

Honolulu, Hawaii

March 9, 2012

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

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

Sir:

Your Committee on Finance, to which was referred H.B. No. 2012 entitled:

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

begs leave to report as follows:

The purpose of this measure is to appropriate supplemental funds for the operating and capital improvement costs for the Executive Branch for fiscal year (FY) July 1, 2012, through June 30, 2013.

In total, this budget appropriates \$5,611,528,160 in general funds and \$11,162,176,637 in all means of financing for FY 2012-2013.

The Office of the Governor, Department of Accounting and General Services, Department of Human Services, Department of Defense, Department of Agriculture, Department of Human Resources Development, Department of Health, Department of Taxation, Office of Information Management and Technology, Hawaii Housing Finance and Development Corporation, Hawaii Health Systems Corporation, Hawaii State Commission on the Status of Women, Waipahu Community School for Adults, Moanalua / Aiea Community School for Adults, Child & Family Service, Women Helping Women, Hawaii State Coalition Against Domestic Violence, Bernice Pauahi Bishop Museum,



Domestic Violence Action Center, and a concerned individual testified in support of this measure.

The Office of the Lieutenant Governor; Department of Business, Economic Development & Tourism; Department of Land and Natural Resources; Hawaii Tourism Authority; Hawaii Public Housing Authority; and many individuals offered comments.

### Introduction

Revenues for the State of Hawaii peaked in FY 2007-2008 at \$5,200,000,000. If the FY 2011-2012 revenue projections of the Council on Revenues are accurate, on June 30, 2012, the fiscal year will close with revenues reaching or exceeding the FY 2007-2008 level. It will have taken four years for revenues to recover from the shock of the 2008 recession.

During the same four years, state department and agency budgets were, in some cases, decimated, while Medicaid and fixed costs rose and unfunded liabilities continued to explode. For example, in FY 2008-2009, the Department of Agriculture's general fund expenditures totaled \$16,500,000. The department's FY 2011-2012 budget is \$9,000,000, reflecting a reduction of 45.7 percent. This department is charged with supporting Hawaii's agriculture industry and protecting the State from invasive species and pests from around the world. Invasive species impact the economy, as well as the environment.

Between FY 2008-2009 and FY 2011-2012, the combined general fund operating budgets of all executive branch agencies were reduced from \$3,246,000,000 to \$2,970,000,000, resulting in a decrease of \$276,000,000. Meanwhile, Medicaid, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), Employees' Retirement System (ERS), and debt service expenditures grew from \$2,101,000,000 to \$2,533,000,000, resulting in an increase of \$432,000,000.

EUTF payments grew by \$108,000,000 over the past four years. However, your Committee is concerned that this does not include payment of the actuarially required contribution necessary to address the unfunded liability of the system. Your Committee notes that in FY 2011-2012 approximately \$500,000,000 in additional funding per year is necessary to adequately fund the actuarially required contribution. Your Committee also notes that



any delay in making payments increases the annual amount necessary to fund the actuarially required contribution in subsequent years.

Your Committee finds that the budget and financial plan are balanced in the current biennium, and for the first time in four years, your Committee is not faced with a revenue shortfall in excess of a billion dollars. However, fiscal challenges remain. Departments are struggling to provide acceptable levels of services under increasingly challenging conditions. At the same time, Medicaid, EUTF, and ERS costs have continued to rise exponentially.

In recent months, the new Administration provided critical structural stability to the State's financial plan by restructuring debt service payments on outstanding general obligation bonds. The biennium budget adopted by the Legislature during the 2011 Regular Session created a framework that also provided the new Administration an opportunity to review programs and determine its priorities. Those priorities are expressed in the budget submitted to the Legislature in the current 2012 Regular Session for review and action.

Immediately after the Administration submitted its budget and financial plan to the Legislature, the Council on Revenues reduced revenue projections for FY 2011-2012 from 14.5 percent to 11.5 percent. This resulted in a budget deficit of approximately \$20,000,000 by the end of FY 2012-2013.

Your Committee finds that the funding requirements and demand for government services has never been greater. At the same time, Hawaii's economy stands on the edge of recovery and expansion. In the absence of a consistent stream of additional revenues, constraint, targeted triage, and long-term planning are keys to the development of this budget proposal. With these factors in mind, your Committee has laid out a steady course to:

- Refine the Administration's budget submittal to reflect current revenue projections;
- Triage targeted programs to ensure that the most essential needs are met, particularly in human services and agriculture;



- Provide structural stability to the state's financial plan in meeting long-term unfunded liabilities; and
- Support long-term planning and accountability efforts to fundamentally change the character and delivery of government services.

