



GOV. MSG. NO. 166

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February 22, 2011

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SENATE
OFFICE OF THE PRESIDENT

The Honorable Shan S. Tsutsui
President of the Senate
Twenty-Sixth State Legislature
State Capitol
Honolulu, Hawaii 96813

Dear Mr. President:

Transmitted herewith are proposed changes to the General Appropriations Act (House Bill No. 200). Due to time constraints and in an effort to provide the Legislature with the information regarding the proposed requests in the most expeditious manner, this budget message is different in format to those submitted in the past.

All operating and capital improvement program (CIP) budget requests are listed by department on the attached forms, as indicated below, while proposed provisos are included as a separate attachment:

Operating Budget

- Form NA-B (*Department Summary of Operating Adjustment Requests - Abercrombie Administration*)
- Form NA-A (*Operating Adjustment Request – Abercrombie Administration*)

CIP Budget

- Form NA-S (*Department Summary of Proposed CIP Lapses and New Requests – Abercrombie Administration*)
- Tables P and Q (*Capital Project Details*)
- Table R (*Capital Project Information and Justification Sheet*)

Overview

Two weeks into our Administration on December 20, 2010, we submitted a transition budget as a starting point. We asked all departments to identify the most broken parts of their agencies, to begin developing new working habits under new leadership and to implement new policies that make the best use of limited resources.

Our Administration's proposed amendments to the FB 2011-13 Executive Budget reflect our goal to move in a new direction during these difficult times. We must achieve three essential goals to secure Hawaii's future. First, we will restore the functions of government beginning with the most basic public needs. Second, we will accelerate our economic recovery with immediate jobs and opportunities. And third, we will reorient our entire government toward the priorities outlined in the New Day plan by investing in human capital and building a sustainable economy.

The Operating Budget

For FB 2011-13, proposed budget amendments total \$490.8 million in FY 12 and \$237.8 million in FY 13 from all means of financing for operating costs. This represents an increase of 5% and 2%, respectively, over the FB 2011-13 Executive Budget. Of these amounts, the request for general funds is \$133.8 million in FY 12 and \$160.3 million in FY 13, resulting in increases of 2% and 3%, respectively.

The proposed general fund requests include:

- \$866,938 in FY 12 and \$831,136 in FY 13 for the Department of Accounting and General Services (DAGS) to include the restoration of data center operations, reapportionment, and centralized procurement.
- \$915,166 in FY 12 and FY 13 for the Department of the Attorney General's staffing costs.
- \$2,497,000 in FY 12 and \$2,312,000 in FY 13 for the Department of Business, Economic Development and Tourism (DBEDT) to support economic development through the Hawaii Film Office, restoration of the Business and Community Assistance Branch and additional Hawaii Small Business Innovation Research grants.
- \$6,781,209 in FY 12 and \$2,372,284 in FY 13 for the Department of Defense (DOD) for the restoration of the Office of Juvenile Justice and Delinquent Prevention, maintenance costs, and emergency management support.
- \$646,208 in FY 12 and \$22,310,169 in FY 13 for the Department of Education (DOE) to support student transportation, nursing services and the Charter Schools.

- \$1,638,033 in FY 12 and \$1,475,033 in FY 13 for the Office of the Governor to restore full-year funding.
- \$2,316,313 in FY 12 and \$2,305,313 in FY 13 for the Department of Health (DOH) for the Early Intervention Program and for program costs related to civil unions.
- \$10,062,264 in FY 12 and \$6,951,208 in FY 13 for the Department of Human Services (DHS), which includes funding for the Pre-School Open Doors Program and a new computer-based eligibility system for the MedQuest Division.
- \$2,112,861 in FY 12 and \$2,017,861 in FY 13 for the Department of Land and Natural Resources (DLNR) to provide additional program support for Conservation and Resource Enforcement and Historic Preservation and dam safety.
- \$10,000,000 in FY 12 and FY 13 for the University of Hawaii (UH) to support the community colleges, UH at Hilo and strategic outcome funding.

The following general fund requests address previously identified shortfalls which were not addressed in the FB 2011-13 Executive Budget but were included in the general fund financial plan:

- \$36,757,602 in FY 13 for pension accumulation and \$54,285,500 in FY 12 and FY 13 for health benefit costs.
- \$37,974,624 in FY 12 and FY 13 to maintain the current level of service for the Temporary Assistance to Needy Families (TANF) Program and \$11,523,511 in FY 12 and FY 13 for benefit payments for the TANF and Temporary Assistance to Other Needy Families (TAONF) Programs.
- \$13,200,000 in FY 12 and FY 13 (also \$13,200,000 in FY 12 and FY 13 in federal funds) for the Medicaid Program due to a recent court decision on benefits for Compact for Free Association clients.

Additionally, due to the rising costs of the Medicaid Program, my Administration is taking the difficult steps necessary to manage these costs which could easily spiral out of control. Consequently, I have proposed reductions of \$50 million (\$25 million in general funds and \$25 million in federal funds) in FY 12 and \$100 million (\$50 million in general funds and \$50 million in federal funds) in FY 13.

