

Honolulu, Hawaii

May 5, 2009

RE: H.B. No. 200  
H.D. 1  
S.D. 1  
C.D. 1

Honorable Calvin K.Y. Say  
Speaker, House of Representatives  
Twenty-Fifth State Legislature  
Regular Session of 2009  
State of Hawaii

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fifth State Legislature  
Regular Session of 2009  
State of Hawaii

Sir and Madam:

Your Committee on Conference on the disagreeing vote of the House of Representatives to the amendments proposed by the Senate in H.B. No. 200, H.D. 1, S.D. 1, entitled:

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

having met, and after full and free discussion, has agreed to recommend and does recommend to the respective Houses the final passage of this bill in an amended form.

The purpose of this measure is to appropriate funds for the operating and capital improvement costs of the Executive Branch for fiscal year 2009-2010 and fiscal year 2010-2011.

#### INTRODUCTION

This measure is by far the largest component of the State's expenditure plan and was crafted to tighten up general fund spending, while continuing to respond to our diverse community's needs and priorities. Contained in this measure is the spending authorization required for the operation of the public school, university, and public health systems; programs that make up the



social safety net; programs that help to support various sectors of the economy; and other programs that support the governance of our society as required by our state constitution.

In response to the global economic downturn, many difficult choices had to be made in developing this budget. In some cases, your Committee on Conference was unable to restore the Governor's cuts to core programs and was forced to make additional cuts in less-core areas. Despite the difficulty of making these decisions, your Committee on Conference has approached this task as an opportunity to refocus and streamline state government where possible.

Your Committee on Conference appreciates the efforts of all those who have provided input regarding the budget, including the directors of executive departments who testified at the pre-session briefings, the state employees who fielded hundreds of questions from legislators and staff, and the thousands of engaged citizens who shared with us their thoughts and concerns.

#### ECONOMIC OUTLOOK

##### National Economic Outlook

The National Economic Outlook is uncertain. As of April, 2009, the United States unemployment rate had reached 8.5 per cent. Michigan, at 12.6 per cent, had the highest rate of unemployment in the nation.

Signs of the gravity of the current economic contraction had become clear more than a year ago, when investors began to question the value of real estate assets held by Bear Sterns Companies, Inc. The problem began when individuals who couldn't afford home ownership were awarded mortgage loans, known as subprime loans. Lenders who made these subprime loans resold them to other institutional players, such as Fannie Mae, the Federal National Mortgage Association.

The first indication of our current economic contraction was when investors determined that the credit default swaps that Bear Sterns Companies, Inc. was relying on to protect it from exposure to subprime loans were worthless. Investors began to inspect the balance sheets of banks and other financial intermediaries, and question the real value of mortgages on all commercial and residential property, that was stated as assets on the balance sheets of these financial institutions. When investors concluded



that the book value of these assets exceeded the market value, the selling, and thus the economic contraction, began. Lehman Brothers Holdings, Inc. collapsed on September 15, 2008; and the American International Group, which sold the credit default swaps that pay off if the mortgages enter default, became the subject of an ongoing federal "bailout."

When the banking system was called into question, the banks, having nothing to lend, cut the supply of credit, jeopardizing all businesses, which generally run on credit for one accounting period.

Despite the pervasiveness of the calamity, welcome signs of a recovery are emerging. Some economists say that a number of indicators appear to have bottomed out in recent months. Consumer confidence is increasing. Home sales are starting to pick up. Stocks are enjoying a limited rally.

While there may be movement toward recovery, many economists believe that the current recession will not end until much later this year, and some believe it will last until 2010. However, many of these forecasts were made before the nearly \$800 billion federal stimulus package, enacted earlier this year, began to have an effect. Based on more recent forecasts, some economists argue that the stimulus plan could create stronger than expected growth, and much sooner than the consensus forecasts.

#### The Economic Outlook for Hawaii

The State's unemployment rate increased from 6.5 per cent to 7.1 per cent between February and March 2009. According to the state Department of Labor and Industrial Relations, February's unemployment rate was the highest since the 6.6 per cent rate recorded in 1978. The State's unemployment rate is not expected to peak until the fourth quarter of 2009.

Though Hawaii's unemployment rate is lower than the national rate, our islands have not been spared economic problems. In February 2009, the occupancy rate for Hawaii hotels was at its lowest rate since 1991. In March 2009, the number of visitors who arrived by air fell 17.2 per cent, and spending by these visitors fell 24.4 per cent, according to the Department of Business, Economic Development, and Tourism. Our island economy continues to be impacted by the loss of ATA and Aloha Airlines, two cruise ships, the Hawaii Superferry, and the closure of Molokai Ranch. Construction slowed dramatically in 2009, resulting in decreased revenue and additional job losses.



