

STAND. COM. REP. NO.

1075

Honolulu, Hawaii

APR 07 2011

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

Honorable Shan S. Tsutsui  
President of the Senate  
Twenty-Sixth State Legislature  
Regular Session of 2011  
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred H.B. No. 200, H.D. 1, entitled:

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

begs leave to report as follows:

The purpose and intent of this measure is to appropriate funds for the operating and capital improvements budget of the executive branch for fiscal year 2011-2012 and fiscal year 2012-2013.

Your Committee received comments in support of this measure from Russell Kokubun, Chairperson, Department of Agriculture; Richard Burns, State Librarian, Hawaii State Public Library System; Karen Seddon, Executive Director, Hawaii Housing Finance and Development Corporation, Department of Business, Economic Development, and Tourism; Laurence Sombarier, Interim Executive Director, Natural Energy Laboratory of Hawaii Authority; and Brenda Ching, Chair, Hawaii Film & Entertainment Board.

Your Committee received comments in opposition to this measure from Darryll D. M. Wong, Adjutant General, Department of Defense; William J. Aila, Jr., Chairperson, Department of Land and Natural Resources; Mark Dannog, Office of the Student Member, Board of Education; Liz Ann Salvador, Chair, and Waynette K.Y. Cabral, State Council on Developmental Disabilities; and Ann Higa, Chief Operating Officer, Opportunities and Resources Inc.



Your Committee received comments from Amy Asselbaye, Chief of Staff, Office of the Governor; Lt. Governor, Office of the Lieutenant Governor; Rodney Maile, The Judiciary; David M. Louie, Attorney General, Department of the Attorney General; Kalbert K. Young, Director, Department of Budget and Finance; Richard C. Lim, Director, Department of Business, Economic Development, and Tourism; Patricia McManaman, Director, Department of Human Services; Bruce A. Coppa, Comptroller, Department of Accounting and General Services; Dwight Y. Takamine, Director, Department of Labor and Industrial Relations; Sunshine P. W. Topping, Director, Department of Human Resources Development; Glenn Okimoto, Director, Department of Transportation; MRC Greenwood, University of Hawaii System; Kathryn S. Matayoshi, Superintendent, Department of Education; Jesse K Souki, Interim Director, Office of Planning, Department of Business, Economic Development, and Tourism; Jodie Maesaka-Hirata, Director, Department of Public Safety; Gary Hooser, Director, Office of Environmental Quality Control; Denise M. Wise, Hawaii Public Housing Authority; Mike McCartney, President and CEO, Hawai'i Tourism Authority; Orlando Davidson, Executive Officer, State Land Use Commission, Department of Business, Economic Development, and Tourism; Alapaki Nahale-A, Chairman, Hawaiian Homes Commission, Department of Hawaiian Home Lands; Anthony J.H. Ching, Executive Director, Hawaii Community Development Authority; Audrey McGauley, Chief Executive Officer, ARC of Maui County; Gretchen Lawson, President and CEO, Arc of Kona; Alicia Maluafiti, Executive Director, Hawaii Crop Improvement Association; Alan Takemoto, Community Affairs Manager, Monsanto Co.; Yuka Nagashima, Executive Director and CEO, High Technology Development Corporation; Stephanie Whalen, Executive Director, Hawaii Agriculture Research Center; Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii; Mike Tamanaha, Vice President, Hawaii Waiver Providers Association; Comfort Security Independence; Rose Nakamura, Administrator, Project Dana; Tim Law, Fat Law's Farm, Inc.; Hawaii Farm Bureau; Paul Groesbeck, Executive Director, Life Foundation; and forty-five individuals.

## I. INTRODUCTION

In 2009, the Legislature faced an unprecedented budget challenge of addressing a shortfall of approximately \$2.1 billion through the end of the fiscal biennium. After adopting a balanced budget and financial plan by session's end, the ensuing 2010 Legislature fared no better and was confronted with an additional



budget shortfall of approximately \$1.2 billion over the remainder of the same period.

As we transition into the next fiscal biennium budget cycle, your Committee finds history repeating itself, with a looming shortfall now estimated to be \$1.3 billion through the end of the upcoming fiscal biennium. It is a shortfall that has been exacerbated by the tragedy and continuing nuclear disaster in Japan and political unrest in North Africa.

Nevertheless, your Committee is fortified by the lessons learned over the past two years and by the administration's positive direction as articulated in the Governor's "New Day" initiatives. These include promises to restructure and prioritize state programs. Accordingly, the Governor should prudently use the economic downturn to take a long and hard look at the executive branch's organizational structure. Your Committee stands ready to receive and evaluate his proposals.

However, your Committee notes that the Legislature has struggled with many of the Governor's controversial revenue proposals that are intended to bridge the budget gap. It is clear that public concern and legislative pragmatism will not permit the passage of a number of these measures in the form in which they were originally proposed.

Your Committee's guiding principles for the biennium budget was to first identify and support the State's core functions - those programs and services that the State should be providing - and second to make strategic investments in people and programs that encourage economic growth, lower long-term future costs, and provide meaningful public services.

Your Committee appreciates the efforts of all those who have provided input, including department directors who testified at 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.



## II. ECONOMIC OUTLOOK

### National Economic Outlook

Although the recession is thought to have ended in mid-2009, the Congressional Budget Office, which produces ten-year economic forecasts for the congressional budget committees, describes the current recovery and pace of growth as "anemic," noting that unemployment has remained high in this recession as payroll employment gained a mere seventy thousand jobs (or 0.06 per cent), on net, between June 2009 and December 2010, whereas in past recoveries, employment rose on average by 4.4 per cent in the same time frame.

The Congressional Budget Office estimates that after continued job losses in the near term, the economy is expected to add 2.5 million jobs per year over the next five years, bringing the unemployment rate down from 9.2 per cent to 5.3 per cent, which is close to the Congressional Budget Office's estimate of the economy's natural rate of unemployment of 5.2 per cent.

President Obama's *2011 Economic Report* reflects the view that the national economy is operating substantially below its potential level, as indicated by the elevated unemployment rate and continued stresses in the housing market in many areas; however, the economy is no longer on the brink of depression, growth has resumed, jobs are returning, and unemployment is falling.

The financial markets have improved as the stock market gained thirteen per cent in 2010 and have continued gaining into 2011. Your Committee recognizes that while the national economy is improving, it is improving at a much slower rate than many expected.

### The Economic Outlook for Hawaii

The University of Hawaii Economic Research Organization reports that "Hawaii's recovery continues to be led by the resurgence of the visitor industry" as evidenced by the 8.8 per cent increase in visitor arrivals year over year. However, the University of Hawaii Economic Research Organization and the Department of Business, Economic Development, and Tourism caution that:



- "The surprisingly rapid pace of visitor industry rebound is unlikely to persist. Abroad, the sharp initial Asian pickup is now past, while rising energy prices and sovereign debt problems will weigh on growth elsewhere." DBEDT forecasts a more modest four per cent and 2.5 per cent increase in visitor arrivals for 2011 and 2012, respectively.
- "After improving from 6.9 per cent in January to 6.3 per cent in June, the seasonally adjusted statewide unemployment rate has remained stuck at 6.4 per cent through December 2010." However, UHERO sees broad based improvements in the economy for 2011 and 2012 as Hawaii's recovery strengthens and Oahu rail transit construction gets underway.
- "Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan." Although the effects of the March 2011 earthquake, tsunami, and nuclear crisis in Japan are unknown, global events and their ensuing repercussions have altered Hawaii's economic forecast in recent decades including the 9/11 terrorists attacks in 2001, SARS in 2003, and the H1N1-A virus in 2009.

