

Honolulu, Hawaii

May 1, 2012

RE: H.B. No. 2012
H.D. 1
S.D. 1
C.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Sixth State Legislature
Regular Session of 2012
State of Hawaii

Honorable Shan S. Tsutsui
President of the Senate
Twenty-Sixth State Legislature
Regular Session of 2012
State of Hawaii

Sirs:

Your Committee on Conference on the disagreeing vote of the House of Representatives to the amendments proposed by the Senate in H.B. No. 2012, H.D. 1, S.D. 1, entitled:

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

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

I. INTRODUCTION

The State has now addressed considerable budget shortfalls in three consecutive years. This includes \$2.1 billion in 2009, \$1.2 billion in 2010, and \$1.3 billion in 2011. Currently, projected general fund balances over the next several years are very modest. For the first time in four years, your Committee is not faced with a revenue shortfall in excess of a billion dollars.

General fund revenues peaked in fiscal year 2007-2008 at about \$5.2 billion. If the fiscal year 2011-2012 revenue projection of the Council on Revenues (COR) is accurate, on June 30, 2012, the



fiscal year will close with revenues finally surpassing this level. It has taken years for general fund revenues to recover from the effects of the recent recession. However, fiscal challenges remain. Departments are struggling to provide acceptable levels of services under increasingly challenging conditions. At the same time, Medicaid and other fixed costs have continued to rise exponentially.

Your Committee on Conference continues to support the administration in its efforts to right the ship of state. This has proven to be no small task, considering the notable absence of effective state executive leadership over the course of the great recession and the significant impact state spending reductions have had on state programs and personnel. Your Committee on Conference appreciates the administration's improved efforts to communicate and work with the Legislature on strategic fiscal and policy matters.

Your Committee on Conference commends the current administration's commitment to prudent fiscal policies in providing critical structural stability to the State's financial plan by restructuring debt service payments on outstanding general obligation bonds. While the prior administration refinanced debt for immediate savings without regard for future costs, the current administration has retired future debt earlier, which will save the State \$59,000,000 in debt service. The current administration has also made every effort to end the practice of payment delays to providers and taxpayers.

Your Committee on Conference's guiding principles for the supplemental budget were to:

- Support the State's core functions, including programs that provide services for those most in need;
- Make strategic investments in people and programs that encourage economic growth and lower future costs; and
- Support long-term planning and accountability efforts to fundamentally change the character and delivery of government services.

II. ECONOMIC OUTLOOK

National Economic Outlook

Positive economic data has filled the news thus far in 2012. The unemployment rate has declined significantly, household spending



and confidence have increased steadily, and financial markets have rallied to near four-year highs. Although the data indicates that economic recovery is underway, the Congressional Budget Office (CBO), which produces ten-year economic forecasts for the congressional budget committees, expects the economy will grow at a sluggish pace over the next two years. CBO projects that real gross domestic product will grow by 2.0 per cent this year (as measured by the change from the fourth quarter of 2011) and by 1.1 per cent next year due to prolonged effects of the recession and current fiscal restraint.

The CBO also forecasts that the national unemployment rate will remain above 8.0 per cent for the next two years and that it will take five years until the unemployment rate drops to 5.5 per cent (close to the economy's natural rate of unemployment of 5.2 per cent).

In addition, strains in the global financial markets pose significant downside risks to the economic outlook:

- A worsening of the banking and fiscal problems in Europe could spill over to the United States and international financial markets;
- The recent increases in oil and gas prices, if the trend continues, will heighten inflation and threaten the economic recovery; and
- Upcoming congressional budget and policy decisions have the potential to not only stymie the national recovery, but also leave states uncertain of what federal funds to expect.

The Federal Reserve, which is tasked with setting the United States' monetary policy, has stated that it expects to keep interest rates at exceptionally low levels at least through late 2014. This is in line with CBO's forecast for economic recovery and reinforces a policy of cautious optimism, that while the economy is improving, it is still years away from normal levels.

The Economic Outlook for Hawaii

Hawaii's economy has likewise seen a recovery driven primarily by a surge in the visitor industry at the end of 2011. The University of Hawaii Economic Research Organization (UHERO) states that the Hawaii visitor industry experienced a 3.5 per cent growth



in arrivals and a 15.6 per cent increase in nominal visitor spending in 2011 compared to 2010. UHERO partially credits this to the opening of Disney's Aulani Resort and the APEC Conference in November.

However, UHERO and the Department of Business, Economic Development, and Tourism note the following as risks to Hawaii's economy:

- "Hawaii's economy depends significantly on conditions in the economy and key international economies, especially Japan." Slowing global growth has been a recent concern as the forecasts for China and Japan's economic growth have been lowered in 2012 and the risks of spill over from a European crisis remains possible.
- "Oil has been hovering over \$100 per barrel and high oil prices restrain visitor growth." However, UHERO is optimistic on news that airlines continue to expand routes to Hawaii and that the Obama Administration has been pushing for eased visa requirements for visitors from Brazil and China.
- "Labor market data confirms earlier fears that Hawaii's job recovery has retreated." While Hawaii's February unemployment rate of 6.4 per cent is much lower than the national average of 8.3 per cent, it is nowhere near the average unemployment rate of 2.5 per cent in 2006.
- The construction sector has been improving on Oahu, but neighbor island construction employment was nearly 13.0 per cent lower than a year earlier. Furthermore, the future of the Honolulu Rail Transit project remains uncertain.

III. GENERAL FUND REVENUE OUTLOOK

By law, the Council on Revenues (COR) 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. State revenues come primarily from the general excise tax and the state income tax. Similar to last year, the COR has made significant forecast changes.

In the September 6, 2011, meeting, the COR raised their forecast for fiscal year 2011-2012 tax revenue growth from 11.0 per cent to 14.5 per cent, citing the effect of the delay in income tax



refunds, economic growth, and new tax laws as the basis for the increase. The COR subsequently lowered their forecast in the January 5, 2012, meeting from 14.5 per cent to 11.5 per cent, mainly citing a shortfall in tax collections in the first half of the fiscal year. This forecast reduced expected general fund revenues over the fiscal biennium by about \$267.2 million.

In the most recent March 7, 2012, meeting, the COR raised their fiscal year 2011-2012 forecast slightly from 11.5 per cent to 12.0 per cent, in addition to raising their forecasts for fiscal years 2013 to 2016. The COR based the revisions on their outlook of the economy, including the improving visitor industry, an overall economic expansion, an improving job market, and higher consumer confidence. This increased expected general fund revenue over the 2011-2013 fiscal biennium by about \$93.2 million. However, the COR also expressed "concerns about the uncertainty in European economies, the possibility of a war with Iran and rising oil and gas prices."

Given the volatility of the economy and the large swings in financial markets over the past nine months, it should be noted that significant downside risks exist for revenue growth assumptions over the budget planning period.

IV. BUDGET OVERVIEW

The supplemental budget request submitted by the Governor prior to the 2012 Regular Session was premised on the COR general fund revenue growth projection of 14.5 per cent for fiscal year 2011-2012. The general fund balance at the end of the fiscal biennium was then projected to be about \$234.9 million. On January 5, 2012, the COR significantly lowered the general fund revenue projection, essentially eliminating this balance and leaving a projected deficit of about \$20 million at the end of the fiscal biennium. While the COR did increase the general fund growth projection by 0.5 per cent on March 7, 2012, this has resulted in only a small projected general fund balance at the end of the fiscal biennium.