Oil prices, the housing market, and United States credit remain wild-card factors that could have long-lasting impacts on the Hawaii economy. As of April 2009, the economic outlook for Hawaii remains uncertain.

#### GENERAL FUND REVENUE OUTLOOK

By statute, the Council on Revenues reports its latest tax revenue forecast to the Governor and the Legislature on June 1, September 10, January 10, and March 15 of each year. The revenues come primarily from the general excise tax and the state income tax. Since the March 2008 forecast, the Council on Revenues has reduced each prediction of tax revenues for the coming fiscal years. From March 2008 to October 2008, the Council's general fund tax revenue projection through the upcoming biennium dropped by \$1.341 billion.

The Governor based the administration's original biennium budget request on the October 2008 Council on Revenue projection. In early January 2009, soon after the Governor's budget was finalized and submitted to the Legislature, the Council on Revenue revised its forecast downward; the projection was reduced by \$637 million through the coming biennium. Thus, from the Council's March 2008 projection to the January 2009 projection, general fund revenues have declined by nearly \$2 billion.

The House draft of the budget was balanced based upon the Council on Revenue's January forecast, in part by controlling expenditures through eliminating programs and filled and vacant state government positions, cutting into the base budget, and transferring general fund expenses to non-general funds. Then, on March 12, 2009, the Council's tax revenue outlook was again downgraded by \$262 million over the biennium (down \$92.8 million in the current year, \$115.8 million in FY2010 and \$53.4 million in FY2011), and the Senate took on the task of creating an even slimmer budget to balance with the new revenue projection.

#### BUDGET OVERVIEW

Never before has the State faced a declining revenue picture approaching the magnitude of that currently confronting the 25th Legislature. In fact, the \$2 billion shortfall through the biennium budget, projected at the start of this legislative session, left many individuals in various states of denial. While considerable budget reductions are a necessary component of a balanced financial



plan, they are just one factor in aligning the State's expenditures and revenues.

In an effort to close the budget shortfall, the Governor requested each department to reduce the department's discretionary budget by twenty per cent. The factors that determined the amounts deemed discretionary are not entirely clear, and many departments did not meet the target reduction. Nonetheless, reductions resulting from this exercise and other adjustments made by the Governor resulted in a net decrease of state operating costs of \$209 million for FY2010 and \$186 million for FY2011. Previously authorized collective bargaining amounts and other fixed cost adjustments resulted in the Governor's fiscal biennium 2009-2011 executive budget request of \$5.361 billion for the first fiscal year, and \$5.464 billion the second fiscal year.

Subsequent to the introduction of the House draft of the state budget, the Governor adjusted the biennium budget request. These adjustments included reductions to account for the use of such funds as the Emergency and Budget Reserve Fund and the federal American Recovery and Reinvestment Act of 2009 (ARRA) stimulus funds. This, along with other adjustments, lowered the net executive budget request by \$190 million and \$69 million for FY2010 and FY2011, respectively.

In H.B. No. 200, S.D. 1, the Senate restored some of the cuts made by the Governor and the House through the appropriation of ARRA funds, but made new cuts in other areas. House Bill No. 200, S.D. 1, achieved a net reduction to the Governor's proposed budget as adjusted for Governor's Message items of \$58 million in FY2010 and \$83 million in FY2011. Reductions were generally attained by moving operating expenses from general funds to non-general funds where appropriate; reducing programs of limited value or great expense for the benefits derived; reducing positions that, with some exception, were vacant for one year or longer; and reducing a limited number of exempt positions not necessary to core government functions.

Aware of the harm that further reduction to the budget could cause to the State's ability to deliver vital services to the public and of the potential for long-term disarray within state agencies that could arise, your Committee on Conference set out to find common ground in order to reduce the Governor's proposed budget in areas it believes to be least detrimental to core and direct services. This was done primarily by compromising between the House of Representatives and Senate positions, making use of available



ARRA funds, and reducing funds for deputy director positions in the second fiscal year.

### DEPARTMENT HIGHLIGHTS

#### Human Services

Especially in these unfavorable economic times, your Committee on Conference recognizes the importance of supporting the Department of Human Services' efforts to provide services to those most in need. Because of the continuing economic contraction, the Governor's budget reduced Department of Human Services' discretionary expenditures by twenty-nine per cent in FY2010, and FY2011. These reductions would have resulted in the loss of important services to the State's most vulnerable citizens.