### III. GENERAL FUND REVENUE OUTLOOK

By law, the Council on Revenues (Council) 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 2010 forecast, the Council has both raised and lowered its prediction of tax revenues for the current fiscal year. The Council's most recent forecast on March 29, 2011, lowered the growth rate to -1.6 per cent. The erratic changes in the Council's forecasts have hindered your Committee's ability to formulate a functional budget as appropriation requests are largely based on original revenue projections that are no longer viable.

The administration based its original budget request on the Council's September 2009 projection of two per cent general fund



tax revenue growth for fiscal year 2011. Using this revenue projection, the budget deficit over the upcoming biennium was initially estimated at \$818.5 million.

On December 29, 2010, the Council revised its forecast upward from two per cent to three per cent, resulting in an anticipated gain of \$146.6 million in tax revenue through the end of the fiscal biennium. Incredulous that such an increase in revenue would materialize, neither the administration nor this Committee relied upon it.

On March 10, 2011, the Council revised its forecast downward from three per cent to 0.5 per cent, which resulted in a subsequent projected revenue reduction of \$243 million through the end of the fiscal biennium. Hours later, Japan was struck by a trifecta of disasters -- the 9.0 magnitude earthquake, deadly tsunami, and nuclear calamity. The disasters were unimaginable, devastating the Japanese people, causing unprecedented damage, and crippling Japan's economy.

Given Japan's significant share in the State's tourism market, the Council was called back into session and convened on March 29, 2011, to re-evaluate its March 10, 2011, meeting projection in anticipation of declining numbers of Japanese visitors.

Although the Council lowered the projection to -1.6 per cent, which resulted in an additional revenue loss of \$93.1 million for fiscal year 2011 alone, and a loss of \$311.7 million through the end of the fiscal biennium, the Council adjustment was due more in part to poor tax collections in February 2011 than the tragic events in Japan. In fact, some of the Council members noted that they did not see the events in Japan as having long-term effects on the State's economy.

With the revised revenue levels, a net \$1.3 billion deficit is projected over the biennium. However, despite the downward revenue projections for the current fiscal year, the Council retained its March 10 revenue growth forecast for fiscal year 2012 of eleven per cent and maintained the previous forecast for fiscal years 2013-2017 at six per cent. The forecast was rationalized by the Council Chair's optimistic statements that the two most important core components of Hawaii's general fund revenues, general excise and use taxes and withholding taxes on wages, continue to grow at rates consistent with economic recovery.



Given the global and economic uncertainties and the recent volatility in the Council's projections, it is with great caution that your Committee receives the Council's current revenue projection and notes the significant downside risk that exists for the revenue growth assumptions for the planning period.

#### IV. BUDGET OVERVIEW

The budget deficit through the end of the next biennium is now estimated to be \$1.3 billion. This follows two consecutive years that have required state government to address shortfalls of \$2.1 billion and \$1.2 billion, respectively. These are momentous sums, given that current year authorized spending for the executive branch of government is approximately \$5 billion.

Various measures were implemented to address the prior budget shortfalls. These started with wholesale reductions of up to twenty per cent of what was deemed discretionary spending and the use of American Reinvestment and Recovery Act of 2009 (ARRA) funds to supplant general fund spending.

As the revenue picture further deteriorated, the Governor implemented across the board spending restrictions equivalent to the savings that three furlough days per month would yield. Departments met these required savings targets most notably through the implementation of two furlough days per month. A reduction in force of approximately one thousand state workers, the reduction of vacant positions, and a number of other measures were utilized to further reduce state spending.

This legislative session, the executive budget initially proposed to the Legislature was principally prepared by the prior administration. At the program level, it basically sought to maintain spending levels of the current fiscal year. Of the budget adjustments it proposed, several were significant. The initially proposed budget recognized the loss of ARRA funds, the significant Medicaid shortfall, and higher debt service payments. Amounts previously reduced to reflect furlough savings were also restored, reflecting uncertainty of the labor savings component. These adjustments, largely non-discretionary in nature, resulted in a request to add \$624.9 million for fiscal year 2011-2012 and \$810.6 million for fiscal year 2012-2013.



On February 22, the new administration submitted a request to add an additional \$133.8 million for fiscal year 2011-2012 and \$160.3 million for fiscal year 2012-2013. This includes about \$100 million over the biennium to address immediate needs of state programs as determined by the new administration, \$54.3 million per year for Employer-Union Health Benefits Trust Fund payments, \$49.5 million per year for the Temporary Assistance for Needy Families Program, \$13.2 million per year to address Medicaid needs related to the Compact of Free Association, \$36.8 million for fiscal year for a deferred employee retirement system (ERS) payment, and the reduction of \$75 million over the fiscal biennium for Medicaid to reflect the scaling back of benefits.

The House of Representatives passed a draft of the budget that:

- (1) Accepted the initially proposed budget adjustments;
- (2) With the exception of adding \$36.8 million for a delayed ERS payment, rejected the adjustments proposed under the February 22 Governor's Message; and
- (3) Made lump-sum reductions to most state programs amounting to approximately \$120 million.

Your Committee's draft of the executive budget is premised upon the need to maintain a significant labor savings component of the budget that minimally realizes the same level of savings assumed for the current fiscal year. To be clear, this draft of the budget does not require an extension of the furloughs that have impacted government services. Indeed, your Committee expects those currently negotiating collective bargaining agreements to find creative solutions that yield savings and allow government to maintain programs that are in great public demand.

In addition, your Committee understands the importance of educating Hawaii's children and has restored the funding needed to maintain the current level of instructional days for students. The funding provided in this draft assumes that collective bargaining negotiations will yield an agreement that resembles the one currently in place.

Your Committee recognizes that a considerable component of labor cost is health insurance. Though the new administration proposed an additional \$54.3 million per year to allow the State





to pay sixty per cent of health insurance premiums, your Committee reduced this request by \$30.5 million per year to reflect an employer/employee split of fifty per cent of health insurance premium costs borne by the State.

Your Committee also reduced by half the new administration's request for an additional \$100 million over the biennium to meet immediate needs of state departments. Though your Committee accepts that many state programs are operating with skeleton crews and minimal resources, the current revenue picture has required a close evaluation of these requests and the exercise of constraint.

Clearly, resources provided for state programs have significantly declined over the past two years. However, it is also clear that declining revenue projections will necessitate further spending restrictions. Thus, your Committee has reduced \$30.3 million budgeted per year for positions that are currently vacant. These reductions are based largely on the amount of funds currently authorized for vacant positions by program and allow agencies the flexibility to prioritize spending and hire personnel that may be in critical need. Additionally, no reductions were made to certain programs, such as the plant quarantine program and the state library system, that have broad impact to our economy and quality of life.