The Governor's initial supplemental budget request resulted in a net request to add \$34,003,992 in general funds to the total budget for fiscal year 2012-2013. This amount included:

- (1) \$46,425,979 for various programs to restore the health and human services safety net;



- (2) \$46,057,502 for the Department of Education and University of Hawaii;
- (3) \$8,229,427 to maintain essential services across the State;
- (4) \$19,242,141 for various New Day initiatives; and
- (5) A reduction of \$85,861,396 based upon budget savings, including debt service savings, retirement system/FICA payment savings, and employee and retiree health premium payment savings, to offset the additions.

The Governor's New Day requests largely center on chief information officer initiatives, including technology triage, information technology integration pilot projects, business process and information technology, and information rights management reengineering. New Day requests also include funding for the protection of important watersheds, the aging and disability resource center, broadband initiatives, obesity and diabetes prevention programs, and early learning initiatives.

Other notable adjustments contained in the Governor's supplemental budget request include the distribution of \$88,200,000 in general fund reductions and corresponding reductions of non-general funds for expected labor savings and the distribution of \$50,000,000 in general fund reductions under the administration program review, whereby the Governor reprioritized state spending.

In addition, the Governor has submitted six Governor's Messages adjusting the supplemental budget request over the course of this Regular Session. These message items have adjusted the Governor's requested general fund appropriations by reducing \$492,356 for fiscal year 2011-2012 and adding \$7,149,840 for fiscal year 2012-2013. As adjusted for message items, the total requested general fund supplemental budget is \$5,443,441,659 for fiscal year 2011-2012 and \$5,597,335,456 for fiscal year 2012-2013.

The House of Representatives (House) adopted a draft of the budget measure that considered the Governor's initial supplemental budget request, but not most of the subsequent Governor's Message items. Significantly, the House funded much of the Governor's information technology initiatives through the use of special funds. In addition, the House included \$50,000,000 to begin addressing the annual required contribution of the Employer-Union Health Benefits Trust Fund's (EUTF) unfunded liability.



The Senate was able to consider each of the Governor's requests, including those transmitted via Governor's Message. A majority of the Governor's requested budget adjustments were adopted by the Senate, as they pertain to maintaining the health and human services safety net, strengthening primary and secondary education, investing in the State's information technology infrastructure, and restoring the ability of government to perform other necessary functions.

Your Committee on Conference resolved the differences in the drafts of this measure proposed by the House of Representatives and the Senate. This measure is the result of collaborative efforts whereby the House of Representatives moved to adopt many of the budget adjustments requested via Governor's Message that it had not previously been able to consider. In addition, collaborative efforts resulted in a number of other adjustments contained in previous drafts.

Your Committee on Conference has adjusted the supplemental budget request submitted by the Governor, as modified by Governor's Message items, by adding \$20,000 in general funds for fiscal year 2011-2012 and adding \$1,433,323 in general funds for fiscal year 2012-2013. Across all means of financing, your Committee on Conference has added \$20,000 for fiscal year 2011-2012 and added \$12,094,823 for fiscal year 2012-2013.

V. DEPARTMENT HIGHLIGHTS

Human Services

The need for assistance continues to grow among Hawaii's residents. Over the past several years, continued job loss and significant wage and benefit reductions have forced many families to survive at or below poverty levels. The State has witnessed unprecedented growth in the number of residents enrolled in MedQUEST and temporary assistance for needy families (TANF) programs and struggles to maintain services at the levels provided in prior years. Your Committee on Conference is mindful of the importance of providing core services to individuals and families in need and supports the Department of Human Services' efforts to assist Hawaii's vulnerable populations.

At a time when all state agencies were being asked to do more with less, the Department of Human Services was tasked with reducing costs and expenditures without compromising critical core services.



Your Committee on Conference recognizes this difficult task and commends the Department in its efforts to reform operations to sustainable levels while providing services where they are most needed.

In the MedQUEST Division, the Department managed a \$75,000,000 general fund reduction over the 2011-2013 fiscal biennium while working to maintain important services to replace the prior administration's short-sighted delayed payments strategy with proactive, sustainable, cost-saving strategies. MedQUEST successfully initiated a reduction in capitation payments to both QUEST and QUEST expanded access health plans by three per cent and generated approximately \$22,000,000 in general fund savings. The Division received approval from the Centers for Medicare and Medicaid Services to allow the State to claim additional federal funds for Compact of Free Association recipients related to inpatient hospital stays, generating another \$3,000,000 in general fund savings. In fiscal year 2012-2013, the Department will implement a program integrity review that will reduce inactive cases, including those of non-residents, and has projected recapturing \$16,600,000 in general funds. The Department has also been informed that the federal medical assistance percentage (FMAP) for Hawaii will increase by 1.38 per cent, which will bring an additional \$15,000,000 in federal funds to the State.

Your Committee on Conference appreciates the Department's prudent approach at reforming the MedQUEST Division's budget, but remains cognizant of the increased demand for services and national rise in health care costs. As such, your Committee on Conference has provided \$8,135,700 in general funds and \$14,745,086 in federal matching funds for fiscal year 2012-2013 towards Medicaid capitation payments.

Similarly, the Benefit, Employment and Support Services Division reviewed TANF programs' prior year operations and identified cost-saving strategies through the consolidation of service contracts, reduction in non-mandated cash assistance and services, and revised employer wage subsidy payments. Through these measures, the Department was able to immediately reduce contract expenditures by over \$4,000,000 in general funds. Changes in service delivery effectuated an additional \$5,200,000 in general fund savings due to reduced administration costs and revised contract reimbursements.

Your Committee on Conference recognizes that the Department's efforts have significantly helped to bring TANF expenditures down to



more manageable levels. In support of the Department's reforms, your Committee on Conference has provided \$18,191,515 in general funds to maintain TANF services for Hawaii's residents. Further, your Committee on Conference has approved the Department's request to redistribute the savings internally for information technology improvements. As such, the sum of \$3,628,266 in general funds has been provided for software licensing, business process reengineering, and document imaging, which will ultimately help to improve the delivery and accessibility of critical services provided by the Benefit, Employment and Support Services Division.

The Child Protective Services (CPS) program was also recently subjected to extensive program review. Under the prior administration, contracts within child welfare services were permitted to overextend themselves in excess of \$12,000,000 in general funds. The imprudent use of loopholes and unregulated transfers brought CPS to contract levels well beyond budgeted amounts, which placed other programs within the Department at risk of insolvency. In recognition of these issues, the Department has consolidated duplicative services and requested remaining service providers to solicit alternative funding sources to supplant general funds.

Federal reductions to TANF and the loss of ARRA and emergency assistance funds have resulted in the Department's inability to reduce CPS' expenditures to the originally budgeted amounts, and funding for domestic violence services was reduced. Given the importance of these services to Hawaii's vulnerable populations and the Department's thoughtful review and consolidation of existing contracts, your Committee on Conference has provided funding for the remaining shortfalls to ensure the continuity of remaining contracts. To this end, general funds in the amount of \$6,880,719 for child welfare service contracts and \$1,530,000 for domestic violence contracts, as well as \$390,000 in special funds for spouse and child abuse support programs, have been provided by your Committee on Conference to CPS.

The prior administration's mismanagement of the Department's budget records and untenable contract expenditures continue to impact the Department's operations. In fiscal year 2011-2012, the Department resorted to transferring money out of health care payments to fund salary shortages that resulted from uncategorized fund transfers out of various programs. Consequently, a number of emergency appropriations were made necessary at the start of this calendar year to fund these shortfalls. In an effort to mitigate such operational inefficiencies, the Department has come forward



with a supplemental budget request that asserts improved transparency and sustainable service levels by means of a fully funded budget.

Your Committee on Conference hopes that the Department has accurately assessed its budgetary needs and that the supplemental request for funds to cover payroll shortages is what is truly necessary to make the Department whole. On this basis, your Committee on Conference has provided a net sum of \$5,470,669 in general funds directly to programs identified by the Department as being under- and over-budgeted with the intent of establishing fully funded positions in the divisions left impaired by prior year reductions.