#### Recovery and a New Normal

"State revenues fell like a bowling ball and they have bounced back, much like a bowling ball."

*Arturo Perez, Director, Fiscal Affairs Program  
National Conference of State Legislatures  
Bloomberg News, 02/13/12*

Your Committee finds that this sentiment aptly describes the primary challenge faced by state governments nationwide to meet the needs of its people. A "State Budget Update: Fall 2011" survey conducted by the National Conference of State Legislatures found that:

- For the first time in four years, lawmakers will not be addressing current year deficits in the early part of their legislative sessions;
- Only four states reported that a budget gap had appeared since fiscal year 2012 began - this compares to 15 states with budget gaps at the same time a year ago;
- Recent global, social, and economic volatility, the European debt crisis, and high unemployment are generating concern among states about the rate of revenue growth and long-term stability of economies that are more interdependent today than at any other time in history; and
- Questions about the impact of Congressional action or inaction to reduce the federal budget deficit is causing states to further constrain much needed spending for fear of federal cuts stalling recent local economic improvement.

In light of these factors, your Committee has refined the Administration's budget priority proposals and funded those items



serving the most critical needs. This has been balanced carefully with the need to look ahead and reform and reprioritize government services for the long term.

Your Committee finds that information technology offers long-term solutions to a more efficient and effective state government. The final report of the Governor's information technology assessment conducted by the Office of Information Management and Technology found that:

*"[State workers] believe in working together and cooperating, laulima. ... This commitment extends to so many ... State employee[s] ... who were intent on meeting mission objectives and delivering services to the citizens of Hawaii, which often translated simply into working longer and harder with or without being paid overtime. Additionally, due to all the budget cuts, the staff has begun to accept the lack of support and tools to perform their job more effectively as 'just the way it is.'"*

*"Every Department recognizes that IT truly does support 'doing more with less', but as staff and budget reductions have occurred, the ability to utilize IT to improve the productivity of the remaining staff has been far too limited. ... [I]t became clear that redefining or reengineering a number of processes would provide the State with opportunities to transform and truly utilize IT to enhance support and help the State's citizens."*

Your Committee finds that a key element to recovery and a new normal is the Governor's initiative to reform state government, as implemented by the Chief Information Officer. This initiative has the potential to help everyone, including state employees as well as the people of Hawaii served by state programs. Included in this budget proposal are numerous projects determined by the Chief Information Officer as critically needed to immediately support current programs. Additionally, your Committee is committed to funding the larger, long-term initiative that is expected to provide a detailed roadmap by July 2012 to streamline internal processes, improve services delivered by state government, and provide higher levels of transparency and accountability.



## Department Summary

### The March Storms

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 FY 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 believes it prudent to appropriate \$5,000,000 to the Department of Transportation for assistance with state harbors, \$5,000,000 to aid public highways, and \$2,000,000 to the Department of Land and Natural Resources to address rock abatement or any other needs.

### Department of Agriculture

The Department of Agriculture plays a crucial role in protecting Hawaii's economy. Nearly 50 percent of the department's general fund appropriations were reduced since 2009, directly affecting the services provided to the State of Hawaii. Your Committee recognizes the importance of protecting the economy from the impacts of invasive species and strives to support the department in providing necessary resources.

Funding for nine plant quarantine inspectors at the Kahului Airport provided by the Federal Aviation Administration through the Department of Transportation will be discontinued at the end of FY 2011-2012. Also, funding for twenty plant quarantine inspectors provided by the United States Department of Transportation will be terminated due to an administrative ruling by the Air Transport Association of America, Inc. Therefore, your Committee has provided funding for these twenty nine positions by transferring moneys from the Energy Systems Development Special Fund under the jurisdiction of the University of Hawaii.

Funding for eleven new positions for various Department of Agriculture programs will be added to the Agricultural Development and Food Security Special Fund, which receives \$0.15 of each \$1.05 of the barrel tax collected. Resources provided include five positions for irrigation systems and necessary personnel to manage the acquisition of new non-agricultural lands from the Department of Land and Natural Resources. In response to an increase in food



safety issues, your Committee provided funding for two agricultural commodities marketing specialists to inspect and audit food for proper safety standards.

Your Committee 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. Accordingly, your Committee has provided for three measurement standards inspectors and one measurement standards branch manager in order to effectively implement quality assurance in the State.

Department of Accounting and General Services

In March 2011, in an effort to centralize information technology throughout the State, initiatives were proposed to modernize the State's infrastructure, systems, processes, and procedures. In July 2011, the State's first Chief Information Officer was hired and the Office of Information Management and Technology was established within the Department of Accounting and General Services. By September 2011, the first phase of the State's modernization initiative was completed. A statewide strategic plan is expected be delivered by the Chief Information Officer in July 2012.