Your Committee's adjustments to the executive budget have resulted in the reduction of \$277.3 million for fiscal year 2011-2012 and \$376.9 million for fiscal year 2012-2013 from amounts requested by the administration. This is a reduction of about \$654.2 million over the fiscal biennium, or about half the amount needed to close the budget gap. It is without doubt that the financial health of the State cannot be restored through spending cuts alone.

## V. DEPARTMENT HIGHLIGHTS

### Human Services

The prolonged economic recession has fostered exponential growth in the demand for social services. Your Committee recognizes the importance of providing core services to individuals and families in need and remains committed in its support of the Department of Human Services' efforts to deliver assistance to Hawaii's vulnerable populations.



The department faces several challenges in providing social services to the State's needy populations under the current fiscal constraints. The reduction-in-force (RIF) eliminated three hundred sixty-five positions across the department, creating backlogs and limiting contract oversight in a number of programs.

As health care costs continue to rise and enrollment levels climb, closing the Medicaid shortfall remains a daunting task. The MedQUEST Division has accommodated a twenty-five per cent enrollment increase while managing a forty per cent staff reduction and twice monthly furloughs. These economic straits are further exacerbated by carry-over deficits from the previous administration's short-sighted delayed payment strategies.

Medicaid plays a vital role in the lives of more than twenty per cent of Hawaii's residents. In an effort to continue delivering needed medical services to Hawaii's vulnerable population, your Committee provided an additional \$248.2 million in fiscal year 2011-2012 and \$288.2 million in fiscal year 2012-2013, which will be matched with federal dollars, to fund health care payments for Medicaid beneficiaries.

However, in prior years your Committee has cautioned the department on the fiscal limitations of the general fund and the risks Medicaid expansion would create. Unfortunately, the department's failure to make timely reductions has resulted in the need for dramatic benefit changes to ensure funds remain available for critical medical services.

Your Committee has accepted the Governor's proposal to save \$150 million over the next fiscal biennium by reducing Medicaid benefits. Indeed, this marks a crossroad for many beneficiaries who have grown accustomed to unlimited services, no co-pay, no premiums, and zero deductibles. Unfortunately, with the increased demand for government subsidized health care and anticipated decrease in the federal medical assistance (FMAP) percentage reimbursements, these types of plans are unsustainable.

Your Committee finds that leveraging state funds to bring in substantial federal matching funds to mitigate state costs is fiscally prudent. As such, your Committee agreed to \$70,400 in general fund expenditures to implement the Electronic Health Record Incentive Program, which will receive \$668,232 in federal matching funds.



The modernization of Hawaii's information systems is pivotal to the department's ability to deliver services and generate increased access among Medicaid beneficiaries. As such, your Committee agrees with the expenditure of \$2.9 million in general funds to receive \$26.5 million in matching federal funds for a new MedQUEST Division computer-based eligibility system. The new system will help to ease the State's transition into manageable health care and expedite the delivery of services where they are needed most.

Congress enacted the federal Personal Responsibility and Work Opportunity Act in 1996. At that time, the United States government made the decision to no longer extend medical benefits to members of the Compact of Free Association (COFA) and gave individual states the choice to continue Medicaid services to COFA members with the understanding that they would no longer receive federal support for this population. Given Hawaii's unique location and high concentration of COFA members, the decision was made to provide COFA members the same Medicaid packages offered to similarly situated Hawaii residents.

In 2010, the previous administration attempted to achieve cost savings by moving the COFA population to a limited plan entitled, Basic Health Hawaii, which offered limited visits and reduced the types of services available to COFA beneficiaries. On December 13, 2010, a federal court found this change caused irreparable harm to COFA residents and issued an injunction mandating the State to reenroll all COFA members to their original programs, reinstate all benefits, and expedite delivery of services regardless of reenrollment processing.

Your Committee recognizes the immediate effects of this ruling and accepted the Governor's proposal to appropriate \$13.2 million in general funds to reinstate Medicaid benefits to COFA clients for fiscal year 2011-2012. These costs are reflected as federal expenditures for fiscal year 2012-2013. Given the Lieutenant Governor's focus on obtaining federal funds, your Committee believes this is an area that should be his top priority.

Work opportunities and cash assistance for Temporary Assistance for Needy Families (TANF) and Temporary Assistance for Other Needy Families (TAONF) remain priorities in the State's efforts to help Hawaii residents through the economic recession. However, the previous administration's excessive contract



expenditures, unfettered spending of ARRA funds, and liberal extensions of cash assistance payments beyond federal guidelines has left the TANF reserve fund insolvent.

Despite your Committee's forewarning of the inevitable expiration of emergency contingency fund extensions, the department failed to reexamine TANF expenditures and maintain sustainable contract levels when reserve funds were still available. Recently, nonessential contracts amounting to \$33 million were notified of early termination in January of 2011, and emergency appropriations were necessary to meet the department's remaining commitments for the current fiscal year.

The department has implemented the reduction of low priority contracts and has prioritized available funds for important purpose one and two services. These services provide Hawaii's residents with the opportunity to become self-sufficient. As such, your Committee has provided \$37.1 million for TANF programs in fiscal year 2011-2012 and \$23 million for TANF and TAONF cash assistance payments over the fiscal biennium. Your Committee notes that the funds for the A plus program will be appropriated directly to the Department of Education.

The dire economic conditions of the last few years increased the amount of Hawaii's residents living below federal poverty levels from five per cent in 2007 to over nine per cent in 2010. Shelters across the State are at capacity and are forced to turn away many of Hawaii's homeless. To support the Governor's efforts to extend services and shelter accommodations to the growing levels of homeless, your Committee has approved \$1.5 million for shelter support contracts and the addition of three new shelters in Maui, Waianae, and Kona.

In addition, the Preschool Open Doors Program offers TANF recipients a means of providing children with educational opportunities while parents work towards self-sufficiency through state subsidies. Early childhood education plays an integral role in the development of Hawaii's youth, and affordable childcare allows many parents to engage in work opportunities. To support the valuable services the program offers, your Committee has provided \$2 million in subsidy assistance.



Health

Your Committee recognizes the importance of prioritizing health and safety. The Department of Health lost three hundred fifteen positions in the recent RIF. As a result, the programs and their contracted service providers have operated with significantly less resources. This loss is compounded by the anticipated decrease in the FMAP reimbursements that have assisted several programs in this tough economic climate. Mental health and developmental disabilities programs have been hit especially hard by prior budget reductions and will be greatly affected by the impending FMAP decrease. A Child and Adolescent Mental Health Division Program has already closed for lack of funding, leaving Hawaii County with no community-based residential program.

Many other programs are also on the cusp of closing and cannot endure further reductions. The Developmental Disabilities Division has had to impose a fifteen per cent reduction on its service providers, which has caused concern of another federal lawsuit if funding is not ultimately restored. Your Committee is aware of the dire situation these programs are in and has provided the following support in accordance with corresponding FMAP reductions:

- \$3.3 million for fiscal year 2011-2012 and \$3.4 million for fiscal year 2012-2013 for the Adult Mental Health Division;
- \$2.4 million for fiscal year 2011-2012 and \$2.5 million for fiscal year 2012-2013 for the Child and Adolescent Mental Health Division; and
- \$9.9 million for fiscal year 2011-2012 and \$11.2 million for fiscal year 2012-2013 for the Developmental Disability Division.

