

STAND. COM. REP. NO.

2970

Honolulu, Hawaii

APR - 1 2010

RE: H.B. No. 2200
H.D. 1
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred H.B. No. 2200, H.D. 1, entitled:

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

begs leave to report as follows:

The purpose of this measure is to adjust appropriations for fiscal biennium 2009-2011 funding requirements for operations and capital improvements projects of Executive Branch agencies and programs.

Testimony in support of the measure was submitted by nine organizations and two individuals. Testimony in opposition to the measure was submitted by four organizations and fifty-four individuals. Comments on the measure were also submitted by four state departments or agencies. Written testimony presented to the Committee may be reviewed on the Legislature's website.

I. INTRODUCTION

One year after enduring across the board 20 percent budget reductions to what the Administration deemed discretionary spending, the State faces yet another round of deep budget reductions. The Legislature closed a \$2.1 billion budget gap during the 2009 regular session through a number of measures, ending the session with a balanced financial plan. However, reduced revenue projections have created another sizeable gap of



\$1.2 billion through the end of the fiscal biennium that must be addressed.

On September 4, 2009, in a statewide address, the Governor stated that she is planning "a reshaping and right-sizing of government." In her January 25, 2010, state of the state address, the Governor stated that "we must do what it takes to create a future that does not financially burden our children and grandchildren simply because we weren't willing to make those difficult, sometimes gut-wrenching decisions, when destiny called on us to do so." While your Committee appreciates the sentiments, its examination of the budget and other fiscal measures presented reveals that the Governor's actions clearly contradict the statements that were made.

Rather than "reshaping and right-sizing government," a serious exercise that would require considerable planning, thought, and use of the right tools, it is as if the Governor just took a mallet and hammered every state agency down to achieve her desired level of savings. The approach taken was no more complicated than simply requiring that each department reduce general fund expenditures by the same proportion.

Similarly, the Governor's budget and financial plan consists of one-time solutions and quick fixes, many that pass off financial burdens to future years or simply ignore them altogether. These costs include, among others, deferred payments, delayed tax rebates, rising Medicaid costs, restructuring debt, and employee retirement system contributions.

This is the context from which your Committee began its review of the Governor's supplemental budget request. The lack of serious proposals providing structural solutions to the current fiscal crisis and the budgetary actions already imposed by the Governor have made it difficult to thoroughly assess all options. However, your Committee greatly appreciates the efforts of those who have worked with us to address the issues we face in the most positive manner possible.



II. ECONOMIC OUTLOOK

National Economic Outlook

According to the Congressional Budget Office, "The deep recession that began two years ago appears to have ended in mid-2009. Economic activity picked up during the second half of last year, with inflation-adjusted GDP and industrial production both showing gains."

Furthermore, the 2010 Economic Report of the President shows that the rate of average monthly job loss dropped from 690,000 in the first quarter to 69,000 jobs in the fourth quarter of 2009. The report also states that the credit and housing markets remain fragile, but that there are signs of hope.

At the end of 2009, the S&P was 65 percent above its low point nine months earlier. During a similar period, monthly small business loans grew from \$830 million to \$1.3 billion. The housing market also seems to be improving, posting fourth quarter sales that were 29 percent higher than first quarter sales in 2009. Your Committee is encouraged that the national economy has stabilized and is slowly advancing beyond the recession.

The Economic Outlook for Hawaii

Lingering effects of the recent national recession continue to hamper Hawaii's economy in key areas. However, the University of Hawaii Economic Research Organization (UHERO) has reported that "Hawaii's economic recovery has begun". According to UHERO:

- Visitor arrivals edged up slightly over the course of 2009 and visitor spending stabilized by year end;
- Stabilization of job losses in recent months has set the stage for a resumption of modest job growth in 2010; and
- Statewide unemployment is expected to edge down from 6.9 percent this year to 6.4 percent in 2011.

In its March 2010 report, the Council on Revenues (COR) reported that "the shift in expectations for future Hawaii economic performance from negative to positive is palpable" and



that indicators "are consistent with gradual economic recovery in the current and coming fiscal years."

These statements and economic indicators have allowed your Committee to address significant challenges posed by the State's current fiscal climate with cautious optimism.

III. 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. At seven of the eight Council meetings held since the March 2008 forecast, the Council on Revenues has reduced its prediction of tax revenues for the coming fiscal years. From March 2009 to March 2010, the Council's general fund tax and non-tax revenue projection for the current biennium dropped by \$626.2 million.

The Governor based the administration's original supplemental budget request, intended to close the \$1.2 billion budget gap, on the December 2009 Council on Revenue's projection. On March 11, 2010, the Council on Revenues revised its forecast downward; the projection was adjusted by -\$34.8 million for the current biennium and -\$334.4 million over the six year planning period (Fiscal Years 2010-15).