Your Committee on Conference appropriated \$714 million in FY2010 and \$780 million in FY2011 in general funds to allow the Department of Human Services to continue protecting and empowering the State's most vulnerable citizens. Highlights of general fund appropriations include \$459 million in FY2010 and \$525 million in FY2011 for the MedQuest Program; \$25.5 million each year for Cash Support for Families-Self-Sufficiency; \$15.6 million each year for Case Management for Self-Sufficiency; \$19 million each year for Cash Support for Child Care, which in large part helps to maintain the State's claim to an annual federal TANF block grant.

With the help of federal ARRA funds, your Committee on Conference was able to appropriate \$2.6 million in FY2010 and \$3.1 million in FY2011 to restore the Adult Dental Program, which was cut by the Governor. In addition, your Committee on Conference partially restored funding for Immigrant Health Services, also cut by the Governor. In total, your Committee on Conference appropriated \$211 million in FY2010 and \$105 million in FY2011 in ARRA funds for Department of Human Services programs. In addition, your Committee on Conference appropriated \$25 million in FY2010 to address an existing ongoing shortfall in the Department.

In order to support the increasing number of Hawaii families who must turn to Temporary Assistance for Needy Families (TANF) as a result of the current economic situation, the federal government authorized additional funds for the TANF program. As a result, your Committee on Conference was able to increase TANF expenditures to help address this growing need. To continue providing services to those in need, and to meet increased demand for essential services due to the economic downturn, your Committee on Conference finds



that it will be necessary to draw on TANF reserve funds for \$41.7 million in FY2010, and \$23.8 million in FY2011. Your Committee on Conference notes that the drain on TANF reserve funds would have been much more significant without the increased federal support received by the State.

Additionally, your Committee on Conference was able to appropriate ARRA money and other federal funds for the following TANF-related purposes: \$20 million in FY2010 and \$5 million in FY2011 of TANF contingency funds; \$25 million in FY2010 and \$6.25 million in FY2011 of TANF emergency funds; \$5.4 million each fiscal year, of TANF assistance for non-IV E foster children; and \$3.5 million in FY2010 and \$900,000 in FY2011 for other assistance to non-IV E children.

#### Hawaii Health Systems Corporation and Kahuku Hospital

Your Committee affirms its support and commitment to providing the resources necessary to help Hawaii Health Systems Corporation (HHSC) maintain its current level of services. HHSC facilities face tremendous challenges with, among other things, federal and private reimbursement rates failing to keep pace with rising medical costs. HHSC is an essential public safety net for many residents and visitors, especially on the neighbor islands. To help maintain the current level of essential health care services by those facilities, your Committee on Conference provided a general fund subsidy of \$14.3 million for FY2010, to be expended to the extent possible for Medicaid eligible services. In addition, your Committee on Conference increased HHSC's special fund ceiling by \$14.7 million for FY2010 and \$14.5 million for FY2011 for additional health care payments anticipated to be received from the Department of Human Services.

Your Committee on Conference is concerned with the management, both fiscally and operationally, of the HHSC regions. Thus, your Committee on Conference created a new program, HHSC Regions (HTH 212), to increase transparency and accountability. In addition, your Committee on Conference has earmarked \$500,000 in general funds for a comprehensive review and evaluation of the HHSC corporation and its regions.

#### Health

Your Committee on Conference is dedicated to protecting the health and well-being of people in Hawaii and ensuring basic health care to all. This is especially challenging given the growing need



for health care in the face of economic hardship. It is vital that health care be available and accessible to everyone. To meet this need, your Committee on Conference increased funding to critical services that were either reduced or eliminated in the Governor's budget.

Community health care centers serve as a safety net for many individuals who otherwise would not receive vital health care. Health care centers are experiencing an increase in the number of individuals seeking services, and this demand is expected to grow. To ensure that all residents are able to receive medical care, your Committee on Conference increased funding to community health care centers throughout the State to a total of \$6,591,526 in each fiscal year.

Your Committee on Conference is also concerned that the downturn in the economy increases untold stress on individuals and families. To address this concern, your Committee on Conference restored funding for the following programs and services that were eliminated by the Governor. Funding for these services will come from special funds.

- Partnership in Community Living to provide last-resort support for families of developmentally disabled individuals who are not eligible for Medicaid: \$700,000.
- Healthy Start to prevent child abuse and promote positive parent-child relationships: \$3 million.
- Respite care to provide temporary relief to families that have ongoing care giving responsibilities for family members with developmental or mental disabilities: \$376,953.

