3,000,000				3,000,000	3,000,000
(Pos. Count) Other Funds	(4.00) 37,985,414	34,886			(4.00) 8,020,300	(4.00) 38,020,300
(Pos. Count) General Fund	- 15,000,000				- 5,000,000	- 15,000,000

- a. Explain all transfers within the Program I.D. and the impact on the program.

None.

- b. Explain all transfers between Program I.D.'s and the impact on the program.

None.

**c. Explain any restrictions and the impacts on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(4.00)		(4.00)
Personal Services	966,465		966,465
Current Expenses	25,018,949	25,000,000	50,018,949
Equipment			
Motor Vehicles			
Total	<u>25,985,414</u>	<u>25,000,000</u>	<u>50,985,414</u>
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds	3,000,000		3,000,000
(Pos. Counts) Other Funds	(4.00) 22,985,414	25,000,000	(4.00) 47,985,414
(Pos. Counts) General Funds			-

**a. Workload or program request:**

Rental Housing Trust Fund Infusion – Trust Fund Ceiling Increase:

There is a substantial need for affordable rental housing throughout the State of Hawaii. In 2006, monthly rents for existing renters averaged \$1,274. If additional funding is not provided, approximately 266 affordable rental units will not be developed or preserved.

As of October 31, 2007, the rental housing trust fund (RHTF) had \$13,884,571 in available funds with \$24,600,000 in pending applications. It is anticipated that an appropriation of \$15.0 million pursuant to Act 213, SLH 2007 and deposits of conveyance tax revenues into the RHTF will cover this immediate shortfall, but will not permit the HHFDC to pursue aggressively the development of additional affordable housing projects. The requested one-time infusion of \$25 million is

needed to ensure that the HHFDC can act in response to the demand for affordable rentals. See BED 160 HD.

- b. For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

**6. Program Restrictions:**

**Identify restrictions carried over from FY 08 as well as additional reductions due to Department of Budget and Finance budget ceilings for FY 09. If no reduction is being proposed, please indicate "none".**

- a. A description of the reduction, the reasons for the reduction, and the impacts to the objectives to be accomplished by the program.**

None.

- b. A listing/description of the positions cut including source of funding; please specify whether the positions were filled or vacant.**

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:**

See BED 160 HD.

**8. Proposed Lapses of CIP projects:**

See BED 160 HD.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 144 PL – Statewide Planning and Coordination/  
Office of Planning**

**1. Introduction:**

**a. Summary of program objectives.**

To enhance the efficiency and effectiveness of State programs by maintaining a comprehensive statewide planning process, through the formulation of a State policy plan and the development of a policy planning and implementation framework; undertaking comprehensive land use and coastal zone planning, management, and implementation; facilitating intergovernmental coordination and cooperation; undertaking strategic and regional planning to address areas of critical State concerns relating to social, economic or physical conditions; and promoting programs and capital improvement projects which further State policies.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

The Office of Planning (OP) conducts long-range, strategic and regional planning activities in furtherance of Chapter 225M, HRS. OP also carries out land use regulatory responsibilities under Chapter 205, HRS; coastal zone management responsibilities under Chapter 205A, HRS; and State planning responsibilities under Chapter 226, HRS. BED 144/PL includes OP's Land Use, Geographic Information System (GIS) and Special Plans programs. BED 144/PL also includes administrative, fiscal and clerical support functions for the above-mentioned programs as well as for the Coastal Zone Management (CZM) (BED 144/PZ) Programs which are discussed separately. The programs under BED 144/PL provide services-in-kind to help meet the required match for federal CZM funds since there are not enough general fund monies to provide a cash match for CZM in BED 144/PZ.

**Objectives:**

1. To administer a State land use program that reflects public policies and concerns and presents guidance and recommendations before the Land Use Commission (LUC) as bases for land use decisions affecting the development and growth of the State pursuant to Chapter 205, HRS.
2. To assure that the lands of the State are developed to those uses to which they are best suited for the public welfare while ensuring that important agricultural and natural resources are protected and the socio-economic needs of residents are met.
3. To conduct statewide planning activities to promote the orderly future growth and development of the State pursuant to Chapter 225M, HRS.



4. To administer a comprehensive system of public planning on a Statewide basis to enhance the overall effectiveness of the Hawaii State Planning Act, Chapter 226, HRS.
5. To administer the Statewide Planning and Geographic Information System program under Chapter 225M, HRS.
6. To administer the Brownfields Cleanup Revolving Loan Fund and Brownfields site assessment grant programs.

**Activities:**

**Land Use Planning and Regulation:** Developing and presenting the State's position in all boundary change petitions and proceedings before the Land Use Commission (LUC), assisting State agencies in developing and submitting petitions for land use district boundary amendments, and conducting periodic reviews of the classification and districting of all lands in the State, as specified in Chapter 205, HRS; coordinating matters relating to land use and development; and conducting special studies related to growth and development.

**Strategic Planning and Policy Analysis:** Identifying and analyzing significant issues, problems, and opportunities confronting the State, and formulating strategies and alternative courses of action in response to problems and opportunities.

**Planning Coordination and Cooperation:** Facilitating coordinated and co-operative planning and policy development and implementation activities among state agencies and between the State, county and federal government.

**Regional Planning and Studies:** Conducting plans and studies to support projected increases in both resident populations and visitors; the impacts on these regions; the maximum visitor carrying capacity for the state; and the appropriate guidance and management of selected regions and areas of statewide critical concern.

**State Comprehensive Planning and Program Coordination:** Formulating and articulating comprehensive statewide goals, objectives, policies, and priorities and coordinating their implementation through the statewide planning system established in part II of Chapter 226, HRS.