Despite the slight downward adjustment in the March 2010 forecast, the Council's forecast calls for 6 percent growth in revenues during fiscal years 2011-2014. The Council Chair's letter to the Governor, officially delivering the forecast and explaining the basis for the projection, referenced several positive indicators and contained optimistic statements including:

- *Hawaii tourism volumes have been in a stable pattern for almost a year and a half;*
- *Inflation-adjusted value of tourism receipts show signs of recovery in just the last six months;*
- *Housing markets and valuations have also stabilized, with some upward movement on Oahu;*



- *Job loss in Hawaii remains persistent, but in smaller monthly increments than was the case during the last two years;*
- *Broadly, these and other indicators are consistent with gradual economic recovery in the current and coming years; and*
- *All of these elements seem likely to underscore forthcoming economic improvement in the islands.*

Despite the Council's recent track record of lagging the decline in revenues, your Committee has cautiously accepted the projection and notes the significant risk that exists for revenue growth assumptions for the next two bienniums.

IV. BUDGET OVERVIEW

Labor costs comprise the greatest expense contained in the State's budget. The Governor originally planned to impose a statewide three day per month furlough. The plan would have saved 13.85 percent of payroll costs. However, the courts ruled that the Governor could not unilaterally impose a furlough and could employ furloughs only through the collective bargaining process. Though not able to achieve the desired savings through the collective bargaining process, the original three day per month furlough savings estimates were used as the target reduction amounts in the development of the fiscal year 2011 supplemental budget request.

Savings from furloughs are now projected at close to \$200 million. Additionally, a statewide hiring freeze has left numerous positions vacant. The Governor reduced many of these budgeted positions and salaries, amounting to savings of \$11.7 million. The last piece of the Governor's plan to save on labor costs was the reduction in force (RIF) implemented late last year. The reduction of the nearly 1,000 positions and salaries of people initially subjected to the RIF results in \$43 million in savings.

In addition to vacancy reductions, RIF, and furloughs, departments were expected to make other adjustments as necessary to meet their target reduction amounts. Departments have essentially already been operating within these reduced budget



ceilings due to the Governor's budget restrictions for fiscal year 2010.

As adjusted by the recent March 18 Governor's message, the Governor's supplemental budget request adds \$390 thousand for fiscal year 2010 and reduces 1,292 permanent positions and \$284 million for fiscal year 2011 in general funds.

In its draft of the executive budget, the House of Representatives reduced the Governor's proposal by an additional \$60.8 million. The House draft restored approximately 1,000 vacant and RIF related positions reduced by the Governor. However, the majority of these positions were restored without adequate funding.

Your Committee commends the House of Representatives' attempt to reinstate school instructional days. However, this reinstatement was funded through dramatic reductions to other programs: the House draft reduces a total of \$80 million from the department of education, \$18.5 million from the department of human services, and \$30.9 million from the department of health, purportedly for purchase of service contracts. Your Committee finds it difficult to ascertain the impacts of these reductions and therefore did not include them in its draft of the budget.

The Senate proposal accepts the Governor's requested budget adjustments in principal, since they reflect savings state agencies are already forced to realize through the furloughs, statewide hiring freeze, RIF, and other budget restrictions for fiscal year 2010 imposed by the Governor.

With regard to the RIF, it is apparent that its execution involved minimal deliberation. Departments have reported being given numbers of positions to target, without regard to the amount of savings, or whether the action was even necessary. However, at this point, the RIF has been implemented; people have already lost their jobs, and many others have been affected by the bumping process.

To properly account for projected expenditures, your Committee reflected much of the savings resulting from the Governor's sweeping actions. However, your Committee identified areas of importance that to some extent should be protected from the Governor's budget reductions. This includes the restoration of positions for the department of agriculture that are at the



forefront of protecting our islands from invasive species and positions for the department of public safety that help secure the Hawaii State Hospital, a facility that has experienced recent escapes.

Your Committee prioritized education by putting forth a viable and responsible plan to reinstate instructional days through a combination of reallocation of \$33.5 million of existing resources and allocation of \$32.5 million in new funding. Furthermore, an additional 49.5 positions and \$14 million in general funds were reduced from the Governor's budget request for fiscal year 2011.

Your Committee developed this budget without reliance on adjustments to the general excise tax to enhance general fund revenue. The increase of a broad-based tax such as the general excise tax could jeopardize the course of Hawaii's economic recovery. Your Committee has found alternatives to increase revenue. These include the following measures:

FY11 Impact	Bill and Title	Description
+\$21.3 million	HB1907, HD1 Relating to Taxation	Places a cap on the amount of itemized deductions that may be claimed and changes the capital goods tax credit from refundable to non-refundable.
+\$14.8 million	HB1985, SD1 Relating to Taxation	Increases the cigarette tax by 1 cent and imposes fees under section 431:7-101, Hawaii Revised Statutes.
+\$22 million	HB2421, SD2 Relating to Government	Increases the environmental response tax from 5 cents to \$1.55 and renames the tax the environmental response, energy, and food security tax.
+\$55.8 million	HB2542, SD1 Relating to Non- General Funds	Transfers excess balances from various non-general funds to the general fund; caps the distribution of cigarette tax revenues for various purposes to the FY10 distribution level for three years.