Your Committee on Conference is supportive of the Department's efforts to plan ahead and begin fiscal biennium 2013-2015 with a level of resources and staff that can ensure the availability of core services for Hawaii's needy families. However, your Committee on Conference remains aware of the lingering operational deficiencies from prior years and the limitations that have left many programs short-staffed and over-extended in several service areas. These deficiencies have ultimately led to limited accessibility for those eligible to receive assistance and operational inefficiencies that hamper the State's ability to maintain service levels. To address these concerns, your Committee on Conference has restored critical positions throughout the Department to help accommodate the growing demand for services and restore program operations to levels that are both sustainable and capable of maintaining essential coverage for those most in need. To this end, your Committee on Conference has established ten positions and provided \$577,723 for vocational and rehabilitation services, two positions and \$89,280 to reestablish a Kona office in the Supplemental Nutrition Assistance Program, fifteen positions and \$434,108 for eligibility positions in the MedQUEST Division, nineteen positions and \$1,375,190 for the rental housing services, and \$685,500 in supplemental payments for the aged, blind, and disabled.

Health

Your Committee on Conference understands the importance of health care and the services that protect the well-being of people in Hawaii. The Department of Health absorbed significant budget cuts in prior years and has assisted in identifying savings with minimal impact to core health services. Your Committee on Conference is supportive of the Department's proposal to realign



resources where necessary; however, your Committee on Conference is also mindful of the large number of transfers of resources requested each year by the Department. Your Committee on Conference advocates for a sustainable structure that limits the number of transfers made by the Department each year.

Your Committee on Conference is conscious of the childhood obesity problem on our islands. Hawaii's childhood obesity rate has continued to increase over the past decade, with higher prevalence and severity in underserved communities. Obesity is linked to many chronic health conditions as well as increased health care costs. Consequently, your Committee on Conference understands that this is an issue that requires a well-planned and sustainable approach. Thus, your Committee on Conference has provided \$250,000 in tobacco settlement special funds to support the establishment of a childhood obesity and diabetes program. This program will increase the level of obesity and diabetes-related services, promote awareness, enhance research and data collection, and create a task force to develop long-term solutions to this growing problem.

The Department's State Planning and Development Agency (SHPDA) promotes access to high quality health care at reasonable costs. To this end, it investigates health care costs, promotes cost-saving techniques, and coordinates health planning for the State. The program administers and utilizes certificate-of-need applications and fees to accomplish these goals. Given the uncertain nature of SHPDA's program revenue from current applications and fees, your Committee on Conference maintained SHPDA positions with general funds until the program is able to sustain itself through revenue collection.

Hawaii Health Systems Corporation

Your Committee on Conference recognizes the Hawaii Health Systems Corporation's (HHSC) role as a principal health care provider to Hawaii's most vulnerable citizens and visitors, especially those on the neighbor islands. HHSC is under increasing pressure as health care costs continue to rise while federal and private reimbursement rates decline.

The administration's budget request included a \$10,100,664 general fund reduction to account for HHSC's projected labor savings. However, since HHSC is a twenty-four-hour a day operation, this projected savings amount cannot be met. As such, your Committee on Conference fully restored this labor savings reduction to enable HHSC facilities to sustain operations.



HHSC's Electronic Medical Records project is set to go live in February 2013. This federally-mandated change will help hospitals, physicians, insurance companies, and other health care providers to easily retrieve information with patient files kept electronically and safely stored. HHSC set an ambitious implementation plan in order to receive \$10,000,000 in Medicare incentive payments over a four-year period. In addition, HHSC projected costs of \$57,000,000 over the next five years for this priority.

The Department of Human Services currently utilizes HHSC's certified losses from Medicaid, QUEST, and uninsured patients as the basis for drawing down additional federal dollars from the Medicaid program. A portion of these amounts are then distributed to the private hospitals to mitigate their uncompensated care losses and to provide them with Medicaid disproportionate share hospital payments.

Your Committee on Conference recognizes the importance of state and private hospitals in providing access to health services for Medicaid beneficiaries. Moreover, your Committee on Conference encourages further discussion between HHSC, the Department of Human Services, and private hospitals to develop methods to maximize the amount of federal dollars received for uncompensated care, perhaps enabling HHSC to retain part of the amount currently used to support private hospitals.

Education

Your Committee on Conference remains concerned with the Department of Education's management of state funds in relation to its ability to achieve general learner outcomes for all public school students and adequately prepare Hawaii's youth for post-secondary education and careers. Your Committee on Conference finds it contrary to the Department's mission to regularly use funds intended for the classroom and student achievement to fund administrative and support services shortfalls.

To be clear, your Committee on Conference believes funds provided for public education are generally best directed for expenditure by schools. During the Department's January 19, 2012, briefing on its supplemental budget request, discussion centered on the Department's goal for the proportion of appropriations that should be expended at the school level. Through its reaction during the briefing and subsequent written response, the Department made clear that it has no such goal.



Your Committee on Conference finds that the concept of school directed expenditures is the preferred method for administering state resources. This concept is ingrained in state law as section 302A-1301(b), Hawaii Revised Statutes, which requires that:

Not less than seventy per cent of appropriations for the total budget of the department, excluding debt service and capital improvement programs, shall be expended by principals.

Your Committee on Conference understands that several aspects pertaining to how funds are budgeted for the Department have changed over the years. Nonetheless, your Committee on Conference is confounded by the Department's apparent disregard or ignorance of laws that govern it. Your Committee on Conference firmly believes that it is the responsibility of the Department to review laws that govern it and adhere to them.

The administration's request to increase the weighted-student formula (WSF) general fund appropriation by \$13,557,502 for enrollment growth comes on the heels of a large reduction the Department, itself, imposed on the program. The Department reduced WSF by \$7,780,000 through its allocation of a \$16,400,000 budget reduction. While the Department requested that the initial reduction be placed entirely in school based budgeting (EDN100), purportedly for flexibility to manage the amount administratively, your Committee on Conference expected that schools would be prioritized. Unfortunately, your Committee on Conference finds that WSF shouldered a substantial portion of the reduction. Your Committee on Conference has significant concerns regarding the amount of the reduction apportioned to the classrooms and the logic of then requesting additional funds for the same purpose. Your Committee on Conference further finds that the Department has historically transferred money out of WSF to cover shortfalls in other programs and has used general fund savings generated from federal dollars designated for WSF to finance the distended and highly-criticized student transportation contract costs.

Your Committee on Conference has expressed concerns about the Department's transfer of funds in the past and expects that the Department will follow through with its assurances that funds added to WSF in this supplemental budget will be allotted directly to the schools. To ensure that this pledge is upheld, your Committee on Conference has inserted a proviso into this measure that explicitly prohibits the Department from transferring funds out of the school-based budget program identifier (EDN 100). Your Committee on



Conference believes that this proviso, in conjunction with legislative measures that compel the Department to expend funds as the Legislature intended, will finally result in WSF appropriations being wisely used to invest in Hawaii's future.

In accordance with the concept that state funds are best spent at the school level under the direction of principals, your Committee on Conference provided \$14,000,000 for the WSF. This funding will increase the amount provided to schools from between \$74.39 and \$86.44 per student, depending upon weighting factors. This translates into tens of thousands and, in some cases, hundreds of thousands of dollars for each school, based largely on student enrollment.

This appropriation for the WSF is not based on projected enrollment or prior funding levels for the Department. It is an additional amount, surpassing that which was requested by the Board of Education and the Governor, that your Committee on Conference is able to provide for student education. It is your Committee on Conference's intent that the entire amount of this appropriation be spent by principals in the classrooms.