**Planning and Geographic Information System:**

- a. Coordinating GIS activities and databases within State government to enhance efficiency in operations by avoiding duplication of effort and redundant or inconsistent databases. This is a multi-agency effort to consolidate and manage all Hawaii spatial databases developed and used by State agencies as well as other organizations in the State.
- b. Providing analytical support to other programs within OP, including the CZM Program, the Land Use Program and other special projects undertaken by OP. OP's GIS staff also provides support to other DBEDT agencies and the Governor's Office to analyze economic development opportunities and other activities requiring spatial analysis. When possible, and to help promote the use of the system, OP assists other agencies in carrying out projects.

- c. Coordinating the State's GIS efforts with those of various federal government agencies, the counties and private entities through the establishment of the Hawaii Geographic Information Coordinating Council.
- d. Distributing information on the State of Hawaii GIS Program and various publicly available data sets through the Internet.
- e. Seeking other sources of funding (e.g. Federal grants) to support the advancement of Chapter 225M.

**Hawaii Brownfields Cleanup Revolving Loan Fund (BCRLF) and Brownfields Assessment:** The BCRLF program provides low-cost loans to public, private and non-profit entities for cleanup activities at eligible sites slated for redevelopment and reuse. The program is funded by EPA. These programs facilitate reinvestment in infill areas and restore idled or contaminated property for reuse.

The EPA Brownfields Site Assessment grant provides for environmental assessments of abandoned or underutilized former industrial properties that may be contaminated with hazardous substances or petroleum products in order to allow cleanup and redevelopment.

**Planning Assistance:** Funding from the Federal Economic Development Administration supports planning technical support in order to implement the Hawaii Comprehensive Economic Development Strategy.

- c. **Explain how program intends to meet its objectives within the upcoming supplemental year.**

OP will continue to strive to meet its programmatic and project mandates. In order to better utilize and more effectively focus its limited staff and fiscal resources, OP has conducted a strategic planning process and prepared strategic and operational plans identifying priority projects and activities.

## **2. Program Performance Results:**

- a. **Discuss the performance results achieved by each program in FY07.**

**Strategic and Operational Planning.** During FY07, OP engaged in an extensive strategic planning process. This effort resulted in the completion of strategic and operational plans to guide the office in its activities.

**Land Use Planning/Regulation Program.** The program continues to represent the State's case before the LUC and meet all statutory deadlines in order that petitions are reviewed and decided upon in a timely manner. The LUC upheld all but one of OP's position's on boundary amendment petitions in FY06. In FY06, the OP prepared position papers and related document items for six petitions affecting 775.276 acres. In FY07, the LUC did not take final action on any petitions. However, OP prepared various reviews and provided comments on approximately thirty LUC items including not limited to reviews of conditions and removal of conditions, petitioner reports, etc.

In FY06 and 07, the program worked on developing templates for position statements; environmental impact statement reviews; and standard conditions and a case management and tracking system to improve program efficiency.

**Important Agricultural Lands and Rural Land Use Policy:** In 2005, the Legislature passed and the Governor signed into law, legislation to identify and protect important agricultural lands as required by the 1978 Constitutional Convention, and for the counties and State to make recommendations for better use of the State Rural Land Use District. Following up on this legislation, OP launched a rural policy and best practices project with support from CZM funds. The project, which will run through June 2007, involved two sets of rural land use workshops conducted statewide in May and June 2006. The first set of workshops examined rural land use policy and definitions of rural, and the second set of workshops explored a set of rural planning principles and potential tools to improve rural land use planning and management. A rural best practices guidebook for use by county planners and others is being prepared for dissemination in FY 2008. OP staff is also assisting and participating in discussions with the Executive Officer of the Land Use Commission and the county planning directors regarding potential legislative changes to the statutory provisions related to the State Rural Land Use District.

**Policy/Legislation:** Prepared testimony on 54 bills and resolutions in FY06 and 62 bills and resolutions in FY07 pertaining to agricultural lands, incentives for agriculture, land use, coastal issues, and other planning topics. Monitored approximately 47 bills and resolutions in FY06 and 78 bills and resolutions in FY07.

**Planning Assistance for CEDS Projects:** FY06. OP received and is implementing a follow up grant from EDA to provide planning assistance for 3 or 4 top ranked projects in the Hawaii Statewide Comprehensive Economic Development Strategy (CEDS) in order to support the implementation of the economic strategy. FY07. OP and the UH Pacific Business Center co-sponsored a conference on Sustainable Entrepreneurial Development in Urban and Rural Areas February 27, 2007-March 1, 2007. In FY07, OP submitted pre-applications and applications to EDA for funding to conduct a Planning for Rural Economic Development project.

#### **Planning and Policy Analysis:**

***FY06. Report on Urban Lands in the State of Hawai'i, Part I: Supply of Urban Lands by Island and Geographic Planning District:*** Identification of vacant and developable lands currently within the State Urban District in order to ascertain whether each island or geographic planning districts have sufficient urban lands to accommodate projected future growth. The methodology follows that used for a similar study done in 1991. (May 2006)

***FY07. A Short History of the State Land Use District 5-Year Boundary Reviews :*** Summarizes how the law relating to State boundary reviews has changed over the past 42 years, and identifies the changes which currently limit the effectiveness of state-sponsored, proactive, comprehensive 5-Year Boundary Reviews. The report provides data comparing boundary amendments sponsored by the 5-Year Boundary Review with cumulative land reclassification changes resulting from individual petitions for boundary amendments. (July 2006)

**FY07.** OP worked on the report, *Report on Urban lands in the State of Hawaii, Part, II: Urban Land Requirements, by Island and Geographic Planning District*. This report identifies urban land needed for residential, commercial, industrial and public area needs.