The ARRA provides federal stimulus funds in the amount of \$90 million for FY2010 and \$19.6 million for FY2011. This infusion of funding will have a significant impact on the following programs and services:

- Enhanced federal Medical Assistance Percentage reimbursements will reduce the need for the following general fund expenditures:
  - ❖ Developmental Disabilities: \$16 million in FY2010 and \$8 million in FY2011;





- ❖ Adult Mental Health: \$4 million in FY2010 and \$1.5 million in FY2011;
- ❖ Child and Adolescent Mental Health: \$2.6 million in FY2010 and \$1.8 million in FY2011.
- Early Intervention for Children to ensure compliance with federal Individuals with Disabilities Education Act, Part C: \$2.6 million in FY2010 and \$197,343 in FY2011.
- Emergency Medical Services (EMS) to implement a statewide mobile electronic health record exchange system and a broadband telecommunication system to send critical patient information between EMS personnel and emergency department physicians: \$10.9 million in FY2010 and \$7.9 million in FY2011.
- Environmental Management to provide grants for drinking water and wastewater infrastructure improvements, reduce diesel emissions for school buses, oversee underground storage tanks, and contract technical expertise for water quality standards: \$53.9 million in FY2010.

Your Committee on Conference finds that the reorganization plan proposed by the Department of Health and the Governor does not deliver any cost savings or efficiencies for the program or services and, in fact, may have a negative impact on clients and staff, disrupt the delivery of services, and incur additional costs.

Your Committee on Conference diligently strove to work with the Department of Health. However, the Department chose not to assist in identifying less core services and possible areas for reduction. It must also be noted that your Committee on Conference has made its best effort in developing this budget without pertinent information from the Department, particularly the itemized operating biennium budget for fiscal biennium 2009-2011.

#### Public Education

Your Committee on Conference recognizes the importance of providing a quality education to our children to ensure that they are able to thrive in the global society now and in the future. Preserving school-level funding, particularly funds to be distributed via the weighted student formula, is a top priority of



your Committee on Conference. Unfortunately, your Committee on Conference was not able to restore the \$40 million in non-weighted student formula program cuts that were included in the Governor's budget and accepted by the Board of Education.

Hawaii is fortunate to be receiving federal stimulus dollars to support education and other state programs in the upcoming biennium. Your Committee on Conference is pleased to have the ability to appropriate stimulus dollars for the following educational programs: \$19.8 million for Title I and Educational Technology in FY2010; and \$20 million for IDEA Part B & IDEA Part B Preschool funds in FY2010.

Your Committee on Conference respectfully disagrees with the Governor's initial plan regarding the timing of the use of a large portion of federal stimulus funds intended for education stabilization. In the interest of protecting the school system from much of the impact of the budget shortfall, your Committee on Conference has provided \$56.6 million in stimulus dollars for education each year of the biennium. These funds will be distributed between public schools and charter schools, based on the latest enrollment projection available to your Committee on Conference. By contrast, the Governor proposed to immediately use \$90 million of the \$113 million in the federal stimulus funds intended to go to lower education in an effort to balance the state budget in the current fiscal year.

The receipt of federal stimulus funds has provided your Committee on Conference with an opportunity to make adjustments to the charter schools' FY2010 and FY2011 budget allocations to accurately reflect the amounts prescribed by section 302B-12, Hawaii Revised Statutes. Charter schools will be able to make the \$5.3 million corrective reduction of general funds without substantial impact to delivery of services because the charter schools' budget will be largely offset by the addition of funds for collective bargaining and \$2.8 million in federal stabilization funds. The net reduction to the charter school budget will be less than \$1 million, which represents a year-to-year reduction of less than two per cent.

Your Committee on Conference has struggled this session to make informed and equitable decisions regarding charter school funding because of the limited information charter schools made available. Charter schools currently enjoy an extremely flexible operating environment, which was provided to enhance program creativity and resourcefulness with the goal of creating better outcomes for students. However, as a publicly-funded entity, charter schools must provide transparency and ensure that public funds are properly



used. Your Committee on Conference requests that charter schools provide a budget that reflects all fiscal resources anticipated to be available to the charter schools for the next year; report on the consistency of procurement practices with the guidelines in Chapter 302B, Hawaii Revised Statutes; and account for all exemptions to normal employee compensation levels. Your Committee on Conference also requests that all charter schools work with the Charter Schools Administrative Office annually to provide the Legislature full and accurate financial information to enhance future decision making processes.

Your Committee on Conference made no further reductions to the budget of the Hawaii State Public Library System. Use of the library system has increased during the current recession and the library system would not be able to withstand additional cuts without decreasing security and closing branches.

Additionally, your Committee on Conference is transferring the fixed costs for debt service, health premiums, and retirement benefits from the Department of Education's budget to the Department of Budget and Finance and is transferring risk management costs to the Department of Accounting and General Services. The budgeting of these items within the Department of Education has no notable benefit and creates unneeded paperwork and confusion regarding the proportionate level of funding provided the Department.