Distinct from your Committee on Conference's dedication to providing the resources necessary to achieve quality education in the classroom, is your Committee on Conference's unwillingness to fund unfettered bus contract price costs in the amount of \$42,000,000 in general funds, as requested by the Department. During the 2011 Regular Session, the Legislature adamantly rejected the Department's request for \$19,582,270 for student transportation contract costs for fiscal year 2012-2013. Further, the Legislature reduced an additional \$20,000,000 for non-mandated student transportation costs, effectively eliminating its budget for these services. The Legislature then required the Department to complete a comprehensive analysis to assess alternatives and various options and to evaluate needed service levels in all districts in order to provide sufficient justification for transportation services. Unfortunately, despite the Legislature's efforts to promote prudent spending practices and fiscal accountability, the Department has produced scant viable options to significantly reduce contract costs and initiate change in their operations.

Under the terms of the current bus contracts, as negotiated between the Department and bus companies, the cost to transport students to and from school is \$79,000,000 per year, which translates to about \$1,251 per child annually, or \$7.00 per child per day. Taxpayers are responsible for over ninety-six per cent of



these costs. Further, because families pay only 50 cents per day for their child to ride the bus, the State is thereby subsidizing each student an average of \$6.50 per day for student transportation services. Clearly, operating school buses under such terms is neither sustainable nor prudent.

Your Committee on Conference is troubled by the Department's lack of action and disturbed by its recent pontifications that it will cease services to communities throughout the State if it is not provided additional funds. Not only were the Department's statements premature and speculative, but they failed to convey alternatives available to the Department to reduce costs and demonstrate the Department's failure to appreciably control such expenses. It is the Department that has allowed student transportation costs to spiral out of control under the misguided notion that the State would simply provide it with more money to pay for these costs. Your Committee on Conference finds that the Department has inefficiently spent millions of dollars on student transportation services. These misspent funds could have been used to fund other worthy programs.

However, your Committee on Conference is aware that student transportation services generally provide a safe and convenient option for getting students to school and are heavily relied upon in several areas of the State. Thus, your Committee on Conference has fully funded the Governor's requested amount of \$25,000,000 in general funds to provide student transportation services. The availability of this funding is conditioned upon a needs-based assessment of routes and the Board of Education's determination of which routes to fund. Your Committee on Conference notes that the \$25,000,000 provided for fiscal year 2012-2013 is twenty per cent more than the funding provided for the current fiscal year for non-mandated student transportation costs.

Adult education plays an integral role in improving the quality of life for many of Hawaii's residents. Services offered through the adult education program work to increase literacy rates statewide and help to provide individuals with degrees, career path opportunities, and workplace development. Unfortunately, fiscal conditions from the recent recession eventually led to an elimination of the Department's allotment to the adult education program for fiscal year 2012-2013. Without state support, adult education is at risk of losing its federal dollars as well.

Your Committee on Conference appreciates the valuable services adult education provides and recognizes the considerable amount of



effort the program's project managers have made to reduce operation costs without compromising service levels and course offerings. As such, your Committee on Conference has provided \$2,500,000 in general funds to support the community school for adults program operations and maintenance of effort requirements.

In 2010, the federal government enacted the Healthy Hunger-Free Kids Act, initiating significant improvements to school meal and child nutrition programs. These programs provide low-income children with increased access to healthy food. The Act mandates states to increase student meal prices to correspond with the rates subsidized by the United States Department of Agriculture (USDA) to encourage program integrity and discourage the use of subsidized meal prices for students outside the low-income eligibility rates. While your Committee on Conference agrees with the USDA's goal to better regulate federal subsidies, it cannot be ignored that the slow recovery of our nation's economy has placed many families just beyond eligibility for a free or reduced-price meal for their children.

During the 2011 program review, the Department indicated that by increasing student meal prices from \$1.00 (elementary) and \$1.10 (secondary) to \$1.70 (elementary) and \$1.85 (secondary) for breakfast, and from \$2.25 (elementary) and \$2.50 (secondary) to \$3.10 (elementary) and \$3.35 (secondary) for lunch, Hawaii will have made the total required increase for the Healthy Hunger-Free Kids Act and will generate an additional \$6,100,000 in special fund revenues. Your Committee on Conference recognizes the Department's efforts to comply with the USDA requirements and state program review initiatives, but is concerned with the impact such a substantial increase will have on families just outside income eligibility requirements for free and reduced meals. Accordingly, your Committee on Conference has implemented just half of the requested \$6,100,000 general fund reduction to allow for a transition to the higher student meal prices. The additional \$3,050,000 in general funds provided to the Governor's requested budget will mitigate the need to fully raise student meal prices and the financial pressure higher meal prices will place on families.

Your Committee on Conference is concerned with the levels of student achievement in the State's public schools. In December of last year, the State was admonished by Race to the Top officials for its significant lack of progress in the first year of the \$75,000,000 four-year federal grant. Federal officials put the State on "high-risk" status and cited "unsatisfactory delays" and a lack of urgency in the implementation of the education reforms



Hawaii had committed to upon receipt of the grant. Other federal education dollars will soon be scrutinized for sequestration in Congress' Budget Control Act and comparable deficit reduction strategies. It would be most unfortunate to lose federal funds that have already been awarded. As such, your Committee on Conference cautions the Department against any future delays that may result in the retraction of the remaining award and encourages the Department to accelerate progress on its commitments to the Race to the Top grant program.

Finally, your Committee on Conference cautions the Department that the appropriations made by this Legislature are all the resources it will have for fiscal year 2012-2013 and thus expects the Department to plan accordingly. The Department's inaccurate enrollment projections or failure to take appropriate action to reduce student transportation costs are not compelling reasons for the Legislature to grant the Department an emergency appropriation.

Charter Schools

Prior to the start of this Regular Session, Hawaii's public charter school system underwent a performance audit and governance overhaul by two separate state entities. The Auditor rebuked charter schools as misinterpreting state law, misusing funds, and having "autonomy without accountability." Around the same time, the charter school governance, accountability, and authority task force conducted a comprehensive review of the relationships, responsibilities, and lines of accountability and authority among stakeholders of Hawaii's public charter school system, pursuant to Act 130, Session Laws of Hawaii 2011. Both entities determined that in order to improve the charter school program's integrity and ability to meet performance objectives, significant changes would have to take place.

Funding for charter schools is premised on the concept of providing operating funds in an amount equal to that provided by the Department of Education for regular education students on a per pupil basis. Your Committee on Conference finds the Department of Budget and Finance's calculation for this funding amount for fiscal year 2012-2013 to be in error, double counting certain facility related costs within the Department of Education budget. The Department of Budget and Finance also used a reduced projected enrollment of 9,973 for charter schools in its calculations.

Your Committee on Conference has provided \$1,032,152,385 for all regular education cost categories to the Department of



Education. This amount does not include funding for special education services and adult education. The Department of Education has a projected enrollment of 174,332 students for fiscal year 2012-2013. This equates to a funding amount of \$5,920.61 per student.

Your Committee on Conference used the charter schools' projected student enrollment of 10,431 in its calculation of an appropriate funding level. Using this enrollment figure, the charter schools' appropriation must be \$61,757,919 to achieve a per pupil funding amount equal to regular education students. Thus, your Committee on Conference has denied an executive request to reduce the charter schools' budget by \$76,008 and has instead provided an additional \$432,302 in general funds to achieve this end.

In developing the budget for charter schools, your Committee on Conference finds that projected student enrollment and comparable funding for charter school and regular education students has been an ongoing point of contention for many interested parties. Your Committee on Conference believes that the validity of using the charter schools' projected enrollment figure to calculate charter school funding should be reassessed during the next regular session of the Legislature. To ensure that funding amounts provided for regular education and charter school students on a per pupil basis are equal, your Committee on Conference has required the Director of Finance to make an appropriate adjustment based upon actual student enrollment that will account for any errors in student enrollment projections.