**FY07. Leeward Coast Initiative (LCI).** The purpose of this initiative was to follow up on the Governor's Homeless Initiative to address broader social and economic needs of residents and develop a model for other communities.

OP was asked to coordinate and lead a multi-agency effort in developing an action plan that identifies and addresses the deeper systemic issues underlying homelessness and broader participation in the economy.

Policy and Working Groups were formed. State agencies met between late December 2006 and March 2007 to assess and inventory the extent of State programs, projects and assistance being targeted to the Leeward Coast.

Community outreach was conducted during March through May 2007 utilizing participating staff from nine agencies, the University of Hawaii and the Office of Hawaiian Affairs. The outreach group completed interviews with approximately 167 community leaders and reviewed prior community plans.

The outreach team working collaboratively with other agencies crafted 32 "**Great Idea**" proposals intended as potential actions around which the State might collaborate with the community and private sector to implement. These "Great Ideas" were shared with the community.

The draft report, *Draft Leeward Coast Initiative Inventory Report: Overview of Conditions and State Services and Programs* was prepared.

**Planning and Geographic Information System:** The State GIS Program is a multi-agency enterprise system which maintains a website that averages 80,000 hits per month. OP maintains the State's centralized GIS database which currently consists of approximately 200 data layers, over 100 of which are available for download at the State GIS website. Data layers include but are not limited to infrastructure, hazards, natural resources, land use and ownership, population data and various imagery data (satellite imagery, digital ortho quarter quads). The data layers housed on the GIS server are available for use by all State agencies. There are currently over 100 registered users of the system from 29 State agencies.

The GIS Program has created an interactive mapping site which is available to the public via the Statewide GIS website and hosts interactive mapping applications for other programs and agencies on the webserver. The Program conducts GIS User Group meetings to avoid duplication of effort and redundant or inconsistent databases and activities and to share information on successful applications. The program also staffs the State Board on Geographic Names.

OP is a founding member and key participant, along with GIS users at the state, county, federal and private sectors, of the Hawaii Geographic Information Coordinating Council. The Council provides for coordination of geographic activities

at a broader level including the establishment of a clearinghouse of all geographic data in Hawaii.

The GIS Program continued data acquisition and partnership projects including membership in the Pacific Islands IKONOS Data Purchase Consortium and purchase of Quickbird satellite and LiDAR imagery. The acquisition of the Quickbird satellite imagery provides a higher resolution for more detailed land analysis. The LiDAR acquisition will be used for a number of applications including the development of flood hazard and tsunami inundation zone maps. Participated in GIS Day, an event for school children and assisted in planning for the PacGeo Statewide GIS Conference. In accordance with the two-year strategic plan, which outlines targeted activities, OP is evaluating the potential implementation of an Enterprise License Agreement (ELA) for GIS software to help improve overall coordination of GIS activities within State government. The evaluation process included holding informational meetings and the conduct of a survey of State GIS users to ascertain current software holdings, levels of usage and user needs.

In FY07, legislation which established a GIS Special Fund was adopted.

**Brownfields.** Administrative rules for the Brownfields Cleanup Revolving Loan Fund were adopted. OP finalized a memorandum of agreement with DOH and county coalition members to formalize program roles and responsibilities. The project is accepting applications for loans. OP was awarded \$400,000 from EPA for community-wide assessments of hazardous materials and petroleum sites. As a result Phase 1 environmental site assessments have been substantially completed for several sites.

**Sustainability 2050 Task Force.** Participated as a member of the Sustainability 2050 Task Force.

**b. Explain how these results relate to the program's objectives and department's mission.**

The program's objectives relate to government-wide support and improving the effectiveness and efficiency of State programs. OP provides government-wide support by providing information and analysis through the preparation of studies, reports, maps and plans in order to aid executive and legislative decision-makers.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

Performance measures for OP include the number of plans and studies completed; statements for land use boundary amendments completed in a timely manner and upheld by the LUC and other permit reviews completed.

OP has completed reports and studies assigned by the Legislature and Governor in a timely manner. OP completed studies and reports to provide findings and recommendations on critical statewide issues.

OP has also completed reviews for land use district boundary amendments and other permits in a timely manner and has had a high percentage of its position statements upheld by the LUC (usually 100%).

The number of data layers and users of the Statewide GIS system have increased. The success of the Statewide GIS program is also reflected in the fact that agencies consult with OP before initiating their own GIS efforts and its web site continues to receive over 80,000 hits monthly.

OP measures the effectiveness of its Brownfields program by the number of communities and property owners made aware of the opportunities and helped to assess, cleanup and redevelop abandoned or underutilized former industrial properties with actual or perceived contamination. OP staff has worked closely over the past two years with the Department of Health's Office of Hazard Evaluation and Emergency Response, the State lead agency for Brownfields, holding county meetings and Brownfields Working Group meetings to build awareness of EPA Brownfields grant opportunities and Voluntary Response Program benefits.

**d. Discuss actions taken by the program to improve its performance results.**

OP conducted an extensive strategic and operational planning process to direct and prioritize office resources to meet core planning, policy, and technical support functions as described in the Hawaii Revised Statutes and to improve office efficiency and productivity.

A major effort has been made to focus and limit OP to its core functions and to emphasize priority project areas in the strategic and operational plans.

**e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

OP seeks to coordinate governmental and private efforts to resolve numerous issues relating to the impacts of growth and development that cut across various State programs and have multi-jurisdictional implications. OP will strive to complete the assigned tasks but is required to prioritize projects by emphasizing immediate and high priority Administration and Legislative projects.