+\$15 million	HB2595, SD2 Relating to General Excise Tax	Establishes a trust liability for revenues collected by a business as a tax recovery whether or not the amount is separately stated.
+\$17 million	HB2596 Relating to Tax Credits	Creates a statutory ordering of income tax credits of refundable credits first and nonrefundable credits second.
+78.7 million	HB2598, SD1 Relating to Transient Accommodations Tax	Caps the distribution of transient accommodations tax revenues to the counties at \$50 million.
+\$21.3 million	HB2600 Relating to Tax Administration	Amends the due date for miscellaneous tax types from the last day of the month to the twentieth day of the month.
\$93.3 million	HB2962, SD2 Relating to Taxation	Implements the streamlined sales and use tax agreement; defers the taking of high tech tax credits.
+\$13.1 million	HB2984, SD2 Relating to Tax Credits	Extends the research tax credit; repeals Act 221 high technology infrastructure tax credits.

V. DEPARTMENT HIGHLIGHTS

Education

School furlough days are a direct result of negotiations between the Governor, board of education, superintendent, and the Hawaii State Teachers Association and were intended to help meet the budget restrictions imposed by the Governor. Your Committee's top priority for education is eliminating school furlough days and returning Hawaii's students to a level of instruction previously provided. Despite having by law (section 89-6, Hawaii Revised Statutes) three of the six employer votes required to enter into the agreement to impose furlough days, the Governor has stated repeatedly that the administration, "remains committed to getting the kids back in the classroom". At odds with this claim is the fact that the Governor's budget request before the Legislature for the department of education continues to be built on savings generated by maintaining school furlough days.



To resolve the furlough issue and get our kids back in the classroom, your Committee has added \$33.5 million in general funds and \$32.5 million in Hurricane Relief funds to restore all school instructional days for the upcoming school year. This restoration is obtained by funding two instructional days for each non-instructional day converted to an instructional day.

Your Committee was able to reallocate resources for instructional days by accepting proposals made by the department of education (DOE) and the board of education (BOE) that identify funding reductions for categorical programs. While many of these programs have merit, they use funds that could support the department's core function: educating students. Your Committee understands that people value the programs identified by the DOE and BOE. Although the BOE will ultimately decide how to allocate the department's resources, programs identified for reduction could still receive funding through the weighted student formula.

In addition to the proposals made by the department and board of education, your Committee has eliminated the general fund subsidy to the Afterschool (A+) Program, representing a \$2 million savings. However, afterschool care for students currently receiving free or reduced lunch status will continue to be subsidized by TANF funds. \$2 million was used to restore part of a reduction imposed by the Governor to prevent cuts to the weighted student formula.

Act 51, Session Laws of Hawaii 2004, converted principals to 12 month employees. However, this law also provides that these employees would be subject to performance based contracts, which to date has not been adhered to. The cost of converting the principals from 10 month employees to 12 month employees was approximately 24 percent of their salary costs. Your Committee reduced projected savings of \$5.7 million in general funds and \$5.4 million in non-general funds that would result from converting 12 month principals and cafeteria workers back to 10 month employees. A similar amount was added, representing a onetime expenditure needed to pay out their accumulated vacation.

Charter Schools

Your Committee seeks to address charter school issues that repeatedly surface. There has been a lackadaisical attitude toward legislative requests to provide current and complete financial and operational information. Despite hurdles in



obtaining relevant information, your Committee is focused on establishing a platform upon which per pupil funding comparisons among all students will be transparent and equitable.

The Governor's proposed budget does not attempt to provide a similar per pupil amount for charter schools based on the department of education's appropriation and the projected enrollment. Your Committee recognizes that additional funds are needed to make the per pupil funding amount provided to charter school students comparable to the per pupil funding amount provided to department of education students. This addition is largely due to a substantial projected enrollment increase provided by charter schools. Actual enrollment for charter schools for the 2009-2010 school year has been reported as 8,098 students. Projected enrollment for the 2010-2011 school year is 9,668 students, representing a projected 19.4 percent increase in charter schools' enrollment.

To this end, your Committee has added \$4.7 million in general funds and \$1.3 million in Hurricane Relief funds for the new per pupil funding calculation, using updated projected enrollment and the Senate's proposed appropriation amounts for the DOE. However, over-projection of student enrollment has been a problem with charter schools and receipt of these funds is contingent upon actual enrollment increases.