#### Higher Education

The University of Hawaii system is the State's only public institution for higher learning and plays a critical role in building a strong foundation for Hawaii's future. While budget reductions for most state agencies are unavoidable, the University is fortunate to have significant non-general fund revenues and access to federal stimulus funds.

Your Committee on Conference accepted the twenty per cent discretionary target reduction scenario approved by the Board of Regents, which amounts to an additional reduction of \$17.1 million in general funds each fiscal year. Your Committee on Conference further reduced \$15.4 million each fiscal year, which will be offset by an anticipated \$25 million increase per year in tuition and fees revenue based on built-in annual tuition increases. The addition of ARRA education stabilization funds will also reduce the impact of these adjustments.



The University system is now experiencing record-high enrollment as people seek additional training to increase their job prospects. The greatest increase in enrollment is at the community college level, where enrollment has increased by 9.4 per cent. As such, your Committee on Conference sought to maintain support for the community colleges by providing enough ARRA education stabilization funds to offset nearly all of the \$8 million in general funds reduced from their budget. In total, the University of Hawaii will receive \$54 million in ARRA education stabilization funds over the course of the biennium.

### Public Safety

Your Committee on Conference notes that Hawaii continues to struggle with the persistent growth of the inmate population. The traditional solution to prison overcrowding is to build additional facilities or expand existing ones. Since it is unlikely that any new facilities will be built in the near future, your Committee on Conference recognizes the need for interim measures.

The current administration's primary strategy for reducing overcrowding has been to transfer inmates out of the State. However, with a total of 2,298 inmates housed in out-of-state correctional facilities and the escalating costs associated with those inmates, your Committee on Conference finds it necessary to support programs that help reduce the number of inmates in Hawaii's corrections system. Your Committee on Conference provided \$309,516 for FY2010 and \$540,733 for FY2011 to establish a pilot program on Oahu that electronically monitors committed persons who are permitted to live and work in the community in lieu of continued incarceration.

Prior delays in transferring Hawaii inmates to out-of-state facilities have resulted in the accumulation of \$7.7 million that is in excess of the Department of Public Safety's need for contracted bed space. Your Committee on Conference has identified this amount as a one-time general fund savings in FY2010 that can be reduced with no impact to the Department's operations.

Your Committee on Conference reviewed operations of the Sheriff Division and made two significant adjustments. First, your Committee on Conference reduced five vacant positions and funds for the Airport Unit to bring the position count to the number required under the memorandum of understanding with the Department of Transportation Airports Division. Second, four general funded



positions were reduced and resources reallocated to establish three additional warrant teams.

Your Committee on Conference continues to be concerned by excessive overtime expenditures and the reported abuse of sick leave benefits by Department of Public Safety employees. General funded overtime expenditures for FY2008 totaled \$9.8 million for the department, which is 31.7 per cent above the budgeted amount of \$7.5 million. Your Committee on Conference reduced funds for overtime by twenty per cent of FY2008 actual expenditures or \$2 million in general funds. Your Committee on Conference established a protocol fund that will be used to encourage employees to reduce sick leave abuse and, subsequently, the need for overtime.

#### Land and Natural Resources

Your Committee on Conference believes that protecting Hawaii's natural resources and preserving its unique endemic species should remain priorities, even in difficult financial times. Hawaii's resources are constantly being threatened by alien plant and animal pests and by public overuse. To prevent further degradation of these resources, your Committee on Conference has restored \$500,000 for invasive species support that was reduced in the Governor's budget. To protect the State's aquatic resources, your Committee on Conference has restored \$47,500 for coastal stock enhancement, \$45,620 for marine monitoring, \$379,480 for regional stream studies, and \$90,000 for Anuenue Fisheries Research Center.

The Department of Land and Natural Resources identified public safety and park operations as its top priorities and, accordingly, your Committee on Conference has restored, through the use of special funds, funding for lifeguard services at Kaena Point State Park and Keawaula Beach that were reduced in the Governor's proposed budget.

#### Agriculture

Your Committee on Conference recognizes the importance of agriculture to Hawaii's economy, both as an exportable commodity and as a means to allow the State to become less dependent on imported food products. As such, your Committee on Conference has taken steps to ensure that the Department of Agriculture continues to conserve, develop, and utilize the agricultural resources of the State. Your Committee on Conference has given high priority to preventing the introduction and establishment of pests in the State.



Act 9, Special Session Laws of Hawaii 2007, established a user fee for the inspection of sea and air containers bound for Hawaii that may be carrying pests. Your Committee on Conference has provided \$6 million in special funds to conduct harbor inspection programs and early detection and rapid response activities for invasive species. These funds will allow the Department to retain almost all plant quarantine inspector positions proposed for reduction by the Governor. In an effort to streamline the Department's operations, your Committee on Conference has eliminated the detector dog program, which has proven to be of limited value.