The Early Intervention Program also faces a shortfall resulting from a reduction of Medicaid and Tobacco Settlement moneys. The Early Intervention Program provides services to infants and toddlers under the age of three who have, or are at risk for, developmental delays. Your Committee also understands that reduced funding will result in tighter eligibility criteria and could put the State in noncompliance with federal requirements. As such, your Committee has provided \$2.1 million to fund the program's projected deficit.



The Healthy Start Program provides child abuse and neglect prevention services and promotes child development among high-risk infants and toddlers. Recent reductions to the program resulted in the elimination of assessment capacity and home visiting services for most of the State. Your Committee acknowledges the importance of reinstating hospital-based assessments and improving intensive home visiting services and has provided \$3 million in special funds from the Tobacco Settlement Special Fund.

### Education

Your Committee remains aware of the national embarrassment caused by Furlough Fridays. For the 2009-2010 school year, schools closed seventeen days due to furloughs. While students were able to have a full school year for 2010-2011, furloughs are still taken on non-instructional days and twelve-month employees have thirteen furlough days.

Your Committee recognizes that addressing the deficit cannot come at the cost of educating Hawaii's students. Therefore, your Committee has provided \$60.8 million to maintain the current level of instructional school days at public schools.

Your Committee also supports the department's request to add \$2.1 million to sustain the level of contracted nursing services for Individuals with Disabilities Education Act and Section 504 eligible students. Due to budget restrictions, the Department of Health ceased providing these direct services for eligible special needs students in July 2010. Your Committee has approved the conversion of forty educational assistants from temporary to permanent status to alleviate the high turnover rate and difficulty in filling these positions.

Although the Legislature implemented the Board of Education's recommended reduction to categorical programs last year, your Committee recognizes the significance of continuing the services provided by Families for R.E.A.L. and the Challenger Center. Each program has demonstrated importance to student achievement.

While agreeing with some of the department's budget recommendations, your Committee is concerned by the department's apparent reluctance to effectively address student transportation contract costs. The cost to provide student transportation is



significant. It has been estimated to be about \$1,000 per regular education rider; whereas, the approximate general fund cost to educate a student is about \$5,500.

Your Committee observes that the appropriation has not covered the actual costs of transportation for several years. Despite continued appeals by your Committee to the department to rein in exorbitant contract costs, the department has allowed the student transportation program to run at a significant deficit, simply utilizing funds from other sources.

Equally troubling is the fact that competition for bus contracts is virtually nonexistent: once a company receives the contract for a route, other companies will not typically compete for that contract. Your Committee finds that the department has allowed the problem to proliferate rather than seek an effective solution.

As such, your Committee does not support the department's request for student transportation contract costs for fiscal year 2012-2013. Your Committee has disapproved the requested \$19.6 million and has further reduced the department's transportation budget by an additional \$22 million for these costs. The remaining appropriation for fiscal year 2012-2013 will allow for the continuation of mandated transportation for qualifying special education students. Your Committee requests that the department complete a comprehensive alternatives analysis to assess various options and evaluate needed service levels to provide meaningful data to address this issue.

It is the intent of your Committee to revisit this issue once the department provides sufficient justification for regular education transportation services.

Furthermore, while your Committee recognizes the department's statutory authority to transfer funds between programs, this authority was granted to the department to provide a certain level of flexibility. It is now apparent that the department has used this authority excessively by using it to expend significant amounts that the Legislature clearly intended for school-based budgeting on other program areas.

While certain circumstances may necessitate the transfer of funds to bridge funding shortfalls or meet unforeseen emergencies, excessive use of this authority may cause your Committee to



examine whether the department requires stricter oversight. Your Committee believes the Legislature's appropriation of funds by program clearly indicates legislative intent and that the repeated and seemingly routine transfer of funds between programs is not acceptable.

### Charter Schools

Turning its attention to charter schools, your Committee believes in providing comparable funding for charter school students. However, serious concerns persist with how these schools use state funds. While your Committee appreciates improved responsiveness to legislative requests, considerable issues persist.

Over-projection of enrollment numbers remains an issue. The Legislature attempted to counteract the frequent over-projection of enrollment numbers by establishing a charter schools account within the state treasury where any appropriation amount exceeding the verified enrollment amount would be held. For fiscal year 2010-2011, \$3.5 million has already gone into the account since the projected enrollment count originally provided by charter schools exceeded actual enrollment by nine hundred twenty-eight students. Your Committee looks forward to charter schools developing a more consistent method of verifying the projected enrollment counts provided by the individual charter schools.

Your Committee also finds recent events and revelations regarding the Myron B. Thompson Academy tremendously troubling. Hopefully, charter schools understand that, while their operations may be exempt from certain state laws, they are still accountable for the quality of the education provided to their students and for the responsible use and diligent oversight of state funds.

### University of Hawaii

Your Committee recognizes the University of Hawaii system is the State's premier institution for higher learning, a leading generator of economic growth and diversification, and a tremendous resource for the State of Hawaii. The University has managed significant budget reductions through enrollment management, offering fewer classes at certain campuses, enlarging the size of





classes, hiring lecturers to fill instructional positions, and closing campuses during winter and spring breaks.

Your Committee understands an additional \$51 million is expected to be generated in tuition and fees in fiscal years 2011-2017. These funds have been accumulating, and the University is capable of using them to offset costs normally borne by the general fund. As such, your Committee has reduced the University's general fund budget by \$11 million for fiscal year 2011-2012 only.

With regard to personnel matters of the University, the collective bargaining agreement with the University of Hawaii Professional Assembly calls for the "pay back" of salary reductions implemented for the current fiscal biennium. In addition to adding to salary costs, this results an additional public employer cost of \$1.6 million for fringe benefits for university employees. Your Committee believes that minimally, the University is fully responsible for funding all costs associated with these salary adjustments without reliance on general funds.

Your Committee notes that the current budget request for the collective bargaining costs for the University of Hawaii Professional Assembly are its first opportunity to consider the agreement. Your Committee believes the negotiated collective bargaining agreement may be overly generous, given the larger fiscal context and the State's need to achieve labor savings. Accordingly, your Committee has denied the request to fund additional collective bargaining related costs for fiscal year 2012-2013.

Your Committee understands the University of Hawaii Community Colleges have experienced an unprecedented enrollment growth of thirty-five per cent, while enrollment at the University of Hawaii Hilo has increased by nineteen per cent. In order to meet the increased student demand, your Committee has provided \$6.6 million for the University of Hawaii Community Colleges and \$300,000 for University of Hawaii Hilo to ensure they are able to maintain services and sustain course offerings.

Your Committee recognizes the importance of the John A. Burns School of Medicine in teaching and training high-quality physicians, biomedical scientists, and allied health workers for Hawaii. To better identify costs associated with this program,



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your Committee has transferred 198.22 positions and \$34.9 million to a separate John A. Burns School of Medicine program ID.