The primary problem for the GIS program has been the erosion of funding support. Maintenance of a viable GIS system is difficult, particularly since system, software advances and the development of new and innovative applications will eventually lead the system towards obsolescence. With more agencies using GIS, there is a need to upgrade and expand existing equipment, high speed networking capabilities and support personnel. In addition, the development of new databases and the acquisition of important proprietary databases have been slowed.

**b. Program change recommendations to remedy problems.**

To be completed when the results of budget requests are known.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program and the corrective measures or remedies established or planned.**

The program faces the challenges of meeting deadlines for land use district boundary change reviews and assuring the public interest is well served while undergoing personnel and fiscal reductions. There has been increased workload due to the increase in number of land use petitions and reviews.

The staff has taken on increased workload and has increased productivity. Staff has also taken on multiple assignments in order to complete work tasks and meet program objectives.

**4. Expenditures for FY08:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(17.00)				(17.00)	(17.00)
Personal Services	1,199,548	57,944	(30,000)		1,196,492	1,196,492
Current Expenses	1,207,866				1,207,866	1,207,866
Equipment			30,000		30,000	30,000
Motor Vehicles					-	-
<b>Total</b>	<b>2,407,414</b>	<b>57,944</b>			<b>2,434,358</b>	<b>2,434,358</b>
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds	- 125,000				- 125,000	- 125,000
(Pos. Count) Other Funds	1,000,000				1,000,000	1,000,000
(Pos. Count) General Fund	(17.00) 1,282,414	57,944			(17.00) 1,309,358	(17.00) 1,309,358

**a. Explain all transfers within the Program I.D. and the impact on the program.**

\$30,000 was transferred from Personnel to Equipment. Payroll savings were used to purchase computer equipment and software to replace obsolete and out-dated computers. Several computers had crashed. The purchase of new computer equipment and software improved office operations.

**b. Explain all transfers between Program I.D. and the impact on the program.**

None.



**c. Explain all restrictions and the impact on the program.**

None.

**5. Supplemental Budget Requests for FY09:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(17.00)		(17.00)
Personal Services	1,208,741		1,208,741
Current Expenses	1,082,866	2,428,587	3,511,453
Equipment			
Motor Vehicles			
<b>Total</b>	<b>2,291,607</b>	<b>2,428,587</b>	<b>4,720,194</b>
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds	-	1,978,587	1,978,587
(Pos. Counts) Other Funds	1,000,000		1,000,000
(Pos. Counts) General Funds	(17.00) 1,291,607		(17.00) 1,291,607

**a. Workload or program requests.**

Increase in expenditure ceiling for operation of the Brownfields Cleanup Revolving Loan Fund including program support and direct loans using federal grant funds under a cooperative agreement between DBEDT and the U.S. Environmental Protection Agency (EPA).

**b. For all position count reductions, specify whether the positions were new, filled or vacant.**

Not Applicable.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:**

None.

**8. Proposed Lapses of CIP Projects:**

None.

**Department of Business, Economic Development and Tourism  
Supplemental Budget Request for Fiscal Year 2008-2009**

**Program ID and Title: BED 144 PZ - Statewide Planning and Coordination/  
Coastal Zone Management Program**

**1. Introduction:**

**a. Summary of program objectives.**

Chapter 205A, Hawaii Revised Statutes (HRS), establishes objectives and policies for the Hawaii Coastal Zone Management (CZM) Program to promote the beneficial use, protection, and development of land and water resources. A program goal is to partner with Hawaii's communities to promote a sustainable coastal environment by building upon Hawaii's heritage and inspiring island stewardship. The CZM Program works to ensure a balance between competing demands for limited and often fragile coastal and marine resources and is the policy umbrella for designing and carrying out land and water uses and activities affecting these resources.

The Office of Planning (OP), attached for administrative purposes to the Department of Business, Economic Development and Tourism (DBEDT), is the lead agency for CZM. The CZM program promotes OP's objectives aimed at "enhancing the effectiveness and efficiency of State programs by analyzing and formulating policies and strategies, by conducting statewide planning, coordinating such planning within and between various levels of government, and by undertaking comprehensive land use and coastal zone management activities."

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

Section 205A-2, HRS, enumerates the CZM objectives and policies which address recreational resources, historic resources, scenic and open space resources, coastal ecosystems, economic uses, coastal hazards, managing development, public participation, beach protection, and marine resources. Enacted in response to public demand, the CZM law incorporates the public's recommended objectives and policies, thereby serving a public benefit. The CZM Program works to ensure a balance between competing demands for limited and often fragile coastal and marine resources and is the policy umbrella for designing and carrying out uses and activities affecting these resources. In balancing environmental and economic interests that affect coastal resources, the CZM Program protects the public trust and its resources while allowing and assuring the continued use of these resources upon which our visitor economy ultimately depends. Compliance with Chapter 205A, HRS, CZM objectives and policies ensure that appropriately designed developments along coastal areas respect economic, biological, environmental, and cultural values.

Participating State agencies in the CZM network include the Land Use Commission; the Departments of Land and Natural Resources, Health, Transportation, Civil Defense and Agriculture; and the Offices of Environmental

Quality Control and Hawaiian Affairs. State agencies are responsible for assuring that projects and activities in their legislated jurisdictions in the coastal zone comply with the CZM objectives and policies through the permits and approvals they administer and that their own actions comply with the CZM law.

The counties regulate development in the Special Management Areas (SMAs) and assess development proposals in their respective SMAs for compliance with CZM objectives and policies to determine the appropriateness of SMA permits. Where potential adverse impacts are identified, counties deny or impose conditions on permits to minimize environmental impacts and assure compliance with Chapter 205A, HRS.