Technology initiatives will be funded through the Shared Services Technology Special Fund which receives three percent of central services expenses revenues. Your Committee will also be proposing that general and non-general fund personnel savings from FY 2011-2012 and FY 2012-2013 be deposited into the Shared Services Technology Special Fund to support supplemental budget requests. Accordingly, your Committee has provided \$15,000,000 for statewide financial enterprise reengineering, \$5,000,000 for business process and information technology and information resource management reengineering, \$1,800,000 for information technology pilot projects, \$3,400,000 for technology triage for mission-critical government services, and \$1,800,000 for various projects for digital archiving records and broadband initiatives.



Department of the Attorney General

The Department of the Attorney General plays a critical role as the State's chief legal counsel, representing the State in civil and criminal cases, investigating violations of state laws, and preparing legal opinions for the Governor, Legislature, and state agencies. Guided by the 2011 program review, the department sought creative opportunities to finance its essential legal services. With that in mind, the Committee has approved interdepartmental transfers and special fund requests for reimbursement totaling \$576,613.

Department of Budget and Finance

As of July 1, 2009 the EUTF had a total unfunded actuarially accrued liability of \$14,546,500,000. The state's portion of that was \$11,523,300,000. In order to amortize the unfunded actuarially accrued liability, the state had to dedicate \$441,400,000 as its annual required contribution starting in FY 2008-2009, but was unable to do so. The state was only able to pay the normal cost of the state's portion of its EUTF obligation which was \$400,800,000. The longer the state waits to dedicate any resources to pre-funding its unfunded actuarially accrued liability, the larger the annual required contribution will become. If nothing is done, this is a critical structural problem in the state's financial plan that will have devastating impacts on the operating budgets of state programs in the years to come.

Your Committee believes it to be prudent to begin setting aside money towards the annual required contribution. Based on revenue projections as of January, 2012, your Committee was able to provide \$50,000,000 for this purpose in FY 2012-2013. Your Committee is concerned that at least another \$450,000,000 will be needed, but such resources are not available at this time.

It will take several years to address this issue in a comprehensive manner. To continue efforts towards that goal, your Committee has added \$100,000 to commission a study on improving the financial health of 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 benefit contributions for active and retired members while maintaining sufficient benefits coverage. This study will address the unfunded accrued liability and the implementation of reforms to ensure a reliable and





adequate stream of funding for the EUTF, which over 20,000 retirees rely on for benefits.

Department of Commerce and Consumer Affairs

The Department of Commerce and Consumer Affairs strives to provide fair oversight and regulation of the numerous businesses it monitors, including cable television providers, financial institutions, and insurance services. In an effort to strengthen and solidify the department's long-term commitment to a healthy business environment, your Committee has approved thirteen positions for conversion from temporary to permanent status, thereby encouraging the retention of valuable employees and ensuring stability in its operations.

In support of the Hawaii Broadband Initiative, a one-time appropriation of \$2,500,000 in special funds was requested for the Cable Television Division (CCA 102), pursuant to a Governor's Message dated February 10, 2012. The intent of the proposed funds, which will come from moneys collected from cable subscribers and held by Time Warner Entertainment, is to support broadband deployment and adoption efforts of the counties and state government. Your Committee is currently taking this request under advisement.

Recognizing the possible benefits of establishing a state-owned bank in Hawaii, your Committee has also approved the creation of a state bank task force, whose mission will be to study the feasibility and cost of such a venture. To support this task force, \$75,000 in special funds from the Division of Financial Institutions' (CCA 104) current budget will be allocated toward this effort.

Department of Business, Economic Development, and Tourism

In response to large-scale reductions-in-force over the past fiscal biennium, the Department of Business, Economic Development, and Tourism recognized a need to restructure and refocus its key initiatives to make the best use of lean resources. A number of position transfers between different programs within the department were requested last fiscal year, but were left unapproved pending a formal report on the reorganization, which was requested by the Legislature last session. This year, a number of the requests for transfers resurfaced and were approved



for implementation as the department worked with the appropriate agencies and organizations, including the Department of Budget and Finance, Department of Human Resources, and Hawaii Government Employees Association, to complete a formal reorganization and subsequently fulfill its reporting requirements.