Your Committee acknowledges the significance of Science, Technology, Engineering, and Mathematics to the future of Hawaii. Since ARRA funds, which will no longer be available for the next fiscal biennium, have been used to sustain and grow this legislative priority, your Committee has provided \$2.9 million to improve the overall quality of education and to provide students with world-class analytical and problem-solving skills to prepare them for science, technology, engineering, and mathematics related careers.

Your Committee supports the Academy for Creative Media, which emphasizes cultural and aesthetic values within narrative and storytelling theories and skills and application across multiple platforms of digital media. Your Committee has added \$2.1 million to expand the Academy's film and digital media programs to build capacity for workforce growth and to support the growing needs of industries in defense and dual-use, astronomy, engineering, aquaculture, biotech, and digital media.

Last year, the Legislature supported the Office of Mauna Kea Management by providing funding to develop, implement, and enforce administrative rules governing public and commercial activities on Mauna Kea. Your Committee continues to recognize the importance of preserving and protecting Mauna Kea's unique resources. To this end, your Committee has provided \$1 million to initiate research, continue long-term monitoring programs, and engage in activities necessary to implement and enforce the comprehensive management plan.

Your Committee also recognizes the Na Pua Noeau Program as an important measure to increase educational enrichment opportunities for children in grades kindergarten to twelve, especially for Native Hawaiians, to attend and graduate from the University of Hawaii. Thus, your Committee provided \$290,000 for fiscal year 2011-2012 and \$580,000 for fiscal year 2012-2013, with the understanding that the Office of Hawaiian Affairs will match this funding. This support will assist in providing educational enrichment services to two thousand students throughout the State.



Budget and Finance

Fixed costs such as debt service, retirement system, and health benefit payments, comprise one-third of the total State's general fund budget. These components require annual increases based upon assumptions for interest rates, payroll growth, and membership growth, all of which are beyond your Committee's control.

The previous administration restructured debt service to provide immediate savings in prior years. However, this action simply pushed costs into current and future years. Your Committee must provide additional funding to meet higher debt service requirements that have resulted from the prior administration's actions.

The State's contribution to health benefit premiums is determined through collective bargaining. The current Governor's Message requests are based on a 60/40 per cent (employer/employee) split and incorporate rates from the December 2010 bargaining unit agreement. On March of 2011, health benefits premiums increased by approximately eleven per cent. Your Committee has agreed to fund this increase; however, your Committee has adjusted the amount so that employees share this burden equally with the State.

The Department of Budget and Finance struggles to provide even the basic fiscal and administrative services for the State due to a thirty-three per cent position reduction in the Administrative and Research Office and a thirty-six per cent position reduction in the Budget, Program Planning and Management Division. The Treasury Management Branch has likewise had to manage operations with reduced resources. Treasury deposit receipt processing increased from one-day processing to twenty-nine days and Treasury investment pool processing increased from a standard processing time of two months to six months. Your Committee recognizes that the department's current staffing level is not operationally sustainable and has restored needed positions.

Additionally, a combination of a hiring freeze and prior budget reductions has left the Hawaii Employer-Union Health Benefits Trust Fund (Trust Fund) severely backlogged. In December 2010, staff was unable to answer 1,389 incoming calls and had 2,135 unprocessed documents resulting in employees and dependents not being able to go to the doctor or fill prescriptions. The



Trust Fund is also in the process of transitioning-in fifteen thousand Hawaii State Teachers Association members and is in need of additional personnel. Your Committee is dedicated to ensuring core services are provided and has added positions to alleviate the backlog for a smooth transition of Hawaii State Teachers Association members.

The Legislature enacted Act 177, Session Laws Hawaii 2007, which authorized the restructuring and relocation of the Public Utilities Commission (Commission) due to increased responsibilities in energy policy reform. In addition, the Legislature authorized and funded additional positions for this purpose. The Commission requested over \$5 million for the renovation and lease of commercial space. However, your Committee has learned of sufficient state-owned space that could be utilized for the Commission and has provided \$250,000 for office space renovation. Your Committee encourages the Commission to work with the Department of Accounting and General Services to obtain state-owned space and provide much needed savings to the State.

The Commission also requested eleven positions pursuant to Act 177 that will enhance the Commission's research capabilities and ability to adapt to changing market environments. Your Committee recognizes the importance of these positions to address significant policy issues facing the State and has provided the requested positions.

In light of Senate hearings that uncovered several instances of the mishandling of money by state agencies, your Committee sees value in hiring a third-party consultant to review the policies and procedures of the state treasury and has provided funding for this purpose.

#### Public Safety

Your Committee continues to support the efforts of the Department of Public Safety to provide secure incarceration for offenders and protection for the State's general population.

The department has faced hiring delays and the inability to fill positions and posts for the operation of a twenty-four-hour facility, which has required it to pull personnel from various posts to staff facilities such as the Kapolei court complex. As such, your Committee recommends the following adjustments:



- Fourteen deputy sheriff positions to staff the Kapolei court complex; and
- \$131,377 for six adult corrections officer positions in the Hawaii Community Correctional Center.

Your Committee understands the importance of maintaining operational vehicles for the transport of prisoners and the performance of other duties. Act 162, Session Laws of Hawaii 2009, eliminated the department's vehicle replacement funds. Since fiscal year 2008, the department has purchased no new vehicles, while the remaining fleet continues to age. Therefore, your Committee has provided \$500,000 for fiscal year 2011-2012 for new motor vehicles.

The level of staffing the Sheriffs Division currently provides to neighbor island courts remains a concern. Your Committee encourages the department to increase their efforts to recruit positions for neighbor islands where staffing levels are currently at minimal levels.

Your Committee appreciates the department's efforts to reduce high overtime costs through the utilization of a program that increases accountability and imposes consequences on habitual abusers. For fiscal year 2011-2012, \$3.5 million is budgeted to continue these efforts. Your Committee notes that this amount represents a reduction from an actual expenditure of \$6.8 million in fiscal year 2009-2010. Your Committee hopes to see continued overtime reduction in the future.

Your Committee recognizes the department's commitment to honor the intent of the Governor to return inmates home from out-of-state facilities, thereby reducing the amount of public dollars sent out of Hawaii. The department noted that a long-term plan for returning inmates is scheduled to be completed by December 2011.

However, your Committee is concerned that despite prodding from the State Auditor, a more proactive and timely approach has not been taken to procure a new contract for out-of-state facilities that will house Hawaii inmates. Without more time allotted for planning and execution, the proper procurement measures cannot be adequately carried out, thus decreasing potential savings for the State. Your Committee looks forward to



receiving more information and timely status updates from the department on this matter.

### Land and Natural Resources

Since 2009, general funds for the Department of Land and Natural Resources have been reduced by twenty-eight per cent. General fund costs were shifted to federal or special funds wherever possible; however, special fund revenues have not increased to adjust for the additional burden. Furthermore, general funds are necessary to provide core activities such as law enforcement, permitting, and regulatory oversight where statutory or program restrictions are placed on the usage of non-general funds.

The department began the implementation of fees at many state parks and facilities to offset costs. However the Division of Conservation and Resources Enforcement (DOCARE) relies almost entirely on general funds. DOCARE has handled budgetary and personnel reductions by drastically reducing services. Patrols are no longer twenty-four hours/seven days a week and have been reduced by twenty per cent. Coverage area has decreased by thirty per cent and enforcement actions, such as arrests, citations, investigations, and inspections, are down by an average of thirty-four per cent.