University of Hawaii

The University of Hawaii system is the State's premier institution for higher education, a nationally recognized research university, and a local economic driver. While the University system is experiencing unprecedented increases in enrollment across all campuses, your Committee on Conference recognizes its ability to accommodate its growing student population through tuition revenue.

The University of Hawaii West Oahu (UHWO) will open the new Kapolei campus this fall. The campus will serve as a convenient, alternate campus to university students living on the west side of the island, with similar general education courses and future specialized concentrations such as allied health services, health care administration, and media. Your Committee on Conference supports the campus' goal of raising the educational and economic attainment levels in the West Oahu region.



Your Committee on Conference understands the importance of increasing the enrollment and graduation rates of native Hawaiian students throughout the University system. In accordance with this goal, your Committee on Conference commends the success of the Na Pua Noeau program, an educational enrichment and college preparatory program for native Hawaiians in grades K-12. Through site visits, leadership programs, and other learning activities, this program has maintained a long-standing history of successfully increasing the native Hawaiian admission and graduation rates within the University system. Thus, your Committee on Conference has provided eighteen positions and \$700,000 in funds to expand and institutionalize Na Pua Noeau statewide. This will allow the program to provide outreach to more students, enhance science, technology, engineering and math (STEM) activities, and provide better coordination among all the University of Hawaii campuses.

Your Committee on Conference is concerned with the University's growing maintenance backlog and reliance on general funds and general obligation bond funds for capital renewal needs. To address immediate capital renewal needs, your Committee on Conference has provided eleven positions and \$600,000 in special funds for the University to recruit additional personnel to implement repairs more efficiently. In addition, your Committee on Conference has required the University to submit a report detailing a long-term expenditure plan on funding its capital renewal needs through the use of its own revenues.

Your Committee on Conference is aware of the overcompensation of funds for furlough restoration that the University received last year. For fiscal years 2011-2012 and 2012-2013, this restoration amount equates to nearly \$12,000,000 more than the preceding year's furlough reduction amount. In addition, the University of Hawaii Professional Assembly (UHPA) fringe related costs due to UHPA's salary snapbacks and paybacks will cost the State an additional \$3,096,600 for fiscal year 2012-2013. Rather than reduce these amounts from the University budget, your Committee on Conference has allowed the University to retain these funds, at this time, in order to fund its strategic goals and priorities.

Budget and Finance

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



growth, which are beyond your Committee on Conference's ability to modify on a near term basis.

The Department of Budget and Finance continues to confront fiscal challenges and operational deficiencies wrought by the previous administration. Tasked with the broad scope of managing the state budget and effectively allocating state resources, the Department has spent the last year reprioritizing operational functions and fostering sustainable levels of service delivery. This has proven to be a significant undertaking, and the Department has struggled to meet national reporting requirements due to the absence of prior year financial statements and loss of staff. In the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) program, a delay in the fund's audit contributed to the delayed issuance of the State's comprehensive annual financial report upon which bond issuances and credit ratings are based.

As of July 1, 2009, the EUTF had a total unfunded actuarially accrued liability (UAAL) of \$14,546,500,000, the State's portion of which was \$11,523,300,000. In order to amortize the UAAL, the State would have had to dedicate \$441,400,000 for the annual required contribution, beginning fiscal year 2008-2009. Unfortunately, the State did not have the ability to fund a corpus of that magnitude then or at any time since. The reality of today's fiscal limitations and the need to maintain core services across numerous state agencies have necessitated that state funds be committed elsewhere.

However, your Committee on Conference recognizes the potential foresight and advantages of setting aside money towards the annual required contribution for the EUTF. It is critical to the long-term viability of the EUTF and the State to implement reforms that moderate the public employer health benefits contributions for active and retired members while maintaining sufficient benefits coverage. To this end, your Committee on Conference has provided \$100,000 to commission a study on improving the financial health of the EUTF. This study will address the UAAL and explore the possible implementation of reforms to develop a solvent and sustainable funding source for the EUTF.

The treasury branch experienced considerable delays in processing temporary deposit receipts (TDR) following the reduction-in-force in fiscal year 2009-2010. Processing time for TDRs increased from one or two days to forty-two days and resulted in restricted access to state funds for several agencies. Your Committee on Conference finds that the Department's current staffing



level is not operationally sustainable and, thus, has restored the needed position and funding.

Most funds available under the American Reinvestment and Recovery Act (ARRA) will be used by the close of fiscal year 2012-2013. In an effort to ensure the proper closure of remaining ARRA grants, your Committee on Conference has reestablished positions and provided funds for the Office of Economic Reinvestment and Recovery. Your Committee on Conference understands that these positions will help the State to meet ARRA expenditure reporting requirements in a timely manner and avoid unnecessary penalties from the federal government.

The retirement benefit changes established pursuant to Act 163, Session Laws of Hawaii 2011, necessitated major changes in the State's existing Employees' Retirement System (ERS) software. The State's pension administration system contract requires that all programming changes be contracted through the vendor, otherwise voiding the system's warranty. Your Committee on Conference has been assured that the quoted sum of \$6,033,000 in other funds is a realistic estimate, after having monitored cost of service in the private sector and reviewed the extensive services necessary to implement the change. As such, your Committee on Conference has fully funded the request for the ERS' system reprogramming needs.

The Hawaii EUTF has also been tasked with significant changes in benefits plans and has had to expand the scope of the EUTF software to not only include civil unions but also transition in Hawaii State Teachers Association members formerly covered under a voluntary employee beneficiary association. The Department has reported that the need to make these changes in a timely manner has overextended staff and created challenges in retaining employees. As such, your Committee on Conference has established thirteen positions and provided \$300,000 to address the operational deficiencies in the EUTF program.

In accordance with the Governor's initiative to right-size government, the 2011 Legislature required the Department to identify \$50,000,000 in program review savings for fiscal year 2011-2012 and fiscal year 2012-2013 and approximately \$88,200,000 in labor savings, across all departments. The Department managed the program review reduction by requesting proposals that met targeted savings amounts from each of the departments and submitted the statewide program review to this Legislature. Labor savings transferred into state retirement benefits program were reported as:



\$69,500,000 for fiscal year 2011-2012 and \$69,560,000 for fiscal year 2012-2013 in direct labor savings reductions from state departments; and indirect labor savings of \$18,700,000 for fiscal year 2011-2012 and \$18,640,000 for fiscal year 2012-2013 in indirect labor savings [based] upon revised projections for pension accumulation contributions and Social Security/Medicare costs resulting from lower gross direct labor costs for fiscal years 2012 and 2013.

However, the delayed implementation of the 2011 legislative adjustment to the state contribution amount from a 60/40 per cent (employer/employee) split to 50/50 for health benefit premiums resulted in additional EUTF costs for the first five months of fiscal year 2011-2012. As such, your Committee on Conference has provided \$1,738,963 in general funds for fiscal year 2011-2012 to adjust for these costs. Concurrently, the decrease from fourteen days of directed pay without leave in fiscal year 2011-2012 to thirteen days for fiscal year 2012-2013, in accordance with bargaining unit (1)'s revised contract, necessitated further adjustments to the departmental administration program. As such, your Committee on Conference has provided approximately \$2,500,000 in all means of financing for fiscal year 2011-2012 and approximately \$3,600,000 in all means of financing for fiscal year 2012-2013 to adjust for this change.