The Capital Improvements Program Budget

For the CIP budget, an additional amount of \$1,206.2 million in FY 12 and \$503.0 million in FY 13 has been recommended. This represents an increase of

249% and 103%, respectively, over the FB 2011-13 Executive Budget. Of these amounts, the request for general obligation (G.O.) bonds is \$819.8 million and \$247.8 million, respectively.

A central part of our economic strategy is a broad ranged series of capital improvement actions called the New Day Work Projects, which will immediately create jobs and inject dollars into the economy. This will benefit everyone.

We instructed all departments to look for projects that were ready to go and that could be completed in two years so that they could be prime movers in attacking the recession. The New Day Work Projects focus building on a vital infrastructure that will advance a sustainable economy built on the strength of our human capital as well.

The proposed G.O. bond requests provide:

- \$10,260,000 in FY 12 and \$5,900,000 in FY 13 for the Department of Agriculture for various irrigation system and watershed improvements.
- \$60,000,000 in FY 12 and \$30,000,000 in FY 13 for DAGS to provide maintenance and health and safety improvements for State facilities and Aloha Stadium, statewide energy conservation improvements, asbestos removal and renovation of the Kamamalu Building, and renovation of Washington Place.
- \$488,965,000 in FY 12 and \$98,000,000 in FY 13 for the Department of Budget and Finance to reauthorize prior year funding and authorize FB 2011-13 funding to support the State Educational Facilities Improvement (SEFI) special fund.
- \$37,830,000 in FY 12 and \$12,100,000 in FY 13 for DBEDT for the Rental Housing Trust Fund and a Senior Residence at Iwilei.
- \$8,060,000 in FY 12 and \$5,234,000 in FY 13 for DOD to support the renovation of Building 117 at Kalaeloa, renovation and improvements to Army Guard facilities and National Guard Armories, and Veteran's Cemetery improvements.
- \$98,000,000 in FY 12 and FY 13 for DOE for statewide improvements for electrical infrastructure, high school science facilities and noise and heat abatement; construction of new Ewa Makai Middle School and Keeau Middle School classroom building; fire safety improvements at McKinley High School; and new Kapolei II Elementary School. (Although these projects are funded by the SEFI special fund, the SEFI special fund is supported by G.O. bonds).
- \$16,250,000 in FY 12 and \$15,000,000 in FY 13 for the Department of Hawaiian Home Lands to support construction of water systems at Makuu, North Kona, and Honokowai, and the Papakolea sewer system.

- \$15,670,000 in FY 12 and \$35,300,000 in FY 13 for DHS for various improvements at Kuhio Park Terrace, Mayor Wright Homes, Palolo Valley Homes, Lanakila Homes, Hale Laulima and Puahala Homes.
- \$26,182,000 in FY 12 and \$1,303,000 in FY 13 for DOH for energy efficiency and improvements at the Hawaii State Hospital, Waimano Ridge and other DOH facilities.
- \$44,839,000 in FY 12 and \$15,667,000 in FY 13 for the Hawaii Health Systems Corporation for electronic medical records and various improvements.
- \$26,250,000 in FY 12 and \$26,300,000 in FY 13 for DLNR for rockfall and flood mitigation and improvements to State parks, boating and ocean recreation facilities, and forest and outdoor recreation facilities, statewide.
- \$5,500,000 in FY 12 and \$3,000,000 in FY 13 for the Department of Public Safety for renovations at correctional facilities, an exploratory well at Kulani Correctional Center, and planning for the orderly development of correctional facilities.
- \$80,000,000 in FY 12 for UH for systemwide capital renewal and deferred maintenance and the Leeward Community College's Education and Innovation Instructional Facility.

The General Fund Expenditure Ceiling

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Section 9, Article VII of the Hawaii State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level, including all branches of government, total proposed appropriations from the General Fund are within the expenditure ceilings for both FY 12 and FY 13.

For the Executive Branch, total proposed appropriations from the General Fund (which include the Executive Budget for FB 2011-13 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by \$516.1 million (or 9.9%) in FY 12 and by \$121.2 million (or 2.1% in FY 13). The reasons for these excesses are due to the restoration of furlough savings adjustments and funds supplanted by the federal State Fiscal Stabilization Fund Program; increases in Medicaid, debt service, and fringe benefit costs; the new Administration's priority initiatives and restorations to meet operational requirements.

For Your Consideration

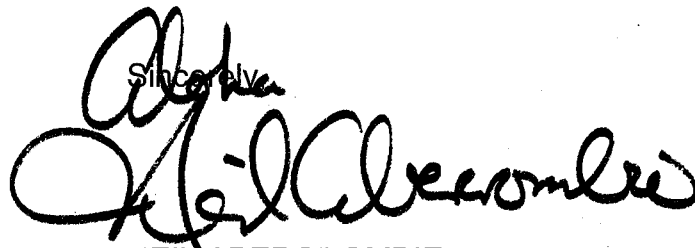
Our financial plan, our legislative proposals and this amended budget were developed in accordance with a number of key principles:

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- It has to be fair with everyone contributing something.
- It has to be sensitive to the needs of those taxpayers with the least ability to pay.
- It has to create an infusion of support for the overall economy so we can continue to recover.