Your Committee realizes that protecting Hawaii's natural resources is an immense task and the safety of conservation officers is a top priority. As such, your Committee has provided \$500,000 to properly equip officers who are protecting our State's natural resources.

In light of damage inflicted on Keehi Harbor by the March 11, 2011, tsunami, your Committee has provided \$475,000 to the department to clear sunken boats and debris.

The State Historic Preservation Division has been identified as a high risk grantee by the National Park Service and is at risk of losing their federal grant, which comprises thirty per cent of the division's budget. Without federal approval, the State Historic Preservation Division will not be authorized to conduct preservation efforts at national historic sites. Your Committee understands that protecting the State's unique history is important. To this end, your Committee has restored eleven



positions to the State Historic Preservation Division through the use of general and special funds. A portion of this addition will reinstate the Burial Sites Program previously absorbed by the Culture and History Branch in 2006.

### Agriculture

Your Committee recognizes agriculture as an important component of Hawaii's economy. The forty-four per cent general fund reduction made in fiscal year 2009-2010 severely impacted the Department of Agriculture and resulted in the slow-down of services and discontinuation of several functions. Your Committee is dedicated to promoting self-sufficiency, conserving resources, and preventing the presence of invasive species in our State.

As of January 2011, additional retirements have left the Honolulu International Airport, which accounts for ninety-five per cent of the statewide airport system, with only five to seven plant quarantine inspectors daily. If this trend continues, it is estimated that about ninety per cent of the invasive species will avoid interception and pose a major threat to our State. Your Committee anticipates the lifting of the hiring freeze to fill the twenty-two plant quarantine inspector positions restored by the Legislature last year in the Plant, Pest and Disease Control program. As such, your Committee has shielded the Plant, Pest and Disease Control Program from reductions.

Finally, your Committee continues to support the efforts to reduce general fund costs in these challenging economic times by changing the means of financing for ten positions from general funds to special funds.

### Business, Economic Development, and Tourism

The Department of Business, Economic Development, and Tourism is at the forefront of Hawaii's economic recovery. The department provides important services to the State's trade operations and adds to the collective wealth of Hawaii by stimulating local businesses and emerging industries through grant support, research and analysis, and investment opportunities.

The energy industry achieved significant growth and garnered a great deal of attention in recent years. As the nation worked



to transition to renewable energy, Hawaii emerged as a model for several states on the implementation of exemplary energy programs. The program's successful solicitation of over \$59 million ARRA energy grants over the last biennium encourages the industry's growth and helps perpetuate Hawaii's commitment to achieve clean energy solutions.

Your Committee remains dedicated in its support of state energy projects and the advances the department has made in working towards the State's goal of seventy per cent clean energy and forty per cent renewable energy by 2030. However, the department should be cautious of imprudent spending of grant funds. The approaching expiration of federal energy grants for fiscal year 2011-2012 will result in a \$12 million reduction in the funds available to energy programs. Your Committee encourages the department to budget appropriately and develop feasible funding alternatives for the upcoming fiscal biennium.

With regard to organizational structure, your Committee notes that the department has a history of reorganizing its staff through the budget. This practice is demonstrative of the department's reluctance to follow proper reorganization procedures that may have contributed to a number of grievances. As such, your Committee has rejected the department's request for those internal transfers that have not been adequately justified. Your Committee finds that the department should perform a comprehensive review of its operations and adopt a formal reorganization plan prior to submitting conforming requests through the budget process.

### Taxation

From fiscal years 2008 to 2011, the Department of Taxation has faced numerous reductions amounting to \$5.3 million and 43.5 positions. As a result, the quality of service provided to the public has suffered, including increased wait time for walk-in customers, delayed response to taxpayers under audit, and a forty-nine per cent reduction in call center pick-up rate.

Your Committee understands the increasing needs of the department resulting from the impending transition away from the consulting services of CGI Technologies and Solutions, Inc., while continuing to emphasize modernization and paperless practices. Therefore, your Committee has authorized the creation of nine





information technology positions and has provided \$391,424 for fiscal year 2011-2012 and \$531,458 for fiscal year 2012-2013 to assist the department's modernization plan and the transition of programs performed by CGI to the department.

Every five years, by mandate of the Hawaii Constitution, a Tax Review Commission is created to review the State's tax structure and recommend revenue and tax policy. As such, your Committee has provided \$200,000 for the Commission to carry out its appointed duties.

Your Committee also recognizes that, in the current economic environment, finding new ways to generate revenue is a necessity. Therefore, your Committee has provided \$185,000 for the department to contract the services of the Multistate Tax Commission as another source of potential revenue.

#### Commerce and Consumer Affairs

The Division of Consumer Advocacy, Department of Commerce and Consumer Affairs, represents consumers before the Public Utilities Commission, which regulates rates and services offered by public utility and transportation companies. Eight positions under this office were reduced for vacancy savings for fiscal year 2009-2010. Act 130, Session Laws of Hawaii 2010, appropriated \$634,000 out of the Compliance Resolution Fund for fiscal year 2010-2011 to reinstate these positions. Your Committee has approved continued funding of these positions. In addition, your Committee has provided \$200,000 for consultant services regarding utility, communication, and transportation services.

Your Committee finds that the department utilizes the legal services of the Department of the Attorney General. Therefore, your Committee has provided the department with the spending authority to fully reimburse the Department of the Attorney General for the value of legal services received, estimated at \$600,000. These funds will be transferred to the Department of the Attorney General.

#### Attorney General

Your Committee recognizes the importance of the Department of the Attorney General in its role as legal counsel for the State of



Hawaii. Decreases in personnel and working hours have resulted in delayed responses to client agencies. In addition, reductions to the litigation fund have negatively impacted the department's ability to effectively fund expert witnesses, which in turn has affected the credibility and quality of the legal representation the State receives in court proceedings.

The Hawaii Criminal Justice Data Center provides federal, state, and local law enforcement with criminal history information. Currently operating with a thirty-four per cent vacancy rate, data quality and system maintenance have suffered due to inadequate staffing. This program will be critical during the 2011 Asia-Pacific Economic Conference, as it is a central source of criminal history information for federal, state, and local law enforcement.

Your Committee is committed to saving general funds by using non-general funds wherever applicable. As such, the Legal Services Division's general fund budget was reduced by using interdepartmental transfers to fund services provided to other departments. The department will be reimbursed as follows:

- The Department of Human Services has agreed to fund two deputies and one temporary deputy for a total of \$324,223;
- The Department of Education has agreed to fund two deputies for \$172,360, in exchange for the Department of the Attorney General funding one deputy at \$87,500; and
- \$220,000 from the Department of Commerce and Consumer Affairs to adjust for a new memorandum of understanding reimbursing the department for services totaling \$600,000.

The transfers save the State \$544,223 in general funds, as the Department of Human Services will be federally reimbursed and the Department of Commerce and Consumer Affairs is special funded through its compliance resolution fund.