Higher Education

Your Committee acknowledges the University of Hawaii as the State's premier institution for higher learning; a nationally recognized research institution; and a major contributor to our local economy.

The University implemented the Governor's general funds restrictions of approximately \$54.7 million in fiscal year 2010. Also, your Committee understands that, using fiscal year 2009 as the base, the University of Hawaii anticipates generating an additional \$51 million in tuition and fee revenue every year in fiscal years 2011-2017. Your Committee recognizes the University's ability to use these funds to offset some costs borne by the general fund. As such, your Committee reduced \$7.5 million in general funds for fiscal year 2011.

Your Committee recognizes the importance of preserving the historic resources of Mauna Kea. Mauna Kea has the potential to



generate over \$1.2 billion in investment to the State in coming years. Your Committee added \$1.98 million in revolving funds and \$200,000 in general funds to support the Mauna Kea program.

Your Committee is concerned with the university faculty payroll increase for fiscal years 2013-2015, agreed upon through the collective bargaining process with the University of Hawaii Professional Assembly (UHPA). The agreement increases total state payroll costs by \$45.6 million over fiscal years 2013-2015. It should be noted that your Committee believes the University is fully responsible for funding these pay increases without using general funds, especially in this time of great economic stress.

Human Services

The global economic downturn has led many of Hawaii's people to seek government assistance as we weather these difficult times. Your Committee finds it important to support the Department of Human Services (DHS) in its effort to provide for the growing numbers who need government services. Indeed, a convergence of job loss, rising medical costs, and limited housing options has resulted in a devastating perfect storm, leaving many to seek assistance.

Your Committee recognizes the challenge of providing social services to the State's most vulnerable under the State's fiscal constraints. As such, H.B. No. 2542, H.D. 1, S.D. 1, transfers excess funds in the Hawaii tobacco prevention and control trust fund to the emergency and budget reserve fund. This would support various programs that serve those in need, such as kupuna care, adult dental services, respite services, health aging partnership, domestic violence shelters, outreach services, and housing placement services.

Your Committee accepts the Governor's proposal to save \$13.1 million in state general funds by utilizing TANF funds to pay for the Afterschool (A+) Program and cash assistance for two-parent households receiving welfare. These solutions are part of a larger plan to increase our expenditure of TANF funds in order to earn \$49 million extra TANF funds under the American Reinvestment and Recovery Act (ARRA) / Deficit Reduction Act (DRA) Emergency Contingency Fund.

Providing necessary health care to Hawaii's needy residents is an important service delivered by DHS. However, over the



course of the Governor's tenure, Medicaid-subsidized health care has expanded far beyond what can be deemed medically necessary.

Hawaii residents eligible for Medicaid can look forward to receiving what the director of DHS has termed the Cadillac of health care plans, which contain benefits and services that far exceed those found in private plans. With no limits on utilization, no deductible, no co-pay, and no premiums, this program has the potential to drive the ability of the State to manage its finances into the ground.

Unfettered Medicaid expansion, coupled with the economic downturn, has created a grim financial situation. DHS has looked into restricting eligibility as another means to control its shortfall. However, as a recipient of ARRA funding, the State is required to leave the current eligibility criteria in place in order to provide for those who have been affected by the recession.

Medical inflation and increasing Medicaid enrollment created a budget shortfall that needs to be addressed. When posed with the task of finding solutions to the Medicaid shortfall, DHS chose to delay Medicaid payments with the intent of paying off these costs with future appropriations. In effect, DHS undertook a plan that the director described as, "robbing Peter to pay Paul." As a result, a shortfall of \$64 million from fiscal year 2009 was carried over into fiscal year 2010, and it is forecasted that \$44 million will be carried over into fiscal year 2011. By fiscal year 2015, the annual Medicaid shortfall is projected to be in excess of \$200 million, an amount that the State cannot afford to ignore.

Health

Your Committee is dedicated to ensuring that essential health care, safety, and environmental health remain a legislative priority in the face of the State's economic crisis.

For the Department of Health (DOH), the Governor eliminated \$27 million and 339.88 positions, representing 24 percent of the State's total budget cuts for fiscal year 2011. The Governor's severe restrictions, implemented by the DOH in fiscal year 2010, have significantly diminished public health and environmental protections for the people of Hawaii. Your Committee was unable to control the ability of the Governor to implement reductions in



programs such as: mental health services; dental hygiene services for children; environmental health for vector control and disease management; and clean water and wastewater services.

Your Committee supports preventative health services for child abuse and for families that have ongoing care responsibilities for developmentally or mentally disabled family members. To meet this need, during the 2009 regular session, the Legislature restored \$4.1 million to support programs such as Healthy Start, Respite Care, and Partnership in Community Living (PICL), which the Governor had proposed to reduce. Regrettably, the Governor has refused to use these funds for essential services. Though your Committee disagrees with the Governor's refusal to restore these essential services, your Committee has made the hard choice of reducing the \$4.1 million for Healthy Start, Respite Care, and PICL that would go unused so that the funds may be made available for other programs.