### Business, Economic Development, and Tourism

Your Committee on Conference realizes the importance of Hawaii's existing businesses as drivers of Hawaii's economy. Your Committee on Conference has found that the Department of Business, Economic Development, and Tourism has lost sight of its core functions and is unable to effectively manage and carry out the Department's mission. With that in mind, your Committee on Conference created general fund savings, efficiencies, and transparency by transferring programs within the Department to more appropriate departments that share common missions and objectives. This will allow the Department of Business, Economic Development, and Tourism to focus on its core functions and responsibilities.

Your Committee has made the following transfers of Department of Business, Economic Development, and Tourism programs:

- The Small Business Regulatory Review Board to the Department of Commerce and Consumer Affairs;
- Natural Energy Laboratory of Hawaii Authority to the Department of Accounting and General Services;
- Creative Industries Arts and Culture Branch to the State Foundation on Culture and Arts; and
- Film Industry Branch to the Hawaii Tourism Authority. The Authority's expertise in marketing and existing relationships will allow the Film Industry Branch to flourish and become more of an economic driver and marketing tool for the State.

Your Committee understands that the modernization of our state harbors needs to be a priority. The Aloha Tower Development Corporation remains entangled in litigation and has not completed any projects related to the Harbors Modernization Plan. Your Committee on Conference finds that the Aloha Tower Development Corporation is unable to effectively lead the Harbors Modernization



Plan and carry out the functions for which it was created; consequently your Committee restored the responsibility of improving harbors to the Department of Transportation, Harbors Division in fiscal year 2011.

Hawaii currently relies on imported oil for over ninety-three per cent of its energy needs. Over the years, the Legislature has provided substantial resources for the Clean Energy Initiative, under the guidance of the Department of Business, Economic Development, and Tourism, for the purpose of promoting energy independence for the State. With funding from the ARRA, the Department of Business, Economic Development, and Tourism will have the opportunity to help the State to become more energy independent. Your Committee on Conference created a general fund savings while retaining existing staff and creating new positions with the use of \$6.2 million in existing federal funds and \$30 million in new federal stimulus money. This will allow the Department to focus on creating clear objectives using specific performance measures and goals.

#### Labor and Industrial Relations

Your Committee on Conference has appropriated the following federal stimulus dollars to the United States Department of Labor programs: \$150.5 billion in additional funds for increased unemployment insurance payments to individuals in FY2010; \$5.3 million to provide services, jobs, education, and job training to low-income individuals; \$4 million to provide weatherization assistance for the installation of energy saving devices in low-income households; \$1.4 million to provide reemployment services for the unemployed in FY2010; and \$6.4 million to provide employment and training services to adults, dislocated workers, youth and older individuals in FY2010 while reducing minimal amounts above the twenty per cent reductions taken by the Department for the Governor's budget reductions.

#### Transportation

Your Committee on Conference has become increasingly concerned with the Department of Transportation's deficit spending of its special funds. Accordingly, your Committee on Conference reduced spending through a \$5 million prorated reduction across all programs within the Harbors Division and a \$10 million prorated reduction across all programs within the Highways Division. These reductions will allow the divisions' expenditures to better align with existing and future revenue projections.



Your Committee on Conference is also concerned with certain aspects of the Airports Division. Thus, your Committee on Conference requests that the State Auditor perform a financial audit of the Department of Transportation regarding its accounting procedures, procurement practices, controls over lease renewals and renegotiations, ability to monitor and collect outstanding receivables, and means of accurately charging fees. Your Committee on Conference is also requesting that a list of all fines from the Transportation Security Administration and other federal agencies be included in the audit.

#### Budget and Finance

Your Committee on Conference provides for the consolidation in the Department of Budget and Finance of fixed costs for debt service, pension accumulation, social security/Medicare, and health premium costs chargeable to the University of Hawaii and the Department of Education. This consolidation is achieved by cost accounting in new program areas. Every effort has been made to prevent the transfers of fixed costs from the University of Hawaii and the Department of Education from prejudicing the maintenance of effort calculations of appropriation levels made to satisfy the State Fiscal Stabilization Fund provisions of the ARRA legislation.

Your Committee on Conference recognizes the plight of the Bishop Museum in maintaining historic sites and artifacts. To allow the continuation of these efforts, your Committee restored a subsidy of \$418,000 to the Museum.

Your Committee on Conference finds that there are no vacant state facilities to accommodate a Public Utilities Commission move and reorganization at this time. Consequently, your Committee on Conference does not appropriate funds for any move of the Public Utilities Commission at this time.