#### Accounting and General Services

Your Committee recognizes the Department of Accounting and General Services' struggle to achieve its objectives due to severe personnel reductions. The department has adjusted schedules, work



locations, and assignments in order to meet essential operating needs. Information and Communication Services Division personnel were decreased by thirty-six per cent over the past fiscal biennium and sustaining production capabilities is rapidly becoming a crisis.

Your Committee understands the importance of the Information and Communication Services Division to other executive departments and has restored eleven positions to help bring the division's data center back to twenty-four hours/seven days a week operations. With this addition, executive departments can begin to reduce their work backlog and improve services.

Although consumption levels of electricity, water, and sewage fell significantly in fiscal year 2010-2011, rates for these utilities have again increased. In an effort to alleviate these growing costs, your Committee has provided \$1.3 million for fiscal year 2011-2012 and \$700,000 for fiscal year 2012-2013.

Your Committee is concerned over the procurement practices of state agencies, and procurement violations have troubled your Committee for some time. As such, your Committee has authorized and provided funding for five positions to the State Procurement Office. Among those positions are four purchasing specialists, which will enable the State to award and maintain additional contracts in a timely and efficient manner.

#### Transportation

Your Committee supports the Department of Transportation in its oversight and maintenance of the State's airports, harbors, and highways.

Significant reductions for both fiscal year 2009-2010 and 2010-2011 deferred scheduled maintenance projects in the department's Harbors and Highways Divisions. Your Committee recognizes that deferred maintenance in these areas compounds the eventual cost of repair. As such, your Committee has approved an increase in the Highways Division authority to utilize special funds in the amount of \$22.2 million for fiscal year 2011-2012 and \$58.4 million for fiscal year 2012-2013 for special maintenance projects across the State.



Your Committee understands the desire of the department to consolidate the highway programs of Maui, Lanai, and Molokai into a single program. As such, your Committee has approved the department's request to consolidate these highway programs into a single program. This will reduce administrative overhead and facilitate the transfer of funds between the islands.

### Defense

Budget reductions have resulted in the loss of approximately \$1.3 million in federal matching funds for the Department of Defense. As one of its guiding principles, your Committee recognizes the importance of maximizing federal funds. Accordingly, your Committee has provided \$369,101 in general funds that will net \$4.1 million in matching federal funds for fiscal year 2011-2012 and has provided \$478,202 in general funds with a \$4.1 million federal funds-match for fiscal year 2012-2013. These funds will help to maintain and improve the facilities of the Hawaii National Guard, expand the Hawaii National Guard's distance learning program, assist with the juvenile justice and delinquency prevention program, sustain quality members in the Hawaii National Guard Youth Challenge Academy, and help to sufficiently staff the emergency operating center for the State Civil Defense Division.

The State Civil Defense Division provides important emergency services to the State, including the coordination of private and public authorities, planning and mobilizing rapid response services and recovery efforts, and restoring essential public services. As such, your Committee has provided \$109,101 for fiscal year 2011-2012 and \$218,201 for fiscal year 2012-2013.

Your Committee also recognizes the valuable service and contribution of Hawaii's veterans. In light of these contributions, your Committee has provided \$634,491 for fiscal year 2011-2012 and \$3.2 million for fiscal year 2012-2013, which will be entirely federally reimbursed, for repair and maintenance on all veterans' cemeteries statewide.



Labor

Your Committee finds that lack of employer confidence has kept unemployment levels at record highs. On December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization Act, which extended the Emergency Unemployment Compensation Program through January 3, 2012. This law will allocate \$262.2 million in federal funds to the State and will benefit nearly eighteen thousand of Hawaii's unemployed. Your Committee recognizes the prolonged hardship of long-term unemployment in already difficult times and is supportive of the Department of Labor and Industrial Relations' efforts in garnering federal support to assist the State's displaced workforce.

Hawaiian Home Lands

Your Committee supports the Department of Hawaiian Home Lands' efforts to consolidate its programs. Your Committee has approved the department's request to consolidate the Management and General Support for Hawaiian Homesteads Program with the Planning and Development for Hawaiian Homesteads Program. Combining these programs will increase efficiency and the ability to distribute workloads as needed to assist the department's objective of placing native Hawaiians on Hawaiian Home Lands.

Your Committee recognizes that Act 14, Special Session Laws of Hawaii 1995, settled all claims made on behalf of the Hawaiian Home Lands Trust against the State between August 21, 1959, and July 1, 1988. The final \$30 million annual deposit will be received in 2014. Your Committee is concerned that the department has not provided a financial report that outlines how it will cope with discontinuation of the settlement funds. Your Committee believes that the six-year report should account for the drop off in funding and detail the department's plan to ensure that the department is able to meet its long-term objectives.

**VI. CAPITAL IMPROVEMENTS PROGRAM**

Your Committee finds that well-maintained physical infrastructure and state facilities are essential to maintaining a positive business climate and a strong economic foundation, which will ultimately help to support the State's ability to navigate through the current, and any future, precarious economic



conditions. Your Committee further finds that to combat the effects of the current recession and experience positive growth, the continued investment in our economy, by various means, is necessary. Your Committee understands that investment in infrastructure and facilities is crucial for short-term economic growth and job creation.

However, your Committee believes that additional and increased investment in education, technology, communications, health care facilities, energy, transportation, and environment, as well as other needs, must also be examined to ensure sustained long-term economic recovery and growth for our State and its residents.

Your Committee finds that the need to invest in local infrastructure to help stimulate direct and indirect job creation is highly critical at this time when the State is experiencing its highest unemployment rate in thirty years. Expediency in the creation and maintenance of local construction jobs, as well jobs for architects, engineers, and other consultants associated with capital projects, will generate more disposable income, which will in turn circulate throughout the State's economy.

Accordingly, the administration's capital improvement program biennium budget, as amended pursuant to subsequent Governor's Messages, provided a total of \$1,476,155,000 for projects funded by general obligation (G.O.) bonds and general obligation reimbursable (G.O.R.) bonds and \$2,678,921,000 for all projects funded by all means of financing. Similarly, your Committee, after carefully considering the current economy along with the proposals, needs, and priorities of the administration and the departments, has provided a total of \$1,645,584,000 for projects funded by G.O. and G.O.R. bonds and \$2,963,448,000 for projects funded by all means of financing.

In exercising fiscal prudence, your Committee has reevaluated the funding for prior appropriated executive budget projects and, as a result, has lapsed funding for several projects in the amount of \$27,144,640. These lapses represent unrequired balances for completed projects, funds for which the administration has denied allotment for various reasons, funds that the departments have indicated are otherwise unnecessary, insufficient, or for projects that are unlikely to be undertaken within the necessary timeframe to avoid standard lapsing, and funds that do not demonstrate the current priorities of the State.



In addition, your Committee has crafted a biennium budget that includes projects that are essential to assist in achieving short-term economic stimulation, as well as projects that will help to stabilize the infrastructure to accommodate for long-term growth. This budget aggressively focuses on funding both crucial and significant capital projects that can be undertaken immediately in fiscal year 2011-2012. Your Committee believes that the funding for the fiscal biennium in fiscal year 2011-2012 will provide an immediate infusion of funds for shovel-ready projects. Because these funds will not lapse for three years, this approach will empower departments and agencies with the ability and greater flexibility to address their current needs and requirements expeditiously.