In 2011, the Governor unveiled the Hawaii Broadband Initiative to work toward ensuring that high-speed broadband access becomes available throughout the State, and to promote the adoption of related services and applications for economic development, health care, education, public safety, governmental efficiency, and civic engagement. As one of the designated leads for the Hawaii Broadband Initiative, the Department of Business, Economic Development, and Tourism is tasked with spearheading implementation and adoption of such services with its sister agencies, and facilitating all correlated requests for state funding. With an aggressive target implementation date of 2018, your Committee has approved the requested appropriations for pilot programs aimed at enabling local government to progress and lead by example. Appropriations for FY 2012-2013 include \$400,000 to upgrade the eHawaii.gov website and \$1,000,000 to assist the Department of Education in implementing a one-to-one computing program in all public schools.

#### Department of Labor and Industrial Relations

During several site visits conducted by your Committee during the interim of 2011, it was noted that construction projects were being delayed due to the lack of inspectors available to provide timely safety checks of elevators to ensure compliance with regulations. The Department of Labor and Industrial Relations has proposed to modernize the program and create a special fund designed to support the boiler and elevator program and get much needed inspections back on track. Facilitating these inspections will clear a hurdle faced by one of the engines of Hawaii's economy, its construction industry. Additionally, the department will be able to address a backlog of inspections of existing buildings to ensure the safety of the public at large.

#### Department of Land and Natural Resources

The Department of Land and Natural Resources has discussed the reorganization of the Division of Aquatic Resources and the Division of Forestry and Wildlife as its vision for a land



management system based on the traditional Hawaiian ahupua'a 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. The department plans on formalizing the merger in the next fiscal biennium. Your Committee has many concerns and questions regarding the merging of the two divisions: What are the impacts regarding the merger and the Watershed Initiatives? How does this affect all sources of water supply provided to the State, including irrigation systems, reservoirs, and dams? What is the impact to the local farmers and fishermen? Your Committee looks forward to receiving more information and a comprehensive implementation plan from the department on these important proposals prior to any changes taking affect.

Your Committee recognizes the importance of protecting the State's land, natural resources, and forests which directly affect the water supply for the State. In order to protect and restore forested watersheds and secure Hawaii's water supply, the Department of Land and Natural Resources has requested \$11,000,000 per year over a ten-year span for a Watershed Initiative. The proposal covers eleven watershed partnerships throughout the State and is composed of over seventy public and private partners, encompassing over 2,000,000 acres of land. Many of the watersheds are located on private lands. Your Committee recognizes the responsibility of the Watershed Initiative in protecting public lands and has thus provided \$2,750,000 to launch the Watershed Initiative beginning in FY 2012-2013 on public lands. However, there is still much concern over the ambiguity and lack of clarity surrounding the details of the ten-year plan for the watershed initiatives: How will this plan be funded for the next ten years? Where will the moneys be expended? What fair level of contribution will private land owners commit? Your Committee believes more information is needed to understand where and on what resources the proposed \$11,000,000 per year for each of the next ten years is being spent. As such, it is your Committee's intention that these appropriations not be expended prior to receiving more information and a comprehensive implementation plan.

The Governor's Emergency Proclamation of April 14, 2011, authorized positions and funds for the purpose of the Nene translocation on the Island of Kauai. The proposal specified that the Division of Forestry and Wildlife would relocate more than 400



Nene near the vicinity of Lihue Airport, Kauai. Your Committee recognizes the importance of relocating the Nene to a new location for both public safety and protection of the endangered Nene. For these reasons, the Department of Land and Natural Resources proposed a five-year plan with funding transferred from the Department of Transportation for \$800,000 for FY 2012-2013. The cost of the five-year plan will be \$4,700,000.

Your Committee provided \$750,000 in general funds to meet a Federal Communications Commission mandate that requires the narrow banding of the department's Green Net Radio System by January 1, 2013. This system affects many divisions throughout the department, including: the Division of Conservation and Resources Enforcement, the Division of Forestry and Wildlife, the Division of Aquatic Resources, State Parks Division, and the Land Division.

#### Department of Human Services

Your Committee acknowledges the vital role of the Department of Human Services in protecting, aiding, and serving the State's most vulnerable individuals. This critical partnership between the Legislature and the Department of Human Services is essential in rebuilding the department after several years of significant staffing and funding cuts, shortfalls, and a draining of the Temporary Assistance for Needy Families funds. Assisting the department to fully meet its mission and obligations is vital as the Department of Human Services continues to experience the effects of double digit demand increases in Medicaid, the Supplemental Nutrition Assistance Program, and other core services.

Your Committee, mindful of refining government expenditures while maintaining essential coverage for those most in need, has added \$2,000,000 to fund domestic violence shelters to ensure that doors stay open for women and children in need of safe shelter, and sex assault services. \$6,900,000 has been included for Child and Welfare purchase of service contracts, providing critical core services for aging out foster kids, independent living services, sex and substance abuse treatment, foster care family recruitment and home studies, family strengthening services, and case management. \$685,500 has been appropriated in supplemental payments for the aged, blind and disabled living in a foster or care home to help pay for room and board and supply the most basic of necessities.