Given the State's current economic crisis, the Legislature has made the decision to distribute larger portions of the tobacco settlement special funds to the State's general funds and to the University of Hawaii, School of Medicine to support shortfalls in operating expenses for fiscal years 2009-2011. Your Committee supports re-evaluating Tobacco Settlement special fund distributions for fiscal year 2012 and beyond.

Hawaii Health Systems Corporation

Your Committee affirms its commitment to provide the necessary resources to help the Hawaii Health Systems Corporation (HHSC) maintain safety net acute and long term care health services to Hawaii's most vulnerable citizens and visitors; especially those of the neighbor islands. HHSC continues to face tremendous challenges in the midst of the State's financial crisis with, among other things, rising uncompensated care for the aged and uninsured, rising costs to provide care, and federal and private reimbursement rates failing to keep pace with rising medical costs.

To assist HHSC regional systems in meeting their immediate payment obligations, your Committee restored the majority of special funds for fiscal year 2011 that the Governor reduced. However, your Committee remains concerned with the management of the HHSC regional systems and supports ongoing accountability and



transparency for both fiscal and operational matters of the HHSC regional systems' hospitals.

Public Safety

Your Committee remains supportive of Public Safety's responsibility for custody of Hawaii's inmates and protection of the State's general population.

However, your Committee is uncomfortable with the Governor's quick closure of Kulani Correctional Facility and subsequent transfer of the facility to the Department of Defense's Youth Challenge Academy; the Governor eliminated the Kulani Correctional Facility without any community consultation and despite outspoken legislative concern. The Governor's abrupt action reportedly saves approximately \$5.8 million dollars; however, these savings come at the cost of eradicating one of the top Sex Offender Treatment Programs (SOTP) in the nation, ending a successful re-entry program, and eliminating a significant economic engine for Big Island vendors.

In addition, your Committee has difficulty understanding the rationale of subjecting all of the department's security officers to RIF, especially with the recent escapes from the Hawaii State Hospital. The loss of these officers has severely compromised the safety of the surrounding area. Accordingly, your Committee has restored all security officers assigned to Hawaii State Hospital.

Your Committee finds that overtime and compensatory time provided by the department remains exorbitant: there is \$8.8 million in overtime and \$2.4 million in compensatory time on the books. The millions paid out for these costs can artificially inflate the pensions of workers and result in serious financial liabilities for the State. Your Committee expects the department to better address this issue.

To address these substantial problems, your Committee has considered all possible opportunities that provide cost-savings to the State. As such, your Committee recommends higher utilization of the out-of-state contracts that will allow for the closure of one module at Halawa Correctional Facility.

Your Committee notes that the total savings for the department of eliminating one module of Halawa Correctional Facility is estimated to be \$4.0 million. When the corresponding



Budget and Finance portion of payroll costs for ERS and health insurance is taken into consideration, the reduction of one module at Halawa Correctional Facility can net a total savings of \$5.8 million.

Your Committee notes other significant areas of concern with the department. To begin with, the department does not account for future out-of-state contract costs related to Consumer Price Index (CPI) increases. Per the current contract, the basic daily fee increases each July 1st by 2.5 percent or by the previous year's CPI, not to exceed 3 percent. These costs are not accounted for in the Governor's financial plan.

Agriculture

Agriculture remains an integral component of Hawaii's future. Your Committee is dedicated to decreasing Hawaii's dependence on imported food products, increasing our export presence, and protecting our State from invasive species.

The Governor's approach of dramatic reductions to the department's budget was penny-wise and pound-foolish. The ramifications of the Governor's heavy-handed actions could be severe: reducing general funds for the department by almost half could facilitate the establishment of new invasive species and inevitably jeopardizes Hawaii's agricultural industry.

The Governor's proposal to change the means of financing for 22 Plant Quarantine Inspectors provides a temporary remedy. These inspectors are necessary to keep Neighbor Island ports open; however, the Governor's budget fails to acknowledge that the greatest need for Plant Quarantine Inspectors is at the epicenter of the distribution network, Honolulu. As such, your Committee has restored 19 positions to Plant Pest and Disease Control.

Your Committee has also restored positions imperative to the following programs: Animal Disease Control, Quality and Price Assurance, Aquaculture Development, and Pesticides. The restoration of these positions will ensure that Hawaii's agribusiness development, agricultural productivity, and frontline defense from invasive species and harmful diseases are effectively supported.

Business, Economic Development, and Tourism



Your Committee recognizes the importance of Hawaii's businesses as a driving force behind the State's economic recovery, and that proper support must be in place to assist them.