Public Safety

Hawaii's dependence on out-of-state prisons has been a cause for concern for the last several years. As of 2011, approximately one-third of the State's adult prison population is incarcerated outside of Hawaii. As a result, approximately \$50,000,000 is expended in mainland municipalities each year rather than in the local economy. To date, State efforts to reduce the use of out-of-state prisons have been limited.

In June 2011, efforts began pertaining to the Justice Reinvestment Initiative (JRI), a multi-state plan to reduce incarceration and recidivism rates through strategic data-driven policy development and public safety system investments. The goal is to bring incarcerated inmates back to Hawaii and appropriately prepare inmates for release.

From a financial perspective, your Committee on Conference supports the JRI and believes the strategic programs detailed in the Department of Public Safety's supplemental budget request will help



the State achieve its JRI objectives. However, your Committee on Conference has concerns regarding the Department's ability to achieve its savings targets. Your Committee on Conference has reduced the proposed scope of the initial investment in the initiative and approved a transfer of \$3,362,759 in general funds from Non-State Facilities funding to various Public Safety programs as well as to the Judiciary and counties in order to expand and establish programs corresponding to JRI.

Your Committee on Conference is aware that cooking equipment at various detention facilities is outdated and parts are no longer available for repairs and maintenance. Your Committee on Conference has provided \$291,000 in general funds for the replacement of the outdated equipment. It is your Committee on Conference's intent that these funds will ensure that inmates receive higher quality meals that will, in turn, improve their health.

In 2011, a new community standard for the Hepatitis C treatment was established with a markedly higher effectiveness rate than other available treatments. Your Committee on Conference believes that the Department should adhere to this new community standard to improve the health of those infected and reduce transmission rates in prisons. To this end, your Committee on Conference has provided \$1,216,000 in general funds for Hepatitis C treatment for incarcerated inmates. This funding will provide for a new higher standard for the prison population and provide hope to those that have not responded well to previously available treatments.

Land and Natural Resources

Despite previous budget reductions, the Department of Land and Natural Resources has remained committed to protecting, conserving, and managing Hawaii's unique and limited natural, cultural, and historic resources.

The Department is planning to merge the Division of Aquatic Resources and the Division of Forestry and Wildlife into a single land management system based on the traditional Hawaiian Ahupuaa approach, where one division would administer the entire region and its resources running from the mountains to the ocean. No organizational changes appear in the current supplemental budget, as the Department plans on formalizing the merger in the next fiscal biennium. Your Committee on Conference is concerned about the merger's impact on Hawaii's local farmers and fishermen as well as on its water supply, including its irrigation systems, reservoirs, dams, and watersheds. Therefore, your Committee on Conference looks



forward to receiving more information and a comprehensive implementation plan from the Department on these important proposals prior to actualizing any changes.

Your Committee on Conference understands the Department's role in maintaining Hawaii's most valuable assets. Hawaii's fresh water supply is not inexhaustible and is susceptible to local and global environmental changes. As such, it requires prudent management and protection. Only ten per cent of priority watersheds in the Hawaiian islands are currently protected. Through its watershed partnership program, the Department has identified high priority areas that remain unprotected. Since fence construction is the largest cost in protecting watersheds, your Committee on Conference has provided \$3,000,000 in general obligation bond funds, in addition to \$2,500,000 in special funds, to help administer the program and increase the protection of priority watersheds throughout the State.

While your Committee on Conference recognizes the goal of the ten-year watershed initiative plan in safeguarding water resources for future generations, your Committee on Conference is also cognizant of the fact that this will be the first year of the watershed initiative plan. As such, your Committee on Conference has required the Department to submit a detailed status report outlining implementation, funding, and any complications in advancing the initiative.

Your Committee on Conference is aware of the damage to state lands during the March 2012 storms. After considering the amount of damage assessed by the Department, your Committee on Conference has provided \$1,000,000 in special funds to address rock fall abatement and other needs.

In response to the Governor's emergency proclamation of April 14, 2011, the Department has been working on relocating over four hundred Nene geese near Lihue Airport on Kauai due to aviation safety issues. In light of their need for more resources, your Committee on Conference has provided eleven positions and \$800,000 in interdepartmental transfer funds from the Department of Transportation. The Department's Nene relocation plan covers a five-year period and requires \$800,000 per year for the remaining four years in order to safely capture, relocate, and ensure the survival of this endangered species.

Your Committee on Conference is cognizant of the Federal Communications Commission mandate that requires the narrow banding



of all state agencies' very-high frequency radio systems. Your Committee on Conference commends the Department for assessing their remaining wideband radio inventory and determining the level of support needed to adhere to this mandate. Thus, your Committee on Conference has provided \$750,000 in general funds for the Department to finish updating their green net radio system by January 1, 2013, in order to avoid federal penalties.

Your Committee on Conference also understands the importance of integrating information technology into existing statewide systems to increase access, transparency, and cost savings in the future. To this end, your Committee on Conference has provided \$400,000 to digitize land documents, of which \$200,000 will be transferred to the Department of Accounting and General Services for a two- to three-year initiative for digital archiving.

Your Committee on Conference acknowledges the Public Land Development Corporation's need for additional resources in order to serve as a liaison for public-private land partnerships. Thus, your Committee on Conference has provided three positions and \$350,000. In addition, due to increasing demand for geothermal energy resources, your Committee on Conference has provided two positions and \$287,935 for geothermal management functions in Water and Land Development.

Agriculture

Agriculture is an integral part of Hawaii's history and goal to achieve a more diversified economy. Your Committee on Conference is dedicated to promoting agricultural self-sufficiency, conserving farmland resources, and preventing the establishment of invasive species statewide.

Your Committee on Conference recognizes the importance of keeping water available and affordable to all classes of consumers across the State. The State's irrigation systems, some having existed for over a century, require continual repair, maintenance, and upkeep. The irrigation systems program is short-staffed, delaying repairs and maintenance that will only increase future costs. As such, your Committee on Conference has provided five irrigation positions and changed the means of financing from revolving funds to special funds for six positions serving the systems on the islands of Oahu, Molokai, and Hawaii. In addition, your Committee on Conference has converted two positions from temporary to permanent for the creation of the Agricultural



Infrastructure Branch to help manage irrigation systems and other infrastructure resources statewide.

Your Committee on Conference is aware that prior year reductions have negatively impacted the management of invasive species in Hawaii. Your Committee on Conference is also aware that certain federal aviation grants and fee deposits are terminating. To mitigate these effects, your Committee on Conference has provided nine positions and \$215,568 in general funds for Plant Quarantine inspectors located at Kahului Airport, and has changed the amount and means of financing for twenty positions from \$1,562,938 in special funds to \$1,116,384 in general funds, in accordance with the United States Department of Transportation's ruling which terminated the deposit of cargo fees by air carriers into the pest inspection, quarantine, and eradication fund.

Your Committee on Conference realizes the significance to quality and price assurance of inspecting and evaluating food commodities. Due to an increase in food safety issues, your Committee on Conference has provided two positions and \$169,859 to inspect and audit food for proper safety standards.

Your Committee on Conference has also provided two positions and \$139,322 for the creation of the Agricultural Land Branch in the Agricultural Resource Management Division of the Department of Agriculture, which will manage the Department's land resources, including agricultural park and non-agricultural park lands.

Your Committee on Conference acknowledges the personnel challenges faced by the Department's Measurement Standards Branch and recognizes the importance of inspecting the accuracy of scales, gas pumps, and taxi meters. Due to severe budget cuts and attrition resulting from retirement, the Measurement Standards Branch is currently left with only one active inspector and one worker on extended leave. As such, your Committee on Conference has provided four positions and \$420,000 to include regular inspections statewide and to effectively implement quality assurance in the State.