**c. Explain how program intends to meet its objectives within the upcoming supplemental year.**

The program objectives will be met with the 1) timely performance of core activities which involve a substantial amount of staff time; 2) fulfilling federal requirements; and 3) administering program projects that pertain to federal and state requirements.

Core activities include administering federal grants, preparing performance reports, administering Special Management Area permits in community development districts, conducting CZM consistency and compliance workshops, carrying out the lead agency responsibilities enumerated in Chapter 205A, HRS, including coordinating the implementation of the Hawaii Ocean Resources Management Plan and further developing it, preparing an annual report, and supporting the Marine and Coastal Zone Advocacy Council established by Chapter 205A.

The federal requirements include implementing the coastal nonpoint pollution control program, implementing the five year Section 309 enhancement program strategy approved by the federal administering agency, collecting and submitting performance measure information on how well the CZM Program is achieving certain national CZM objectives, and participating and responding to federal evaluations, among others.

Projects that enhance the work of networked agencies will be supported or worked on collaboratively. They include coordinating the implementation of a statewide ocean resources management plan, research and analysis to improve the Special Management Area permit system, and development of coastal hazards projects in conjunction with the State Civil Defense Agency.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

**Cumulative and Secondary Impacts:** The Rural Policy and Best Management Practices Project, a project which integrates the planning and coastal zone management functions of the Office, involved two sets of rural land use workshops conducted statewide in May and June 2006. The first set examined rural land use policy and definitions of rural, and the second explored a set of rural planning principles and potential tools to improve rural land use planning

and management. A rural best practices guidebook for use by county planners and others is being prepared for dissemination in FY 2008.

Also related to cumulative and secondary impacts and building upon the Waianae Ecological Characterization, the **Moku Management Framework** study was completed

**Coastal Hazards Initiative:** Funding and staff support resulted in the completion of wind speed mapping and preparation of implementing building code amendments for the County of Hawaii. This project is part of a larger effort to develop and implement a statewide system that will provide a uniform design standard of protection for hurricane hazards.

**Ocean Resources Management:** In FY07, the **Ocean Resources Management Plan** was prepared and submitted to the Governor and Legislature. Statewide public meetings were conducted. A major ongoing effort is the coordination of its implementation as well as its further development, in particular, the formulation of a moku management framework.

**Nonpoint Source Pollution Control:** In FY06, Low Impact Design (LID) workshops were conducted statewide covering building and site design techniques for managing stormwater, drainage and small scale wastewater systems in ways that can reduce nonpoint pollution rather than increasing it. A workbook, **LID in Hawaii: A Practitioner's Guide** was distributed at the workshops. In addition, a **LID Final Summary Report** was completed. In FY07, a strategy to meet NOAA and EPA conditions placed on Hawaii's nonpoint source pollution control plan to bring about full approval was prepared and discussed with the federal agencies. In collaboration with the Department of Health, management measures are being developed to satisfy federal requirements.

**Special Management Area (SMA) Permit System Project:** Completed the **Final Assessment Report on SMA Permit System Project**. The **Participants Guide to the SMA Permit Process** was published and distributed to aid planners and decision-makers in administering the SMA permit. Training sessions for County authorities and SMA staff are being conducted.

**Coastal and Estuarine Land Conservation Program (CELCP).** The **Coastal and Estuarine Land Conservation Program Plan** was completed.

**Section 309 Five Year Assessment and Strategy.** In FY06, the final assessment and strategy was submitted to NOAA and received approval. Implementation is ongoing focusing on coastal hazards and secondary and cumulative impacts.

**Federal Consistency, Special Management Area (SMA) Permits and Shoreline Setback Variances (SSV):** Conducted Federal Consistency reviews. Reviewed and approved SMA's and SSV's in Kakaako.

**Coastal Zone Management Act Performance Measurement System (CZMA PMS):** Completed Phase 1b of this new federal requirement which evaluates the effectiveness of coastal zone management programs nationwide in meeting the

objectives of the CZMA. This phase followed the pilot, voluntary phase of the CZMA PMS and examined accomplishments in the areas of public access and government coordination and decision-making. The report ***CZM Phase 1b Final Report*** was submitted to NOAA.

**Outreach and Education:** Supported preparation of Ohia Productions ***Wings of the Islands Educational Resource Guide***. The guide was distributed to public schools and educators throughout Hawaii to complement the Ohia Productions' play "Wings of the Islands". Schools and organizations continue to inquire about partnership opportunities.

**Monitoring and Compliance:** Monitored the actions of State, County and federal agencies that affect Hawaii's coastal zone.

**Marine and Coastal Zone Management Advocacy Group (MACZAC):** Provided staff support to MACZAC and its committees. In particular, the issues of shoreline certification, ocean resources management, aquaculture, boating facilities, shoreline erosion, rural lands and marine protected areas were examined.

**Grant Administration:** Administer Coastal Zone Management grants, including grants to the Counties to administer Special Management Area (SMA) permits and Shoreline Setback Variances (SSV's).

**b. Explain how these results relate to the program's objectives and department's mission.**

The above results directly relate to the CZM Program's efforts to promote a sustainable coastal environment by building upon Hawaii's heritage and inspiring island stewardship. Through reviews, specific projects, and outreach and education, the CZM Program is not only accomplishing its own objectives but also fulfilling the United States Congress' 1972 intent when it passed the CZMA to "preserve, protect, develop, and where possible, to restore or enhance, the resources of the Nation's coastal zone for this and succeeding generations."

Achieving these program objectives perpetuates a balance between environmental and economic interests that inevitably enhances the state's overall quality of life.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

Performance results are measured by the number of federal consistency reviews conducted and State permit approvals reviewed by the CZM program. The number of reviews for federal consistency has, and is expected to remain constant. CZM Hawaii will continue to focus more staff resources on critical coastal issues and provide general policy oversight with respect to CZM compliance.