Your favorable consideration is requested for the attached budget items.

Your staff may contact the appropriate agency for additional information. Your understanding and assistance is appreciated.

Sincerely,

NEIL ABERCROMBIE
Governor, State of Hawaii

Attachments

c: Honorable David Y. Ige

PROVISOS

Amend Part III to add a new subsection to read:

Economic Development

“SECTION XX. Provided that of the special fund appropriation for tourism (BED 113), the sum of \$6,000,000, or so much thereof as may be necessary for fiscal year 2011-2012, and the sum of \$6,000,000, or so much thereof as may be necessary for fiscal year 2012-2013, shall be transferred to the department of land and natural resources, parks administration and operations (LNR 806) for the operation and maintenance of state parks; and provided further that the sum of \$4,000,000, or so much thereof as may be necessary for fiscal year 2011-2012, and the sum of \$4,000,000, or so much thereof as may be necessary for fiscal year 2012-2013, shall be transferred to the department of accounting and general services, state foundation on culture and the arts (AGS 881) for promoting culture and the arts in Hawaii.”

Amend Part III to read:

Transportation

“SECTION 10. Provided that of the special fund appropriation for harbors administration (TRN 395), the sum of \$34,175,330 or so much thereof as may be necessary for fiscal year 2011-2012 and the sum of \$34,175,330 or so much thereof as may be necessary for fiscal year 2012-2013 shall be expended for the following purposes:

<u>Purpose</u>	<u>FY 2011-2012</u>	<u>FY 2012-2013</u>
Interest and principal on general obligation bonds	\$ 3,380,916	\$ 3,380,832
Interest and principal on revenue bonds	[\$30,794,414]	[\$30,794,498]
	<u>\$31,622,923</u>	<u>\$31,651,866;</u>

provided further that any unexpended funds shall lapse to the harbor special fund.”

“SECTION 11. Provided that of the special fund appropriations for the highways division (TRN 501-TRN 561), the following sums specified for special repair and maintenance projects in fiscal biennium 2011-2013 shall be expended for special repair and maintenance purposes only as follows:

<u>Program I.D.</u>	<u>FY 2011-2012</u>	<u>FY 2012-2013</u>
TRN 501	[\$11,520,549] \$20,700,000	[\$11,520,549] \$36,443,000
TRN 511	[\$ 4,999,801] \$ 9,500,000	[\$ 4,999,801] \$16,500,000
TRN 531	[\$ 6,706,073] \$12,000,000	[\$ 6,706,073] \$20,500,000
TRN 561	[\$ 3,773,577] \$ 7,000,000	[\$ 3,773,577] \$12,000,000;

provided further that any unexpended funds shall lapse to the state highway fund.”

“SECTION 12. Provided that of the special fund appropriation for highways administration (TRN 595), the sum of \$52,811,133 or so much thereof as may be necessary for fiscal year 2011-2012 and the sum of \$51,622,774 or so much thereof as may be necessary for fiscal year 2012-2013 shall be expended for the following purposes:

<u>Purpose</u>	<u>FY 2011-2012</u>	<u>FY 2012-2013</u>
Interest and principal on general obligation bonds	\$ 8,166,474	\$ 4,820,206
Interest and principal on revenue bonds	[\$44,644,659] \$44,704,860	[\$46,802,568] \$46,703,514;

provided that any unexpended funds shall lapse to the highway special fund.”

Amend Part V to add two new subsections to read:

“SECTION XX. Act 162, Session Laws of Hawaii 2009, section 62, as amended by Act 180, Session Laws of Hawaii 2010, section 5, is amended:

By amending Item E-6 to read:

“6. P90032 MAUI MEMORIAL MEDICAL CENTER, NEW DIALYSIS UNIT, MAUI PLANS, DESIGN, CONSTRUCTION AND EQUIPMENT FOR A NEW DIALYSIS UNIT[,] AND RELATED RENOVATIONS TO ACCOMMODATE THE CONSTRUCTION OF THE NEW DIALYSIS UNIT.

PLANS		1	
DESIGN		1	
CONSTRUCTION		6,630	
EQUIPMENT		568	
TOTAL FUNDING	HTH	7,200 C	C””

“SECTION XX. Any law to the contrary notwithstanding, the appropriations under Act 200, Session Laws of Hawaii 2003, section 77, as amended and renumbered by Act 41, Session Laws of Hawaii 2004, section 5, in the amounts indicated or balances thereof, unallotted, allotted, unencumbered, or encumbered and unrequired, are hereby lapsed:

<u>Item No.</u>	<u>Amount (MOF)</u>
K-11.01	\$319,640 C”