#### Accounting and General Services

Your Committee on Conference transferred \$9.2 million earmarked for the State's insurance premiums from the University of Hawaii and the Department of Education to the Department of Accounting and General Services to reduce unnecessary delays. To generate general fund savings, your Committee on Conference changed the means of financing for \$3.5 million of insurance premiums from general funds to state risk management revolving funds.





Your Committee on Conference understands the State's fundamental obligation to conduct state and federal elections and recognizes the need for an effective voting system. For the Office of Elections, your Committee reduced general funds by \$184,020 for vacancy savings and other personal and current expenses and provided an additional \$1.5 million for the voting system contract and purchase of voting equipment for FY2010, a non-election year. Funding for FY2011 remains unchanged from the Governor's proposed budget.

#### Attorney General

Your Committee on Conference recognizes the importance of the Department of the Attorney General in its role as legal counsel for the State of Hawaii. Your Committee on Conference made an effort to reduce the Department's budget in areas that would have limited impact on services to State agencies and the general public. With this goal in mind, your Committee on Conference restored funds to the Child Support Enforcement Agency.

Your Committee on Conference provided the Department with \$6 million in federal funds over the biennium for the Crime Assistance Grant, Byrne Memorial Justice Assistance Grant, Violence Against Women Grant, and the Internet Crimes Against Children Grant. Your Committee on Conference provided an additional \$4.5 million in federal stimulus funds over the biennium for the Child Support Enforcement Agency.

#### **CAPITAL IMPROVEMENT PROGRAM**

Mindful of the current economic conditions, your Committee on Conference has sought to compose a fiscally responsible budget that will also spur economic growth throughout the State. Through the continued investment in necessary infrastructure and other capital needs, we believe this budget will in turn provide badly needed job growth for our unemployed and underemployed residents. This philosophy also underscores the federal government's efforts to stimulate the economy through increased spending in the most expedient manner possible. However, your Committee on Conference believes that since it is unclear whether the bond market can withhold an increased bond issuance plan for state projects, general obligation bond- and general obligation reimbursable bond-funded projects must be carefully selected so as to effectively maximize the use of these funds. As a result, your Committee on Conference has endeavored to decrease the proposed debt service level, while



also funding critical capital improvement projects that address health, safety, and code requirements; current repair and maintenance backlogs in various state executive departments; and the need to provide for growth and expansion of services, programs, and facilities.

Additionally, your Committee on Conference has provided increased funding in the first year of the biennium, FY2009-2010, to ensure funds are immediately available to state departments and agencies to be used for shovel-ready projects and to provide increased flexibility in ensuring the completion of ongoing projects. In conjunction with this effort, it is believed that front-loading funding will allow your Committee on Conference to properly monitor and assess future economic conditions and their impact on our State's ability to undertake such projects, before appropriating funds in the following fiscal year.

This year, the Administration requested a total of \$955,155,000 in general obligation and general obligation reimbursable bond-funded projects and \$2,952,862,000 for projects financed with all means of financing. Given such unique economic conditions, your Committee on Conference has attempted to address debt service obligations by reducing the amount of general obligation and general obligation reimbursable bonds appropriated, funding a total of \$864,009,000 over the biennium. In all means of financing, we have approved \$3,539,891,000 over the biennium. While this is an increase from what was requested in the Administration's budget, your Committee on Conference has dedicated much of these funds to crucial projects, where a large portion has been provided to certain departments allowing them the flexibility to seek alternative financing options, which may in turn reduce debt service obligations in the future.

Despite challenging economic times, your Committee on Conference has remained dedicated to our State's education system. We have sought to fund those projects that are necessary for health, safety, and compliance measures, as well as those most needed to address the repair and maintenance backlog. In addition, we have approved funding for large construction projects to ensure the future growth and prosperity of our schools. For the Department of Education, your Committee has appropriated a total of \$304,797,000 for various school projects, \$170,500,000 of which is dedicated to reducing the repair and maintenance backlog as well as Whole School Renovation programs.

Likewise, we have appropriated a total of \$203,772,000 in general obligation bond funded projects for the University of Hawaii



System, including \$143,125,000 to address repair and maintenance, as well as health and safety needs. In total, we have funded \$565,956,000 for projects financed with all means of financing, including \$28,132,000 in revenue bonds and \$12,660,000 in general obligation bonds for a long overdue Information Technology Center to serve not only the entire University system, but potentially the State as well.