The CZM Program will also review its performance in by evaluating its completion of the work tasks and objectives identified in the OP Strategic and Operational Plans.

Program effectiveness is essentially a byproduct of CZM Hawaii's ability to develop its work plan. Based on this work plan that allocates Section 306, 309, and 6217 grants on a yearly basis, specific tasks, schedules, and product/outcomes are developed. On the federal level, these activities are jointly monitored by NOAA with the CZM Hawaii program to ensure program effectiveness in the various areas of the prepared work plan. Through Section 312 Program Evaluations and regular Routine Program Changes (RPCs) Reports conducted by the federal government, program effectiveness can also be monitored quantitatively as well as qualitatively.

The CZM Program is also required to submit semi-annual performance reports to the Federal government and performance is measured through these reports.

The latest Federal Section 312 Evaluation was highly favorable and the findings documented a number of accomplishments of the CZM Program.

**d. Discuss actions taken by the program to improve its performance results.**

The CZM Program is consolidating projects which have common objectives or address similar issues and contracts to administer a few large contract rather than many large contracts to the extent allowed by the federal funding authority. These management changes are designed to make more efficient use of staff resources and reduce administrative workloads.

CZM has emphasized the maintenance of full staffing to ensure the adequate coverage of coastal resource management activities.

**e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered, if any.**

The level of State funding for CZM continues to be a concern, relative to the federal funding provided for the CZM program. As a result of tight State budgets, matching dollars for the CZM Program federal Section 306 (Administrative) and 6217 (Nonpoint Source Pollution) grants have not been available. To resolve this deficiency, the CZM program has relied on services-in-kind from the counties, OP, and other public/private partners to match Section 306 and 6217 grants. This has evolved into a time-consuming task that detracts from program tasks. Although the CZM program welcomes federal grant increases, it is becoming an increasing challenge to find dollars and/or unaccounted for services-in-kind as a match to expend federal monies. If this trend continues, opportunities to fund priority initiatives requiring federal and State matching funds may be lost.

The Hawaii CZM program was established in response to the enactment of the Federal CZM Law. In recognition of Hawaii's participation as a federally approved CZM program, federal funding was granted on the basis of the State's commitment to provide a 1-to-1 match. This matching commitment is currently provided for by a combination of limited State funds and services-in-kind. Because the State receives Federal funding, the State is subject to periodic Federal evaluations. At the recent CZM Hawaii Section 312 evaluation, the Federal government recognized the need for increased State resource commitment to fund CZM personnel to ensure that the objectives of the CZM Program are attained.

**b. Program change recommendations to remedy problems.**

Maintain adequate levels of State funding and in-kind contribution to match federal CZM grant funds.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program and the corrective measures or remedies established or planned.**

Awareness of the program and its function, mandates, and responsibilities will improve implementation of program objectives.



**4. Expenditures for Fiscal Year 2007-2008:**

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(6.00)				(6.00)	(6.00)
Personal Services	834,219	26,985			861,204	861,204
Current Expenses	1,986,623				1,986,623	1,986,623
Equipment					-	-
Motor Vehicles					-	-
<b>Total</b>	<b>2,820,842</b>	<b>26,985</b>			<b>2,847,827</b>	<b>2,847,827</b>
(Pos. Count) Special Funds					-	-
(Pos. Count)	(4.00)				(4.00)	(4.00)
Federal Funds	2,358,083	26,985			2,385,068	2,385,068
(Pos. Count) Other Funds					-	-
(Pos. Count)	(2.00)				(2.00)	(2.00)
General Fund	462,759				462,759	462,759

**a. Explain all transfers within the Program I.D. and the impact on the Program.**

None.

**b. Explain all transfers between Program I.D. and the impact on the program.**

None.

**c. Explain all restrictions and the impact on the program.**

None.

**5. Supplemental Budget Requests for Fiscal Year 2008-2009:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(6.00)		(6.00)
Personal Services	834,220		834,220
Current Expenses	1,986,623		1,986,623
Equipment			
Motor Vehicles			
Total	2,820,843		2,820,843
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds	(4.00) 2,358,084		(4.00) 2,358,084
(Pos. Counts) Other Funds			-
(Pos. Counts) General Funds	(2.00) 462,759		(2.00) 462,759

**a. Workload or program requests.**

None.

**b. For all position count reductions, specify whether the positions were new, filled or vacant.**

None.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Requests for FY2009:**

None.

**8. Proposed Lapses of CIP Projects:**

None.

**Department of Business, Economic Development, and Tourism  
Supplemental Budget Request Fiscal Year 2008-2009**

**Program I.D. and Title: BED 103 DA - Land Use Commission**

**1. Introduction:**

**a. Summary of program objectives.**

To preserve, protect, and encourage the development and preservation of lands in the State for those uses to which they are best suited in the interest of public health and welfare of the people of the State of Hawaii through the implementation of the State Land Use Law, Chapter 205, Hawaii Revised Statutes (HRS), as amended.

**b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.**

The program objectives of the Land Use Commission (LUC) are to process, review, and act on petitions for district boundary amendments which involve lands over 15 acres in the State Agricultural, Rural, and Urban Districts and all petitions seeking reclassification of lands in the Conservation District; review and act on applications for special permits in the Agricultural and Rural Districts which are over 15 acres; process motions and boundary interpretation requests; and maintain, update, and disseminate official State land use district maps and land use information.

There are currently 16 boundary amendment petitions pending before the LUC involving approximately 7,189 acres.