Understanding the importance of providing timely services to those most in need, your Committee restored positions and funds to meet mounting demands. Ten temporary positions and over \$577,000 for vocational and rehabilitation services are funded to address the waitlist of over 1,000 people waiting for services caused by a lack of sufficient staffing. Four positions and \$159,000 will reestablish a Kona office to reduce fraud in the Supplemental Nutrition Assistance Program. \$5,800,000 will address payroll shortfalls and fund critical positions throughout the Department of Human Services that have not been properly funded for several years.

In recognition of the increase in demand for MedQuest benefits, fifteen additional eligibility workers are funded for the frontline to expedite the process and reduce the time from application to judgment to meet federal guidelines.

As foreseen by your Committee in the 2010 legislative session, excessive spending of Temporary Assistance for Needy Families funds has led to a depletion of the Temporary Assistance for Needy Families reserve fund and an inability of the reserve fund to provide critical programs beyond 2011. Your Committee has deemed it imperative to support beneficiaries as they work towards self sufficiency, and has provided \$23,000,000 million in funding for work support and work programs, job readiness training, programs aimed at helping people get back to work, homeless services, and community youth centers.

Your Committee cites a report by the University of Hawaii's School of Social Work titled "*Juvenile Justice System Crime Analysis, State of Hawaii, Fiscal Year 2009- 2011*", in which status and property offenses were identified as the top two highest offense types in adjudication for youth in the State of Hawaii for all three years. Historically, this is primarily the result of little to no coordination of efforts between State, local, and non-profit agencies. An integrated system with vigorous oversight of services on each island is not only in the best interest of the youth, their families, and their communities, but is a fiscally sound approach. Over 150 youth are committed to the Hawaii Youth Correctional Facility annually, costing approximately \$168,000 per youth per year. Aside from the expense, incarceration has proven to be the least effective means of dealing with delinquent youth and creates negative results.



Accordingly, your Committee has added four new regional director positions and funds to fill the gap for Hawaii's youth. Presently, the Office of Youth Services does not have any staff on the neighbor islands. Providing a regional director in each judicial circuit would provide a balanced and comprehensive approach for at-risk youth to prevent delinquency, reduce recidivism, and maximize opportunities for youth to become productive, responsible citizens through community-based and family-focused treatment interventions. This funding fulfills statutory requirements as outlined in section 352D-10, Hawaii Revised Statutes, calling for the appointment of a regional director in each county. A community-based approach to juvenile justice is simply the right thing to do for Hawaii's youth and their families.

#### Department of Health

The Department of Health has displayed continual inconsistency within its structure and organization. Since 2008, the Department of Health has transferred 236 full-time employees and \$293,676,404 within the department, occasionally moving positions and funds out one year only to move them again the next year. These movements appear to be arbitrary and band-aid approaches to structural weaknesses. The current Department of Health Strategic Plan for the fiscal years spanning 2011-2014 titled, "*Foundations for Healthy Generations*", is a mere four pages in length and lacks detailed planning critical for strategic direction. The plan does not provide details for implementation, funding, staffing, operations, or anticipated national and environmental policy changes. For this reason, your Committee has provisioned the development of a comprehensive and detailed strategic plan before any further transfers and trade-offs are made.

Your Committee has funded the Early Childhood Obesity and Diabetes Prevention Program with \$250,000. The Department of Health maintains well-established programs for prevention of chronic disease, with increased emphasis on childhood obesity and diabetes throughout the State's schools. In order to reduce overlapping monies and efforts, your Committee recommends childhood obesity and diabetes prevention be embedded in the Department of Health portion of the Hawaii Tobacco Settlement Special Fund.



Your Committee recognizes the importance of a single coordinated system of information and access to in home and community based services for our elderly population through the establishment of Aging and Disabilities Resource Centers. Recognizing the recurring nature of such an implementation and with current Agencies on Aging in place on Hawaii, Maui, Oahu, and Kauai, your Committee recommends that site implementation be prioritized and proceed with a more deliberate rollout. Your Committee has approved the establishment of an Aging and Disabilities Resource Center starting with Kauai, and recommends taking best practices from that implementation to expand to additional sites on Maui, Oahu and Hawaii Island in the future. Kauai site implementation will be funded in the amount of \$88,683 in FY 2012-2013, along with supplemental efforts necessary for future, sustainable federal funding of the entire Aging and Disabilities Resource Centers program including: Project Development (\$50,000), Management Information System (\$175,000), Participant Direction (\$22,585), Dementia-capable (\$50,000), and Communication (\$1,000).