Accordingly, your Committee believes that increased funding in the first year of the fiscal biennium will allow the State to:

- (1) Address many critical health and safety requirements;
- (2) Reduce current repair and maintenance backlogs throughout several departments;
- (3) Provide jobs for unemployed and underemployed residents; and
- (4) Provide the framework for growth and expansion of services, programs, and facilities.

A continuing concern for the State is to ensure that our keiki are properly educated and employable, which will contribute to the State's long-term economic viability. Investment in our public schools, at all levels, is necessary to help improve, expand, and grow new programs and facilities. However, the continuing need to address the existing and growing backlog of repair and maintenance projects within the Department of Education and the University of Hawaii system is critical. Your Committee has demonstrated its ongoing commitment to reducing and ultimately eliminating these repair and maintenance backlogs over the next six years by appropriating \$71,788,000 for repair and maintenance projects of the Department of Education and \$95,987,000 for capital renewal and deferred maintenance projects of the University of Hawaii system.



Despite repeated efforts to provide increased funding to the Department of Education to address the repair and maintenance backlog, the prior administration had limited the department's ability to implement projects by failing to release the necessary funds. However, in light of the depressed economy and the current administration's commitment to stimulating the local economy through its New Day Plan, which focuses on the creation of jobs and economic stimulation, as evident in the administration's \$2.6 billion capital improvement plan, your Committee is confident that the funds will be released and projects completed.

In addition, your Committee has provided critical funding for the following:

- (1) The Hawaii Health Systems Corporation:
  - (A) \$32,500,000 in fiscal year 2011-2012 for repair and maintenance projects of the Hawaii Health Systems Corporation; and
  - (B) \$15,000,000 for fiscal year 2011-2012 for an Electronic Medical Records System for all hospitals within the Hawaii Health Systems Corporation;
- (2) \$35,670,000 for fiscal year 2011-2012 and \$55,300,000 for fiscal year 2012-2013 for non-routine repair and maintenance projects of the Hawaii Public Housing Authority to repair and improve affordable public housing facilities throughout the State;
- (3) \$7,800,000 to make critical repairs needed for the damage caused by the March 2011 tsunami.
- (4) \$17,920,000 for the fiscal biennium for grants-in-aid to nonprofit organizations for facilities improvement and expansion. Such assistance is vital, as these nonprofit organizations continue to provide additional services to our residents, in light of the fact that the State may be forced to reduce services due to the current economic climate; and
- (5) Various projects within the Department of Transportation, Department of Defense, Department of Agriculture, Department of Health, and the University of Hawaii, among others, to ensure that matching federal,





private, and other funds contributions may be maximized and not lost or forfeited.

Finally, the biennium budget provides funding for various other capital projects that your Committee believes should be included at this time, but that may warrant further discussion as the budget is further refined during the remainder of session to meet the evolving needs and priorities of the State.

## VII. CONCLUSION

This draft of the budget brings us another step closer toward resolving the severe financial situation we face. The Governor and House of Representatives have each presented proposals that differ greatly from each other and from that of the Senate. Your Committee looks forward to open, honest, and collaborative discourse during the upcoming conference phase of the legislative session so that informed decisions are made in a manner that will best move us through these difficult times. Although this draft is now complete, your Committee remains at the table working on the budget feat. Each and every stakeholder shall have a seat, with the goal of achieving a healthy balance sheet.

In total, this draft of the budget appropriates \$5,426,412,417 in general funds and \$11,027,154,179 in all means of financing for fiscal year 2011-2012 and \$5,538,088,653 in general funds and \$10,884,581,091 in all means of financing for fiscal year 2012-2013. These figures represent reductions of \$277,333,105 in general funds and \$333,664,905 in all means of financing for fiscal year 2011-2012 and \$376,867,010 in general funds and \$437,548,666 in all means of financing for fiscal year 2012-2013 to the Governor's requested budget.

Finally, your Committee has made numerous technical, nonsubstantive amendments for the purposes of style, clarity, and consistency.

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. 200, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 200, 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,

*David Y. Ige*

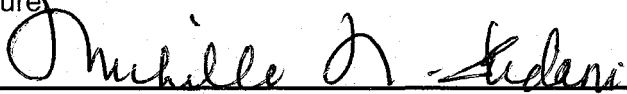
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DAVID Y. IGE, Chair



The Senate  
Twenty-Sixth Legislature  
State of Hawai'i

**Record of Votes**  
**Committee on Ways and Means**  
**WAM**

|   |   |                                       |                     |          |
|---|---|---------------------------------------|---------------------|----------|
| Bill / Resolution No.:*   | Committee Referral:   | Date:                                 |                     |          |
| HB 200, HD1   | WAM   | 4-5-11                                |                     |          |
| <input type="checkbox"/> The committee is reconsidering its previous decision on this measure.<br>If so, then the previous decision was to: _____ |   |                                       |                     |          |
| The Recommendation is:  |   |                                       |                     |          |
| <input type="checkbox"/> Pass, unamended<br>2312  | <input checked="" type="checkbox"/> Pass, with amendments<br>2311 | <input type="checkbox"/> Hold<br>2310 |                     |          |
| <input type="checkbox"/> Recommit<br>2313   |   |                                       |                     |          |
| Members   | Aye   | Aye (WR)                              | Nay                 | Excused  |
| IGE, David Y. (C)   | ✓   |                                       |                     |          |
| KIDANI, Michelle N. (VC)  | ✓   |                                       |                     |          |
| CHUN OAKLAND, Suzanne   | ✓   |                                       |                     |          |
| DELA CRUZ, Donovan M.   |   | ✓                                     |                     |          |
| ENGLISH, J. Kalani  | ✓   |                                       |                     |          |
| ESPERO, Will  | ✓   |                                       |                     |          |
| FUKUNAGA, Carol   | ✓   |                                       |                     |          |
| KIM, Donna Mercado  | ✓   |                                       |                     |          |
| KAHELE, Gilbert   | ✓   |                                       |                     |          |
| KOUCHI, Ronald D.   | ✓   |                                       |                     |          |
| RYAN, Pohai   |   | ✓                                     |                     |          |
| TOKUDA, Jill N.   | ✓   |                                       |                     |          |
| WAKAI, Glenn  | ✓   |                                       |                     |          |
| SLOM, Sam   |   |                                       | ✓                   |          |
|   |   |                                       |                     |          |
|   |   |                                       |                     |          |
|   |   |                                       |                     |          |
|   |   |                                       |                     |          |
| <b>TOTAL</b>  | <b>11</b>   | <b>2</b>                              | <b>1</b>            | <b>0</b> |
| Recommendation:   |   |                                       |                     |          |
| <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted  |   |                                       |                     |          |
| Chair's or Designee's Signature:  |   |                                       |                     |          |
|   |   |                                       |                     |          |
| Distribution:   |   |                                       |                     |          |
| Original  | Yellow  | Pink                                  | Goldenrod           |          |
| File with Committee Report  | Clerk's Office  | Drafting Agency                       | Committee File Copy |          |

\*Only one measure per Record of Votes