1. Docket No. A01-735/Gensiro Kawamoto: Requests the reclassification of approximately 148 acres of land from the Agricultural District to the Urban District for residential uses at Kihei, Maui, Hawaii.
2. Docket No. A03-740/Pukalani Associates, LLC: Requests the reclassification of approximately 41 acres of land from the Agricultural District to the Urban District for the Upcountry Town Center at Pukalani, Makawao, Maui, Hawaii.
3. Docket No. A05-756/Kaanapali Development Corp.: Requests the reclassification of approximately 849.77 acres of land from the Agricultural District to the Urban District for residential uses at Honokowai, Hanakoo, Kuhua and Kapunakea, Kaanapali, Maui, Hawaii.
4. Docket No. A05-759/Pacific Aina Development, Inc.: Requests the reclassification of approximately 1.142 acres of land from the Conservation District to the Urban District for residential uses at Waimalu, Oahu, Hawaii.
5. Docket No. A05-760/Maui Land & Pineapple Company: Requests the reclassification of approximately 87.702 acres of land from the Agricultural District to the Urban District for residential uses at Kula, Makawao, Maui Hawaii.

6. Docket No. A05-762/Big Island Country Club Homes, LLC: Requests the reclassification of approximately 402.08 acres of land from the Agricultural District to the Rural District for golf course and residential uses at Pu'uanahulu, Hawaii.
7. Docket No. A06-764/Molokai Properties Limited: Requests the reclassification of approximately 252 acres of land from the Agricultural District to the Conservation District, approximately 613 acres of land from the Agricultural District to the Rural District, and approximately 10 acres of land from the Conservation District to the Rural District for preservation, residential and park uses at La'au Point, Molokai, Hawaii.
8. Docket No. A06-765/Maalaea Properties, LLC: Requests the reclassification of approximately 260 acres of land from the Agricultural District to the Urban District for residential uses at Maalaea, Maui, Hawaii.
9. Docket No. A06-766/Towne Development of Hawaii, Inc., Endurance Investors, LLC, and Association of Il Wai Hui LP: Requests the reclassification of approximately 210 acres of land from the Agricultural District to the Urban and Rural Districts for residential uses at Wailuku, Maui, Hawaii.
10. Docket No. A06-767/Waikoloa Mauka, LLC: Requests the reclassification of approximately 731.581 acres of land from the Agricultural District to the Rural District for residential uses at South Kohala, Hawaii.
11. Docket No. A06-769/1250 Oceanside Partners: Requests the reclassification of approximately 1,434.755 acres of land from the Agricultural District to the Rural and Conservation Districts for residential and preservation uses at North and South Kona, Hawaii.
12. Docket No. A06-770/The Shopoff Group, L.P.: Requests the reclassification of approximately 127.94 acres of land from the Agricultural District to the Urban District for residential uses at North Kona, Hawaii.
13. Docket No. A06-771/D.R. Horton – Schuler Homes, LLC: Requests the reclassification of approximately 1,553.844 acres of land from the Agricultural District to the Urban District for residential uses at Ewa, Oahu, Hawaii.
14. Docket No. A07-772/A&B Properties, Inc.: Requests the reclassification of approximately 94.352 acres of land from the Agricultural District to the Urban District for residential uses at Waiakoa, Maui, Hawaii.
15. Docket No. A07-774/North Kona Village LLC: Requests the reclassification of approximately 181.169 acres of land from the Conservation District to the Urban District for residential and village mixed uses at O'oma 2<sup>nd</sup> – Kaloko, North Kona, Hawaii.
16. Docket No. A07-775/Castle & Cooke Homes Hawaii, Inc.: Requests the reclassification of approximately 191.214 acres of land from the Agricultural District to the Urban District for residential uses at Waipio and Waiawa, Oahu Hawaii.

LUC expects a number of other petitions for Maui (2), Oahu (1), and Hawaii (1) involving similar types of acreage. There are also three motions pending that are related to previously approved petitions, three special permit applications and 8 written boundary interpretation requests involving lands throughout the State. During the course of the fiscal year, Commission staff would likely process approximately 1,000 to 1,100 other verbal and written requests for boundary interpretations involving lands statewide.

**c. Explain how your program intends to meet its objectives in the upcoming supplemental year.**

The LUC intends to continue processing, reviewing, and acting on petitions for district boundary amendments and special permits in accordance with statutory timeframes, as applicable. The LUC also intends to continue processing motions and boundary interpretation requests. In addition, as part of the LUC's objectives to disseminate and provide maps and other information, the LUC will continue to expand and enhance its web site by including accurate and timely information on LUC hearings, pending petitions and applications, district boundary maps, and legislative matters. The LUC will also continue to facilitate or convene information forums designed to enhance community understanding of current land use planning issues.

**2. Program Performance Results:**

**a. Discuss the performance results achieved by each program in FY07.**

In FY 2006, the LUC processed a special permit for a construction and demolition landfill special permit and an amendment to a previously approved special permit for landfill uses. The LUC also processed five motions related to previously approved petitions for district boundary amendments. Petitions involving the development of residential and mixed use projects were also heard and acted upon by the Commission. In addition, the LUC processed 1103 boundary interpretations.

In FY 2007, the LUC processed a petition for declaratory ruling offered by the Attorney General. While the LUC issued a ruling in this matter, the docket has been appealed and is subject to litigation. The LUC also conducted hearings on a matter remanded by the State Supreme Court. Although the matter has not yet been resolved, there has significant discussion by the parties on the subject and a ruling is expected very shortly. During this time, the LUC conducted several hearings involving the development of residential, commercial and mixed uses projects. The LUC also approved an amendment to a previously approved district boundary amendment which would allow the development of the University of Hawaii West Oahu campus. The LUC further processed 1190 boundary interpretations.