#### Hawaii Health Systems Corporation

The Electronic Medical Records project is set to "go-live" in February 2013. The Hawaii Health Systems Corporation set an ambitious implementation plan in order to receive \$10,000,000 in Medicare incentive payments over a four-year period. Additionally, the Hawaii Health Systems Corporation projected costs of \$57,000,000 over the next five years for this priority.

#### Department of Education

With regard to the Department of Education, your Committee was presented with a variety of factors vital to the future of our education system: the weighted student formula, student transportation, and adult education.

Your Committee examined the weighted student formula and the enrollment projections. The enrollment projection is based primarily on three factors:

- (1) The graduating senior class;
- (2) The incoming kindergarten class; and



- (3) In-and-out movement of all students from grades 1 through 11.

Although the senior class enrollment is accurate, the projection process for the kindergarten and migration factors are subjective. This year's senior class consists of 11,007 students across all Department of Education schools and represents the student body that will graduate out of the Department of Education system. However, the department estimates the value of entering kindergarteners by taking 77 percent of the children born five years prior which amounts to roughly 16,108 new students.

The migration factor is arbitrary and while the Department of Education conducts an analysis of previous year's migrations, this figure ultimately seems to be a guess. As such, your Committee has utilized an average of the migration factor for the past six years, which equates to a departure of 4,855 students compared to the Department of Education's prediction of a departure of 3,900 students. Your Committee does not predict that official enrollment of public schools will increase in the amounts indicated by the Department of Education and has provided funds for the weighted student formula according to this enrollment projection.

The Board of Education approved an increase in the price of student lunches by \$0.85 for all students for the 2012-2013 school year, which amounts to \$3.35 for high school lunches. Your Committee is concerned that despite the Board of Education's justification that the United States Department of Agriculture has mandated this increase, the federal government has also placed an annual mandatory maximum price increase of \$0.10 to ease families into this additional cost burden. Of great concern to your Committee is the possible creation of a gap group who will neither qualify for free or reduced price lunch nor afford daily lunch at the increased price. These actions can have severe ramifications upon student learning as there have been numerous studies connecting the importance of dietary habits with a child's ability to learn.

A long standing issue that has challenged your Committee is the continuously increasing budgetary demands of student transportation services. In its examination of the current program, your Committee continued to uncover failures in the





system. This includes bus contractors and the Department of Education's failure to collect daily ridership numbers, possible overcapacity leading to excess costs, and a failure by the department to present viable cost saving measures.

The Department of Education anticipates spending \$73,000,000 in general funds on student bus transportation in FY 2011-2012. This amount is equal to the general fund appropriation for the following departments combined: the Department of Agriculture, Department of Business, Economic Development, and Tourism, Department of Defense, Department of Labor, Department of Land and Natural Resources, the Lieutenant Governor's office, and the Governor's office. The Department of Education expects costs to rise to \$79,200,000 in FY 2012-2013. The Administration and Legislature, under heavy budgetary constraints, were forced to make the difficult decision of continuing to fund a program with out-of-control costs. Your Committee reduced the daily cost per bus to the median cost on each of the neighbor islands, providing \$20 million for student transportation.

Your Committee has long supported adult education, recognizing continuous learning as a cornerstone of improved life chances and quality of life. Many find their second chance through the adult education GED program, where one in ten high school diplomas are awarded yearly. Due to budget cuts, the Board of Education resolved to eliminate funding of adult education programs. However, your Committee believes it is vital that those wishing to complete their degree, at whatever point in life that becomes possible, have that opportunity. Your Committee has therefore approved \$2,500,000 in general funds for adult education to ensure that opportunity.

#### Charter Schools

Your Committee has long been mindful of the accountability challenges existing within the Charter School system. During the interim a Joint Charter Schools Task Force evaluated the relationships, responsibilities, and accountability of Charter Schools, issuing a January 2012 report to the Legislature outlining recommendations for higher performance, increased flexibility and autonomy, and meaningful accountability. Deliberation of these reforms in the legislative arena is a necessary step for the growth of the charter school movement in



Hawaii. Your Committee recommends that no changes be made to the supplemental year budget of the Charter Schools.

#### Department of Public Safety

Currently, there are approximately 1,740 male inmates housed at two facilities in Arizona. Your Committee recognizes that the out-of-state location presents an enormous hardship on both the inmates, who are isolated from their families and culture, and their families. Accordingly, your Committee recognizes the importance of bringing Hawaii's inmates home. The department's informational briefing to the Legislature in February 2012 reported that it will be at least five more years until all our inmates return home from the mainland.