Business, Economic Development, and Tourism

Last year, your Committee on Conference expressed concerns regarding the Department of Business, Economic Development, and Tourism's habit of reorganizing through the budget without consulting the unions. Commensurate with these concerns, the Legislature denied transfers that would affirm the reorganization in the budget and urged the Department to postpone implementation until



a formal reorganization process was initiated. The Department responded by working with the appropriate union officials and the Department of Budget and Finance to develop an implementation plan that incorporated input from all affected parties and, pursuant to Act 164, section 122, Session Laws of Hawaii 2011, submitted a report to the Legislature detailing the reorganization process. By the Department's efforts, your Committee on Conference finds that last year's concerns have been addressed. Therefore, your Committee on Conference has approved the transfers of positions and funds that reflect the Department's reorganization plan for fiscal year 2012-2013.

The presence of unexpended grant funds in the United States Department of Energy has permitted states, including Hawaii, to modify energy grant awards and extend federal funding to the end of this calendar year. Your Committee on Conference continues to support the Department's strategic involvement in this growing industry and has authorized the expenditure of \$1,423,814 in federal stimulus funds for state energy projects in accordance with the State's successful grant extension.

Commerce and Consumer Affairs

Your Committee on Conference recognizes the Department of Commerce and Consumer Affairs' need to be current and compliant as it pertains to licensing and information technology in order to offer secure and uninterrupted services. The Department's computer operating software has not been updated in ten years. The State has been informed that if updates are not administered by April 2014, the Professional and Vocational Licensing Division's computer operating system will become outdated and unable to support future upgrades from the system's vendor.

Your Committee on Conference is concerned about the repercussions this may cause to the applicant licensee integrated automated system (ALIAS), which is dependent on the computers in the Professional and Vocational Licensing Division. An interruption in ALIAS operations would severely affect state functions and could adversely impact the over three hundred thirty thousand licensees, from over forty-seven different professions that the system serves. To address this concern, your Committee on Conference has provided \$400,000 from the compliance resolution fund for the purchase of services and software related to ALIAS updates. Your Committee on Conference has approved an additional \$205,000 from the compliance resolution fund for information technology improvements, including



the replacement of seven-year-old servers that have exceeded their warranty, and for subscription to a disaster recovery service.

In compliance with Act 208, Session Laws of Hawaii 2010, your Committee on Conference has provided two positions and \$114,532 to support and process the new registration requirements placed upon individual security guards. Initial funding provided from the compliance resolution fund will be reimbursed using fees collected from individual guards.

Your Committee on Conference has authorized expenditure increases to accommodate increased incidental costs of the Department. To address maintenance fee increases from the Department of Accounting and General Services, your Committee on Conference provided \$117,341 in compliance resolution funds. Your Committee on Conference has also provided \$350,000 in compliance resolution funds to cover management and financial audits required by Act 19, Session Laws of Hawaii 2011, which requires the operation, supervision, and management of programs of public, educational, and government access facilities.

Attorney General

To support the Department of the Attorney General's operations, your Committee on Conference has provided \$115,000 for the maintenance and operating costs of the automated fingerprint identification system and the juvenile justice information system. Both systems allow various government officials to identify criminal offenders and spread information about missing children. In addition, your Committee on Conference has provided \$72,000 to ensure the prompt handling and recording of child support payments.

Your Committee on Conference is concerned that funding shortages could result in the loss of needed services for sex assault victims. As such, your Committee on Conference has provided \$466,140, which will support an expiring grant-in-aid for sex assault services available through Kapiolani Medical Center.

Your Committee on Conference understands that prior reductions have inhibited the Department's ability to fill positions. The Department must hold a significant portion of its positions vacant in order to meet savings targets. Accordingly, your Committee on Conference has provided \$100,000 to enable the Department to fill critical positions in its legal services division. An additional \$140,000, matched on a two-to-one basis from federal sources, is provided to child support enforcement services for similar purposes.



Your Committee on Conference notes that it has directed the Director of Finance to require that all executive agencies provide more accurate budget information that clearly delineates how funds are projected to be used so that legislators can make informed budgetary decisions.

Accounting and General Services

The Department of Accounting and General Services is responsible for producing the State's comprehensive annual financial report (CAFR). The CAFR is generally expected to be produced six months after the end of the fiscal year. However, Hawaii's CAFR was subject to delays of fourteen months for fiscal year 2009-2010 and eight months for fiscal year 2010-2011. Timely submission of the CAFR is important to numerous state agencies and is used in determining state bond ratings. Thus, your Committee on Conference has provided \$80,000 in general funds to hire an accounting firm for consultant services to ensure timely production of the CAFR.

Your Committee on Conference recognizes the important role information technology has in state government operations. Strategic implementation of information technology initiatives can facilitate faster service delivery, increase transparency, and generate savings by reducing operational inefficiencies. The State's new chief information officer is in the process of developing the State's information technology strategic plan to transform Hawaii's information technology infrastructure.

The administration's highest priority initiative concerns repairs and updates to state systems in need of immediate attention for security or audit reasons. In furtherance of this project and others, your Committee on Conference has provided four positions, and \$10,300,000 in general funds to the Information and Communication Services Division for Office of Information Management and Technology projects (OIMT). The OIMT projects fall into three categories: triage, pilots, and business process and information technology reengineering. This level of funding will provide the chief information officer with the flexibility to implement projects with continued input from stakeholders, including legislators and state departments.

Your Committee on Conference understands that economic conditions have caused a significant rise in energy costs. Despite state efforts to reduce energy usage, increases in electricity and utility rates have driven state utility costs beyond the Department's authorized budget. Thus, to accommodate cost



increases, your Committee on Conference has provided \$4,769,000 in general funds to Central Services for rising energy and sewer costs and carry-over costs from fiscal year 2011-2012 shortfalls.

On March 8, 2012, the State's Reapportionment Plan was challenged in the United States District Court for the District of Hawaii. Your Committee on Conference has provided \$1,090,612 in general funds to support the Office of Elections and the Reapportionment Commission in the event that additional consulting services are needed to redraw the district lines.

Transportation

Your Committee on Conference supports the Department of Transportation in its oversight and maintenance of the State's airports, harbors, and highways. Your Committee on Conference provided funds for debt service payments for both the airports and highways to support modernization and refurbishment projects.

Your Committee on Conference is aware that rising energy costs have created a shortfall in the Department's ability to meet airport utility needs. The lack of funds has caused various projects to be canceled or postponed. As such, your Committee on Conference has authorized \$17,160,000 in special funds to cover the deficit in utility costs, thereby eliminating the need to shift funds to manage shortfalls and to enable queued projects to resume.

Oahu highways are currently maintained by landscapers and general laborers. However, due to the varying skill-sets required for different services, the Department is limited in its ability to efficiently dispatch staff. The multi-skilled worker program allows a team of workers to be cross-trained in various skills, thereby improving the ability of existing staff to respond to multiple types of maintenance calls and improve overall response times. Your Committee on Conference commends the Department's efforts to increase efficiency through the multi-skilled worker program and has provided \$1,646,708 in special funds for this purpose.

Recognizing the extensive damages that recent heavy rains and flooding have caused throughout the State, and the urgency in which emergency response services must be developed and implemented, it is critical to designate funding in fiscal year 2012-2013 for essential clean-up and amelioration services needed across the islands. Although the full extent of damages cannot be assessed at this time, your Committee on Conference believes it prudent to provide



\$2,000,000 in special funds to the Department to aid public highways.

Defense

The Department of Defense is uniquely situated to draw down significant sums of federal funds. As such, your Committee on Conference has provided \$167,500 in general funds that will draw down \$502,500 in matching federal funds to assist with modernization projects, including a twenty-five-meter zero range at Keaukaha on Hawaii Island and electrical system infrastructure developments at Kalaeloa on Oahu.