As a top filming destination, Hawaii has a reputation for being an attractive, film-friendly location that draws industry leaders to our shores. These film projects not only promote the beauty of the State, but also generate between \$150-200 million annually, which will aid in Hawaii's economic recovery. Your Committee understands the importance of the Film Industry Branch and restored positions in HB2690, SD1, to move the function and funding to the Hawaii Tourism Authority (HTA). With HTA's connections and expertise in marketing, the Film Industry Branch will continue to flourish and serve as an economic driver and marketing tool for the State.

Supporting Hawaii's businesses with funds that are in limited supply has been difficult. Your Committee understands the need to find creative solutions and has identified positions that can utilize new sources of funding. In particular, your Committee has saved general funds by utilizing the energy security special fund to support the Energy Program and Hawaii's Clean Energy Initiative.

Budget and Finance

Your Committee recognizes the importance of the Department of Budget and Finance as a provider of several vital services for the State. However, it notes the combination of the Governor's hiring freeze and budget restrictions have left the department unable to perform its duties efficiently within the Hawaii Employer-Union Health Benefits Trust Fund Division. As a result of the Governor's labor reductions, the division suffered the loss of its Administrator, Assistant Administrator, and three Board of Trustee members.

In addition, furloughs have caused the division to pay out hundreds of hours in overtime a month just to stay afloat. Most other divisions are not authorized to use overtime and remain severely backlogged and unable to function efficiently. Your Committee believes that the excessive use of overtime is unacceptable and has thus added permanent and temporary positions to EUTF to assist with their current and future shortfall.



Your Committee also notes the significant amount of deferred payments by the Governor in the areas of debt service and retirement benefit payments. In addition, your Committee recognizes and addresses the Governor's exclusion of health benefit premium payment increases in fiscal year 2011 as a result of higher than expected rises in the number of retirees and potential premium increases.

Accounting and General Services

Programs within the Department of Accounting and General Services were among those severely affected by the RIF imposed by the Governor. Information and Computer Services Division (ICSD) and Custodial Janitors are two programs that experienced substantial reductions. Though assured the impacts do not significantly affect core services, your Committee has raised concerns over the department's ability to function at an acceptable level.

Additionally, your Committee is concerned that a potential \$2 million or more shortfall exists for electricity costs. This is a matter of continual concern since the department has historically been unable to budget appropriate amounts for this expenditure.

Attorney General

Your Committee understands the importance of legal counsel for the State of Hawaii. Calculative efforts have been made to reduce the department's budget in areas of limited impact. Your Committee reduced positions amounting to \$528,428 in the Legal Services division of the department.

Your Committee reduced the state subsidy to the Career Criminal and Victim Witness Protection county programs by \$634,000. Your Committee recognizes the value of these programs; however, the State can no longer subsidize county programs to the extent it once could.

Defense

Your Committee recognizes the importance of maximizing the use of federal funds during these times of financial strain. Your Committee has restored federally funded positions reduced by the



Governor and approved an increase of \$9.6 million in federal funds.

Human Resources Development

The Department of Human Resources Development is responsible for unemployment payments for most state agencies. Your Committee provided \$6 million requested by the Governor for unemployment insurance benefits related to the RIF of state employees.

Labor and Industrial Relations

Your Committee is supportive of the Department of Labor and Industrial Relations' continued involvement in improving job opportunities, providing work placement, and protecting the employment rights of state workers. Your Committee focused intently on creating savings in areas that could absorb reductions while restoring areas that were in need.

Your Committee restored positions and \$4.2 million in federal funds for the Workforce Development Program. This program provides a valuable resource to both potential employees and prospective employers. Federal funds for the positions were recently secured in December 2009.

In addition, your Committee has restored positions in the Hawaii Civil Rights Commission Program to further assist the program in preventing workplace discrimination.

Taxation

Your Committee recognizes the need to prioritize revenue generating positions to aid in reducing the State's budget deficit. The logic behind the Governor's decision to reduce these positions is unclear; therefore, your Committee restored seven positions that have the potential to collect \$3 million in the first year.

Transportation

Managing the State's public airports, commercial harbors, and highways is of great importance. Your Committee is concerned with the Aloha Tower Development Corporation's (ATDC) ability to effectively lead the Harbors Modernization Plan. Accordingly, your Committee denied the Governor's appropriation to ATDC and



welcomes the participation of Harbors Division in managing the Harbors Modernization Plan.

VI. CAPITAL IMPROVEMENTS PROGRAM

Your Committee finds that, as the State continues to navigate through these challenging economic times, your Committee remains committed to investing in our state facilities and infrastructure, with the clear objective of creating jobs throughout the State. Your Committee maintains that such capital investments will result in long-term economic efficiency and competitiveness, while contributing to the improvement in our roads, schools, and other state facilities and programs that are relied upon by our residents.