The Legislature and the Department of Public Safety have joined efforts in developing a Justice Reinvestment Initiative to provide reforms to our incarceration system. In order to accomplish this, the department plans to both reduce the inmate population and increase the amount of space available by adding 400 new beds to a Puunene facility on Maui, which is in the planning stage, possibly reopening Kulani Prison on Hawaii Island with 300 new beds, and making available 200 new beds at the Waiawa Correctional facility on Oahu. Your Committee recognizes that the current contract with the Corrections Corporation of America costs the state approximately \$60,000,000 per year, funds that can be redirected to house prisoners at home. A March 2, 2012 Governors Message requested thirty-five permanent positions and \$6,000,000 in general funds to be moved from the non-state facilities budget (PSD 808) to fund the initiative. Your Committee looks forward to receiving more details on the plan.

#### University of Hawaii

The University of Hawaii continues to strive toward three Strategic Initiatives: the Hawaii Graduation Initiative, Innovation and Workforce Advancement, and Project Renovate to Innovate. All campuses have experienced unprecedented enrollment growth, which is common during economic downturns, mirroring the national response to changes in economic status. As such, Tuition and Fees Special Funds throughout the various campuses have increased their ceilings in order to account for services and personnel.



The University of Hawaii will begin FY 2012-2013 with the opening of a new campus, the University of Hawaii - West Oahu at Kapolei. The new campus spurred the University of Hawaii President's Hawaii Graduation Initiative to address more four-year college graduates, with an emphasis on the Native Hawaiian graduation rate. The University of Hawaii - West Oahu 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 supports this new campus with sixteen positions and \$900,000.

The Hawaii Natural Energy Institute situated in the University of Hawaii at Manoa is the expending agency of the Energy Systems Development Special Fund, which receives \$0.10 of each \$1.05 of the barrel tax collected, or approximately \$2,200,000. The Hawaii Natural Energy Institute has not expended nor do they plan to expend any of the funds collected since FY 2009-2010 due to the receipt of federal funds. Your Committee has determined that a greater need exists in the Department of Agriculture, where the FY 2012-2013 expenditure ceiling from the Energy Systems Development Special Fund will fund twenty nine critical agricultural inspectors.

Your Committee recognizes the university's number one priority in advancing graduation rates of Native Hawaiians by funding seven positions and \$355,000 for the Na Pua Noeau program, and adding three temporary positions and \$100,000 in general funds to the University of Hawaii at Manoa Ho'okulaiwi 'Aha Ho'ona'auao 'Oiwī Initiative in support of Native Hawaiian culture and language education.

Your Committee prioritized all requests based on the university and subject matter committee recommendations and funded three positions and \$175,000 for the Office of Mauna Kea Management for enforcement officers/rangers for Mauna Kea, and six permanent positions and \$303,000 for the system wide maintenance backlog.

The John A. Burns School of Medicine (JABSOM) isolated itself from the University of Hawaii at Manoa in FY 2011-2012, by separating its budget appropriations and expenditures into its own program ID, UOH 110. This new sense of independence, compounded



by the division's general fund appropriation of nearly \$17,000,000 and the constitutional autonomy provision frequently invoked have, unfortunately, created obstacles for your Committee in its attempts to thoroughly analyze the medical school's budget. In addition, past fiscal reports to the Legislature have proven unsatisfactory.

JABSOM continues to pursue its goal of being the top research medical school in the Pacific, but not without challenges. In particular, the school's family practice program, while praised by many in Hawaii's medical field, has come under scrutiny for FY 2012-2013, as the hospital in which the program is based, Wahiawa General Hospital, is struggling fiscally to provide faculty support. In an effort to remedy this situation, your Committee has recommended, through a budget proviso, that JABSOM utilize its general fund appropriation to finance its own faculty and provide related support as was agreed upon at the program's inception. JABSOM has also not provided any funding to the Hilo Medical Center, where the University participates in a similar family practice program. As such, your Committee recommends \$200,000 of the school's portion of the Tobacco Settlement Special Fund be appropriated to the Hawaii Island facility. JABSOM's portion of the Tobacco Settlement Special Fund is 28 percent of the total Master Settlement Agreement, roughly \$13,000,000 per year. For the past two years, debt service payments and operating costs have remained constant, revealing leftover monies that the school may take advantage of to pursue other opportunities.

#### Capital Improvement Projects

In preparing the capital improvement project budget contained in this measure, your Committee has remained mindful of the ongoing need to stimulate economic growth and create jobs within the construction and services industries which have suffered greatly through the recent recession. Accordingly, your Committee has provided \$746,616,000 in general obligation and general obligation reimbursable bond-funded projects and \$2,471,072,000 in all means of financing for capital projects in FY 2012-2013.