**b. Explain how these results relate to the program's objectives and department's mission.**

To the extent that lands were reclassified to the Urban District for residential, commercial and mixed uses, the LUC was effective in encouraging various needed urban uses on those lands to which they were best suited.

To the extent that an existing decision and order was amended to allow for the development of the University of Hawaii West Oahu campus and related development, the LUC was effective in allowing an updated development project that had been long studied and analyzed, but for which the need was undeniable.

**c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

Program effectiveness is measured by the number of acres that are reclassified to the respective districts and the number of acres that are approved under special permit. Program effectiveness may also be measured in terms of the timeliness and efficiency by which the LUC processes petitions for boundary amendments and special permit applications in accordance with statutory requirements.

For the past two years, the LUC's performance results reflected the extent to which the LUC continued to administer Chapter 205, HRS, in a timely and efficient manner to preserve and protect Hawaii's lands and encourage those uses to which they were best suited. The LUC's activities involved the preservation of natural, historical, and cultural resources as well as the development of uses that diversified the State and local economy, created jobs, increased State and county revenues, and attracted new economic activity.

The LUC has also sought to appropriately integrate into its decision making criteria consideration for two of the DBEDT's six strategic Objectives. The DBEDT's six strategic objectives include the development of initiatives in: workforce housing; human capital development; energy for tomorrow; global links; creation of an innovation infrastructure; and improving the state's business environment. Given limitations in the purview and authority, the LUC will continue to focus on how individual development proposals before the Commission address the workforce housing and energy for tomorrow strategic objectives.

In focusing on the DBEDT workforce housing and energy tomorrow strategic objectives, the LUC considers existing state and county programs and ordinances and if appropriate imposes conditions of approval which ensure that the individual project meets or exceeds statutory mandates. In much the same manner, the LUC also reviews individual projects and based on the individual circumstances and imposes conditions of approval related to energy conservation for that project.

The LUC has been successful in raising the understanding in the development community as to the importance of developing affordable workforce housing in addition to constructing high value 2<sup>nd</sup> homes and other development aimed at the luxury market. The subject of energy conservation has also been advanced and the LUC is now conversant in topic areas such as LEEDS, energy star, Hawaii Built Green standards and certification programs.

**d. Discuss the actions taken by the program to improve its performance results.**

In FY 2007, the LUC continued with its initiatives begun in FY 2001 to bolster its performance, including the design and development of a legislative tracking system; establishment of an LUC website; and research and development of an automated land use planning and information database. These initiatives collectively will enhance the ability of the LUC to maintain statutory integrity, technical accuracy, and process efficiency in its operations. The initial design and development of the tracking system and LUC website have been recently debugged and updated. The LUC is currently in the process of migrating more legacy data into the new database.

**e. Please identify all modifications to program's performance measures and discuss the rational for these modifications**

Not applicable.

**3. Problems and Issues:**

**a. Discussion of problems and issues encountered.**

The LUC is required to process fast track affordable housing project petitions within a 45-day timeframe. Act 235 passed by the 1995 Legislature and codified in Section 205-4(g), HRS, requires the LUC to process all petitions within one year or 365 days after the proper filing of a petition. Given the recent loss of two support positions (i.e., drafting technician, clerk typist) from the organizational structure of the LUC, it remains a challenge for the existing staff to meet the requirements of these accelerated processes. At a minimum, the loss of the drafting technician has impacted the efficiency of the LUC to process requests for boundary interpretations and the updating of the Commission's state land use district boundary database.

Recent enactment of the Commission's hearing expenses reimbursement policy has assisted the LUC in meeting its operational expenses. However, the complexity and number of pending petitions and other necessary hearing expenses is likely to strain our operating budget.

Resources to support the hire of an additional drafting technician position might need to be identified. Securing this additional position may assist the LUC in updating its database and reduce the backlog of boundary interpretations pending before the LUC. The backlog currently averages between 6 to 10 requests and an average waiting period of 4 months.

**b. Program change recommendations to remedy problems**

None.

**c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned**

None.

**4. Expenditures for FY08:**

	Act 213/07 FY 07	Collective Bargaining	Transfer In/(Out)	(Restriction)/ Spec.Apprn.	Net Allocation	Est. Total Expenditures
(Pos. Counts)	6.00				6.00	
Personal Services	337,865	10,861			348,726	348,726
Current Expenses	153,751				153,751	153,751
Equipment						
Motor Vehicles						
Total	491,616	10,861			502,477	502,477
(Pos. Counts) Special Funds						
(Pos. Counts) Federal Funds						
(Pos. Counts) Other Funds						
(Pos. Counts) General Funds	6.00 491,616				6.00 502,477	

**a. Explain all transfers within the program I.D. and the impact on the program.**

None.



**b. Explain all transfers between program I.D. and the impact on the program.**

None.

**c. Explain any restrictions and the impact on the program.**

None.

**5. Supplemental Budget Requests for FY09:**

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(6.00)		(6.00)
Personal Services	337,917		337,917
Current Expenses	153,751		153,751
Equipment			
Motor Vehicles			
Total	<u>491,668</u>		<u>491,668</u>
(Pos. Counts) Special Funds			
(Pos. Counts) Federal Funds			
(Pos. Counts) Other Funds			
(Pos. Counts)	(6.00)		(6.00)
General Funds	491,668		491,668

**a. Workload or program requests:**

None.

**b. For all position count reductions, specify whether the positions were new, filled or vacant.**

Position No. 45497 (Planner V) is currently being recruited. In the interim, an 89 day appointment has been performing the duties of that position. All other positions are filled.

**6. Program Restrictions:**

None.

**7. Capital Improvement Program (CIP) Request for FY09:**

None.

**8. Proposed Lapses of CIP Projects:**

None.