Contrarily, the Administration's capital improvement program supplemental budget, as amended pursuant to Governor's Messages, has provided for a total of \$882,407,000 for projects funded by general obligation (G.O.) bonds and general obligation reimbursable (G.O.R.) bonds and \$3,831,926,000 for all projects funded by all means of financing. The Administration's supplemental budget request, including fiscal year 2010 adjustments of \$30,400,000 and additional proposed lapses of \$39,754,000, reflects a negative G.O. bond supplemental budget request of \$23,856,000. This proposal suggests a retreat from the Administration's more aggressive approach of one year ago, including its five-point plan, CIP Strike Force, consisting of \$1.8 billion in capital improvement projects. Although the Administration's current approach demonstrates a curbing on spending, given decreased revenues, it also frustrates earlier efforts by both the federal and state governments to create jobs, increase the disposable income of consumers, and, in turn, stimulate the economy.

With the previously stated objectives in mind, your Committee has provided for a total of \$1,213,021,000 for projects funded by G.O. and G.O.R. bonds for the biennium and \$4,315,747,000 for projects funded by all means of financing. An additional \$12,500,000 was also converted from general funds to G.O. bond funds for a prior appropriated University of Hawaii project. While conscious of potential debt service constraints during a time when revenues are down, your Committee believes that it is crucial to continue to undertake projects to help stimulate the economy. Additionally, the State must continue to take advantage



of available incentives and programs, as well as the favorable market conditions the State has recently experienced in selling bonds to secure financing for these necessary projects. Such programs include the Build America Bond program, established under the American Recovery and Reinvestment Act of 2009. The program is intended to assist state and local governments in financing capital projects at lower borrowing costs, through the provision of a direct federal subsidy for interest costs. The program is also intended to stimulate the economy and create jobs, which is in line with your Committee's main objectives. Your Committee notes that this program is currently available only through the end of calendar year 2010 and supports continued consideration of the program's utilization before its expiration.

Your Committee has carefully examined all previously appropriated general obligation bond funded projects to determine the propriety of lapsing projects to provide funding for current, more critical or necessary projects, given the current economic situation and the changing nature of priorities. Many projects that the Administration, departments, agencies, and even non-profit organizations have deemed unnecessary or no longer a priority were considered for lapsing. Although your Committee believes that each previously appropriated project possessed merit on its own, shifting priorities make it necessary to lapse and redirect funds to other worthy projects at this time.

As a result, your Committee has lapsed expiring, lower priority, or unnecessary previously appropriated projects and has redirected the funds to higher priority needs, as identified by the Administration, the departments, and your Committee, to ensure projects' undertaking, funds utilization, and facilities needs satisfaction. Lapses include the following types of projects:

- (1) Projects identified by the Administration or departments that have been completed with excess unrequired balances;
- (2) Projects where allotments have been denied and funds will likely not be released prior to the upcoming June 30, 2010, lapse date, including projects identified by the Department of Education that it will not pursue, mainly due to the fact that the projects fall below the department's current allotment amounts; and



- (3) Projects that no longer represent current Administration, department, or legislative priorities.

Your Committee has crafted a supplemental capital improvements program budget that focuses on:

- (1) Investment in new construction;
- (2) Reduction of repair and maintenance backlogs for state facilities throughout several departments;
- (3) Addressing critical health, safety, and other code requirements of various departments;
- (4) Creating or saving jobs for our residents; and
- (5) Providing the framework for growth and expansion of essential services, programs, and facilities.

Also, given the massive destruction and suffering resulting from recent earthquakes in Haiti and Chile, as well as the potentially damaging results from the ensuing tsunami warning experienced in Hawaii, your Committee believes that this supplemental budget also reflects an appreciation for the need to invest in preventative measures to improve emergency efforts and thwart possible damage and destruction in the State.

As previously mentioned, many prior appropriated projects that are scheduled to lapse on June 30, 2010, which the Department of Education has indicated it will not be pursuing, are lapsed early under this budget. However, your Committee remains steadfastly committed to improving and maintaining our public school facilities, and, as a result, has directed those lapsed funds to be appropriated back to the Department of Education to invest in necessary repair and maintenance of infrastructure in our schools. Your Committee believes that crucial and critical repairs must be made to ensure that safe and adequate facilities are provided to our students. The appropriation of \$75,000,000 for repair and maintenance projects for fiscal year 2011, as well as a total of \$196,000,000 for all fiscal year 2011 projects for the department, represents an important investment in our schools and our students. Your Committee believes that the continued investment in reducing the repair and maintenance backlog will allow the department to reach a point of maintenance within approximately the next four years. This accomplishment will



enable the department to then look forward to constructing necessary new school facilities and concentrate on other capital priorities as well.