While these funding levels are substantial, your Committee has recognized the efforts of the Governor and Director of Finance and emphasizes that these funding levels are consistent and within the Administration's current issuance plan and debt service levels. In other words, this capital improvement project budget



will not require any additional debt service payments above what is already budgeted.

While developing the capital improvement project budget, your Committee 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. As such, your Committee 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.

Highlights of the capital improvement project budget for FY 2012-2013 include \$121,500,000 for the Department of Education to address its repair and maintenance backlog and over \$20,000,000 in lump sum appropriations for health and safety, Americans with Disabilities Act compliance, special education, and electrical upgrade projects at schools throughout the State.

For the University of Hawaii, your Committee has approved nearly \$90,000,000 for capital renewal and deferred maintenance as well as health, safety, and building code requirements. Of these funds, \$12,500,000 has been designated to address the needs of community college facilities statewide.

Your Committee has also addressed the needs of health and human services facilities throughout the State. \$61,000,000 has been provided for 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. In addition, \$20,000,000 has been appropriated for the Hawaii Health Systems Corporation to help tackle the repair and maintenance needs at community hospitals statewide.

Lastly, your Committee remains keenly aware of Hawaii's need, as an island-state, to preserve its long-term sustainability. Nearly \$30,000,000 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 reservoirs and dams statewide.

Your Committee 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 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.

### Conclusion

At the same time your Committee was voting on this budget, the Council on Revenues was meeting on March 7, 2012 to update the revenue projections on which this budget is based. The revised upward projection of the Council on Revenues, from 11.5 percent growth to 12.0 percent growth in FY 2011-2012, is a strong indicator that things are getting better.

Your Committee notes, however, that the revised revenue projection is still lower than the 14.5 percent revenue growth projection which served as the basis for the Governor's original budget submittal to the Legislature.

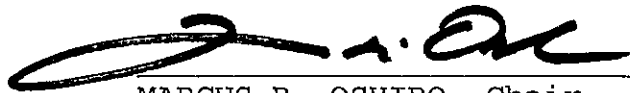
Your Committee, therefore, maintains that that the steady, deliberative approach in this budget remains a prudent approach to preparing for the challenges ahead in reprioritizing, rehabilitating, and renewing government services in the years ahead. The short-term and long-term goals of this budget are to:

- Refine the Administration's budget submittal as a result of current revenue projections;
- Triage targeted programs to ensure that the most basic needs are met, particularly in human services and agriculture;
- Provide structural stability to the state's financial plan in meeting long-term unfunded liabilities; and
- Support long-term planning and accountability efforts to fundamentally change the character and delivery of government services.



As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2012, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2012, H.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on  
behalf of the members of the  
Committee on Finance,



MARCUS R. OSHIRO, Chair



State of Hawaii  
House of Representatives  
The Twenty-sixth Legislature

HSCR 965-12

Record of Votes of the Committee on Finance

Bill/Resolution No.: HB 2012	Committee Referral: FIN	Date: 3/7/12		
<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.				
The recommendation is to: <input type="checkbox"/> Pass, unamended (as is) <input checked="" type="checkbox"/> Pass, with amendments (HD) <input type="checkbox"/> Hold <input type="checkbox"/> Pass short form bill with HD to recommit for future public hearing (recommit)				
FIN Members	Ayes	Ayes (WR)	Nays	Excused
1. OSHIRO, Marcus R. (C)	✓			
2. LEE, Marilyn B. (VC)	✓			
3. CHOY, Isaac W.	✓			
4. CULLEN, Ty	✓			
5. GIUGNI, Heather	✓			
6. HAR, Sharon E.	✓			
7. HASHEM, Mark J.	✓			
8. ICHIYAMA, Linda	✓			
9. JORDAN, Jo	✓			
10. KAWAKAMI, Derek S.K.	✓			
11. LEE, Chris	✓			
12. MORIKAWA, Dee	✓			
13. TOKIOKA, James Kunane	✓			
14. YAMASHITA, Kyle T.	✓			
15. MARUMOTO, Barbara C.	✓			
16. RIVIERE, Gil	✓			
17. WARD, Gene	✓			
TOTAL (17)	17	0	0	0
The recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted If joint referral, _____ did not support recommendation. committee acronym(s)				
Vice Chair's or designee's signature: <u>Marilyn B. Lee</u>				
Distribution: Original (White) – Committee      Duplicate (Yellow) – Chief Clerk's Office      Duplicate (Pink) – HMSO				