In addition to education, your Committee on Conference has also attempted to address the recent mortgage crisis and need for affordable housing. We have therefore provided \$30,000,000 for the Rental Housing Trust Fund and \$20,000,000 for the Dwelling Unit Revolving Fund. Your Committee on Conference has also made further efforts to improve the conditions of our affordable and public housing facilities and have approved \$12,413,000 for the Hawaii Public Housing Authority to help address their repair and maintenance backlog as well as Americans with Disabilities Act compliance needs.

During these desperate economic times, funding is needed most in the area of healthcare. Thus, your Committee on Conference has provided \$95,493,000 in all means of financing for health care facilities statewide. Of this total, nearly \$47,422,000 has been provided to the Hawaii Health Systems Corporation to assist in their efforts to improve our community hospitals and provide adequate health care to our entire state population.

#### CONCLUSION

Your Committee on Conference recognizes that sacrifices must be made by all in order to balance the state budget during this unprecedented economic downturn. Most importantly, your Committee on Conference has collaborated to create a budget that will allow the State to live within its means, while using its resources wisely in order to ensure Hawaii's ability to be a strong contender in the global community with regard to education, health care, renewable energy, business, tourism, natural resources, and overall quality of life.

Your Committee on Conference was able to balance the budget without the use of furloughs, and your Committee on Conference notes that it remains the responsibility of the Governor and the public worker unions to negotiate potential savings through decreasing the salaries or benefits of state employees. With the revenue picture at -6.3 per cent, your Committee on Conference is cautious as we look ahead. However, visitor arrivals to the State have begun to



stabilize, and as we brave the rough waters of the current economic downturn, your Committee on Conference is optimistic that, through fiscal prudence and increased efficiency, the State will be able to continue serving its residents and visitors in a responsible manner.


In total, this budget amounts to \$5,144,178,085 in general funds and \$10,803,950,330 in all means of financing for FY2010 and \$5,267,648,691 in general funds and \$10,467,329,973 in all means of financing for FY2011.

As affirmed by the record of votes of the managers of your Committee on Conference that is attached to this report, your Committee on Conference is in accord with the intent and purpose of H.B. No. 200, H.D. 1, S.D. 1, as amended herein, and recommends that it pass Final Reading in the form attached hereto as H.B. No. 200, H.D. 1, S.D. 1, C.D. 1.

Respectfully submitted on behalf  
of the managers:

ON THE PART OF THE SENATE

ON THE PART OF THE HOUSE



DONNA MERCADO KIM, Chair



MARCUS R. OSHIRO, Chair



Hawaii State Legislature

CCR 167

Record of Votes of a  
Conference Committee

Bill / Concurrent Resolution No.: HB 200, HD 1, SD 1	Date/Time: MAY 1, 2009 11:30 AM
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The recommendation of the House and Senate managers is to pass with amendments (CD).

The Committee is reconsidering its previous decision.

<input type="checkbox"/> The recommendation of the Senate Manager(s) is to AGREE to the House amendments made to the Senate Measure	<input type="checkbox"/> The recommendation of the House Manager(s) is to AGREE to the Senate amendments made to the House Measure.
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Senate Managers	A	WR	N	E	House Managers	A	WR	N	E
KIM, Donna Mercado, Chr.	/				OSHIRO, Marcus R., Chr.	/			
CHUN OAKLAND, Suzanne	/				AQUINO, Henry J.C.	/			
ENGLISH, J. Kalani	/				AWANA, Karen Leinani	/			
FUKUNAGA, Carol	/				BROWER, Tom	/			
GALUTERIA, Brickwood	/				CHOY, Isaac W.	/			
HEE, Clayton	/				COFFMAN, Denny	/			
HOOSER, Gary L.	/				HAR, Sharon E.	/			
KIDANI, Michelle	/				KEITH-AGARAN, Gilbert S.C.	/			
KOKUBUN, Russell S.	/				LEE, Chris	/			
TOKUDA, Jill N.	/				LEE, Marilyn B.	/			
TSUTSUI, Shan S.	/				NISHIMOTO, Scott Y.	/			
HEMMINGS, Fred			/		SAGUM, Roland D., III	/			
					TOKIOKA, James Kunane	/			
					WOOLEY, Jessica	/			
					YAMASHITA, Kyle T.	/			
					MARUMOTO, Barbara C.			/	
TOTAL	11	0	1	0	TOTAL	15	1	0	0

A = Aye


WR = Aye with Reservations

N = Nay

E = Excused

Senate Recommendation is:  
 Adopted     Not Adopted

House Recommendation is:  
 Adopted     Not Adopted

Senate Lead Chair's or Designee's Signature:  


House Lead Chair's or Designee's Signature:  


Distribution:                      **Original**                      **Yellow**                      **Pink**                      **Goldenrod**  
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