Similarly, with regard to the University of Hawaii System, your Committee has examined the current capital renewal and deferred maintenance (CRDM) backlog of projects. Your Committee maintains its commitment to reducing, and eventually eliminating, the backlog to allow the University to move forward with other new construction and improvements to campus facilities. Again, crucial repairs must be addressed to ensure safety for University students, faculty, and visitors and to ensure that the University system remains a flourishing academic institution within our State. As a result, your Committee has appropriated the following:

- (1) \$90,000,000 for capital renewal and deferred maintenance projects throughout the University of Hawaii System, which includes \$5,000,000 for minor repairs for the community colleges;
- (2) \$25,000,000 for the University's Renovate to Innovate initiative, which not only addresses some of the current CRDM backlog, but focuses on research facilities to ensure increased federal funds from grants and other related funding; and
- (3) \$18,625,000 million for health, safety, and code requirements to ensure safe and compliant facilities for students, faculty and staff, and visitors.

Additionally, your Committee has provided critical funding for the following:

- (1) \$3,000,000 in fiscal year 2011 to ensure completion of roof repairs and \$1,950,000 in fiscal year 2011 for turf replacement at Aloha Stadium in order to help ensure safe conditions for spectators, players/participants, and workers and to allow the facility to maintain and attract sports and other entertainment events, including the NFL Pro Bowl;
- (2) \$5,000,000 in fiscal year 2011 for repair and maintenance needs for Hawaii Health Systems Corporation



facilities, as well as funding for critical hospital-specific projects;

- (3) \$5,400,000 in fiscal year 2011 for repairs, upgrades, and expansion of critical communications backbone systems to help ensure uninterrupted communication lines, especially for emergency first responders;
- (4) \$5,027,000 in fiscal year 2011 for repair and maintenance projects for Department of Health facilities throughout the State;
- (5) \$500,000 in fiscal year 2011 for health, safety, and code requirements for Department of Agriculture facilities throughout the State;
- (6) Additional funds for various new projects of the Department of Transportation to ensure the provision of safe and adequate roads and airport and harbor facilities; and
- (7) Additional funds for current projects within the Department of Transportation, Department of Defense, and Department of Health to ensure that matching federal funds contributions may be maximized and not lost or forfeited.

Your Committee believes that this supplemental capital improvements program budget addresses the highest priorities of the State, while also reflecting an important balance between increased investment and fiscal responsibility. Your Committee understands that further discussion on the matter is necessary and will endeavor to work with the appropriate entities and interested parties to further develop a final budget that best serves the present and continuing needs and priorities of the State.

VII. Conclusion

All indications are that the long awaited economic recovery is underway. This is fortunate, since the Governor's budget relies heavily on a number of temporary measures to address the current fiscal crisis. Though your Committee reflects the savings that result from the Governor's actions, it prioritizes those functions of government most needed by Hawaii's residents.

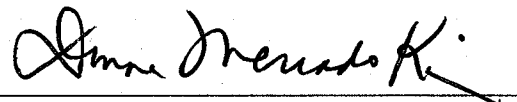


While your Committee approached important budgetary issues from perspectives that differ significantly from that of the Governor and the House of Representatives, we are optimistic that a collaborative effort will move the State through this difficult time. Your Committee on Ways and Means looks forward to working with all parties to find reasonable solutions to the problems that confront us.

In total, this measure appropriates \$5,144,568,085 in general funds and \$10,804,340,330 in all means of financing for fiscal year 2010 and \$4,969,329,090 in general funds and \$10,161,975,219 in all means of financing for fiscal year 2011. These figures represent adjustments to Act 162, Session Laws of Hawaii 2009, appropriations by adding \$390,000 in general funds and \$390,000 in all means of financing for fiscal year 2010 and reducing \$298,319,601 in general funds and \$305,354,754 in all means of financing for fiscal year 2011.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2200, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2200, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.

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




DONNA MERCADO KIM, Chair



The Senate
 Twenty-Fifth Legislature
 State of Hawaii

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:*	Committee Referral:	Date:		
HB 2200 HD1	WAM	3.29.10		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is:				
<input type="checkbox"/> Pass, unamended 2312	<input checked="" type="checkbox"/> Pass, with amendments 2311	<input type="checkbox"/> Hold 2310		
<input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
KIM, Donna Mercado (C)	/			
TSUTSUI, Shan S. (VC)	/			
CHUN OAKLAND, Suzanne		/		
ENGLISH, J. Kalani	/			
FUKUNAGA, Carol		/		
GALUTERIA, Brickwood				/
HEE, Clayton				/
HOOSER, Gary L.		/		
KIDANI, Michelle N.	/			
KOKUBUN, Russell S.	/			
TOKUDA, Jill N.	/			
HEMMINGS, Fred	/			
TOTAL	7	3	0	2
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
				
Distribution:				
Original File with Committee Report	Yellow Clerk's Office	Pink Drafting Agency	Goldenrod Committee File Copy	

*Only one measure per Record of Votes