Your Committee on Conference recognizes the importance of supporting postsecondary education for the members of the Hawaii Army and Air National Guard. As such, your Committee on Conference has provided \$150,000 in general funds to reestablish the State of Hawaii National Guard tuition assistance program with the goal of boosting recruitment, which had experienced significant declines following the loss of tuition assistance funding.

Labor

Your Committee on Conference is concerned with the operations of the Department of Labor and Industrial Relations Hawaii Occupational Safety and Health Division, which faces a large outstanding backlog with limited staff. Thus, your Committee on Conference has provided for the addition of ten positions and the transfer of twelve positions from general funds to special funds to address the pressing issue of elevator and boiler safety.

Your Committee on Conference is aware that the loss of positions has made the Department's daily operations more difficult. Among these were investigator positions for the Civil Rights Commission, which were abolished in the reduction-in-force in fiscal year 2008-2009. Accordingly, your Committee on Conference has provided funding to establish two half-time investigator positions. These investigators will process housing and equal employment opportunity complaints, thus reducing current caseloads.

Hawaiian Home Lands

Your Committee on Conference recognizes the need to assess the modernization and digitization of the Department of Hawaiian Home Lands' database and records. Digitization can potentially generate cost savings for the Department, provide easy access to useful



information for other state agencies, and expedite the placement of qualified applicants into homesteads. Your Committee on Conference encourages the Department to work with the chief information officer to further this goal.

Your Committee on Conference 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 \$30,000,000 annual settlement deposit will be received in 2014. The ability of the Department to carry out its mission in the absence of these funds has been a continued concern of the Legislature. Your Committee on Conference finds that the Department has yet to provide a financial report outlining its proposal to fund operations following the discontinuation of settlement funds, as provisioned in prior years. Your Committee on Conference strongly recommends that a report be produced for the benefit of both the State and the Department of Hawaiian Home Lands, as most recently required by Act 164, Session Laws of Hawaii 2011.

Human Resources Development

Your Committee on Conference acknowledges the Department of Human Resources Development's requested reduction of \$510,000 for unemployment insurance benefits. This request was a result of the administration's program review that sought to achieve state savings. Your Committee on Conference finds that the requested adjustment simply shifts costs to other state agencies and that no efficiencies or savings would be achieved. Accordingly, your Committee on Conference has restored this amount to the Department's budget so that it will continue to provide for the unemployment insurance benefits costs for affected state agencies.

VI. CAPITAL IMPROVEMENTS PROGRAM

In preparing the capital improvement program (CIP) budget contained in this measure your Committee on Conference has remained mindful that in spite of signs that the State's economy is improving, the effects of the recession continue to be felt across the State, especially in the construction industry, which is still experiencing unacceptably high levels of unemployment. While investment in infrastructure and facilities is crucial for short-term economic growth and job creation, the need for a sustained program for economic growth is vital for a robust and growing economy.



As such, after carefully considering current economic conditions, along with the proposals, needs, and priorities of the administration and the departments, your Committee on Conference, has provided \$827,425,000 in general obligation and general obligation reimbursable bond-funded projects and \$3,229,619,000 in all means of financing for capital projects in FY 2012-2013.

While developing the capital improvement project budget, your Committee on Conference scrutinized each request, aware of the imminent need for "shovel ready" projects that will address the repair and maintenance and health and safety project backlogs which continue to fester within the State's agencies and departments. These projects:

- (1) Address many critical health, safety, and code requirements;
- (2) Reduce current repair and maintenance backlogs throughout several departments; and
- (3) Provide jobs for unemployed and underemployed residents.

Your Committee on Conference believes that this capital improvement program budget will not only help spur economic recovery, but will also address the most basic necessities expected of state facilities.

Your Committee on Conference has demonstrated its ongoing commitment to invest in the education of our keiki by including \$296,472,000 for the Department of Education for fiscal year 2012-2013. Of this amount \$116,500,000 has been appropriated for classroom renovations and school building improvements to address the departments' repair and maintenance backlog. Additionally, \$10,000,000 has been provided for electrical upgrades to support the rapidly evolving technology that is imperative to keep students competitive in the global economy. Your Committee on Conference has also approved \$30,000,000 in various lump sum appropriations for schools throughout the State to address Americans with Disabilities Act compliance, health and safety and special education needs.

For the University of Hawaii, your Committee on Conference has approved over \$80,000,000 for capital renewal and deferred maintenance as well as health, safety, and building code requirements, System wide. Your Committee on Conference has also taken note of the significant growth in student enrollment at the community colleges and has therefore provided an additional



\$27,500,000, including \$10,000,000 to address capital renewal and deferred maintenance needs at all community college campuses. Also included is \$10,000,000 for Kapiolani Community College to begin construction of the Culinary Institute of Pacific; and \$7,500,000 for Hawaii Community College, allowing them to leverage more than \$9,000,000 from private funds to complete Phase I and II of the new campus.

Your Committee on Conference has also addressed the needs of health and human services facilities throughout the State. Over \$60,000,000 has been provided for fiscal year 2012-2013 to allow the Hawaii Public Housing Authority to continue to upgrade its units and help achieve its mission to better provide adequate shelter and housing to low-income families. Furthermore, a total of \$35,000,000 has been appropriated in fiscal year 2012-2013 for the Hawaii Health Systems Corporation to help tackle the repair and maintenance needs at community hospitals statewide.

Lastly, your Committee on Conference remains keenly aware of Hawaii's need, as an island-state, to preserve its long-term sustainability. Nearly \$26,000,000 has been provided to the Department of Agriculture and Department of Land and Natural Resources to allow them to continue their efforts to maintain the State's irrigation systems, as well as rivers, reservoirs and dams statewide, including \$1,100,000 to upgrade, repair and reinforce the Hanalei River breach which was made worse by the recent heavy rains.

Your Committee on Conference also recognizes that because of Hawaii's slow economy, many community programs run by non-profit organizations have had to reduce their level of services. Subsequently, your Committee on Conference realizes the benefits of funding some of these programs and has therefore provided over \$20,000,000 for CIP grant in aids for the 2012-2013 fiscal year.

Your Committee on Conference believes that the implementation of the numerous projects within this capital improvement project budget will result in the expansion of Hawaii's economy. In addition, your Committee on Conference aimed to address those structural needs most critical to maintaining the long-term viability of the State's facilities. It is only through the ongoing maintenance of these facilities that the State can continue to provide the programs and services essential to those who need them the most.



VII. CONCLUSION

The combined efforts of the House of Representatives, the Senate, the administration, and countless interested parties have contributed greatly to the programs advanced by this measure. Your Committee on Conference acknowledges all those that have worked toward the development of this responsible expenditure plan.

Your Committee on Conference has adjusted the Governor's operating supplemental budget request by appropriating through this measure \$5,443,461,659 in general funds and \$11,027,264,452 in all means of financing for fiscal year 2011-2012, and \$5,598,768,779 in general funds and \$11,182,733,938 in all means of financing for fiscal year 2012-2013.

Your Committee on Conference has also made numerous technical nonsubstantive amendments for the purposes of style, clarity, and consistency.

As affirmed by the record of votes of the managers of your Committee on Conference that is attached to this report, your Committee on Conference is in accord with the intent and purpose of H.B. No. 2012, H.D. 1, S.D. 1, as amended herein, and recommends that it pass Final Reading in the form attached hereto as H.B. No. 2012, H.D. 1, S.D. 1, C.D. 1.


Respectfully submitted on behalf
of the managers:

ON THE PART OF THE SENATE

ON THE PART OF THE HOUSE



DAVID Y. IGE, Chair



MARCUS R. OSHIRO, Chair



