

STAND. COM. REP. NO.

3208

Honolulu, Hawaii

APR 05 2012

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

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

Sir:

Your Committee on Ways and Means, to which was referred H.B. No. 2012, H.D. 1, entitled:

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

begs leave to report as follows:

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

Your Committee received testimony in support of this measure from the Office of the Governor; Department of Taxation; Department of Human Resources Development; Department of Agriculture; Hawaii Public Housing Authority, Department of Human Services; Early Childhood Coordinator, Office of the Governor; Department of Human Services; Hawaii Housing Finance and Development Corporation, Department of Business, Economic Development, and Tourism; William S. Richardson School of Law; The Pacific Resource Partnership; Child and Family Service; Catholic Charities Hawaii; YWCA; Kauai Chamber of Commerce; General Contractors Association; Partners in Care; Zonta Club of Hilo; Friends of the Library, Waikoloa Region; and one hundred ninety-eight individuals.



The Department of Land and Natural Resources submitted testimony opposing certain adjustments made by the House of Representatives.

Your Committee received comments on this measure from the Office of the Lieutenant Governor; Department of Budget and Finance; Department of the Attorney General; Department of Accounting and General Services; Department of Education; Department of Health; Department of Defense; Department of Public Safety; Hawaii State Public Library System; Office of Information Management and Technology; Public Utilities Commission; Department of Budget and Finance; Department of Business, Economic Development, and Tourism; Hawaii Tourism Authority; John A. Burns School of Medicine, University of Hawaii; Lanakila Pacific; and ten individuals.

#### 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. Nonetheless, this marks the first year coming out of the recession that the Legislature has not been faced with the prospect of taking action to close a budget shortfall in the billions of dollars.

Your Committee 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 appreciates the administration's improved efforts to communicate and work with the Legislature on strategic fiscal and policy matters.

Your Committee commends the current administration's commitment to prudent fiscal policies for the State and its unwillingness to employ the "kick the can down the road" tactics used by the prior administration to get through one fiscal year to the next. While the prior administration restructured debt for immediate savings without regard for future costs, the current administration has retired future debt earlier, which will save



the State \$59 million in debt service. The current administration has also made every effort to end the practice of payment delays to providers and taxpayers.

Your Committee's guiding principles for the supplemental budget were to support the State's core functions, including those programs that provide services for those most in need, and to make strategic investments in people and programs that encourage economic growth and lower long-term future costs.

## 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 the 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, stated that they expect 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 reiterates 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 (DBEDT) 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 in 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 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 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 for fiscal year 2012-2013. This amount included:

- (1) \$46,425,979 for various programs to restore the 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) \$85,861,396 in budget savings, including debt service savings, retirement system/FICA payment savings, and employee and retiree health premium payment savings.

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. Additionally, the House included \$50,000,000 for partial payment of the annual required contribution of the Employer-Union Health Benefits Trust Fund's (EUTF) unfunded liability.

The mechanism to fund the information technology initiatives contained in the House draft of the budget is unclear to your Committee at this time, but it continues to review and assess the viability of this funding source. Also, though recognizing the importance of addressing the unfunded liability of the EUTF, your Committee finds that the annual required contribution to be closer to \$500 million and that funding an amount far short of that would be largely symbolic. Nonetheless, your Committee looks forward to discussing these issues with the House Committee on Finance and resolving them during the upcoming conference phase of the Regular Session.



Your Committee thoroughly reviewed each of the Governor's requests for additional funding. Your Committee finds merit in the majority of the Governor's proposals and has funded them, as they pertain to maintaining the safety net and restoring the ability of government to perform certain necessary functions. Your Committee notes that difficult choices were made and some funding requests could not be accommodated.

Your Committee has adjusted the supplemental budget request submitted by the Governor, as modified by Governor's Message items, by adding \$61,674 in general funds for fiscal year 2011-2012 and adding \$6,021,762 in general funds for fiscal year 2012-2013. Across all means of financing, your Committee has added \$61,674 for fiscal year 2011-2012 and reduced \$5,966,427 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 is cognizant 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 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 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 has appropriated \$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 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 has provided \$18,191,515 in general funds to maintain TANF services for Hawaii's residents.



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 duplicate services and requested remaining service providers to solicit alternative funding sources to supplant general funds.

Unfortunately, with concurrent federal reductions to TANF and the loss of ARRA and emergency assistance funds, the Department could not reduce CPS' expenditures to the originally budgeted amounts, and had to completely eliminate funds for domestic violence services. Given the importance of these services to Hawaii's vulnerable populations and the Department's thoughtful review and consolidation of existing contracts, your Committee has provided funding for the remaining shortfalls to ensure the continuity of remaining contracts. To this end, general funds in the amounts of \$6,880,719 for child welfare service contracts, \$390,000 for spouse and child abuse support programs, and \$1,530,000 for domestic violence contracts have been provided by your Committee 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 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 has



allocated a net sum of \$5,177,779 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.

### Health

Your Committee 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. In addition, the Department proposes to reorganize operations and consolidate programs that serve similar functions. Your Committee supports the Department's reorganizational efforts to achieve cost savings and meet targeted reductions without compromising the level of services to the public.

Your Committee is aware of the need for a single, coordinated system of information and access for our elderly and disabled population. Currently, none of the aging and disabilities resource centers meet the administration's requirements of being a fully functional site. Therefore, your Committee has provided \$1,400,000 in general funds to support expanding, streamlining, and enhancing the aging and disabilities resource centers statewide. This coordinated system will increase access and information on support services, thereby minimizing confusion, enhancing individual choice, and supporting informed decision-making for our kupuna. In addition, this expansion will improve the State's ability to monitor and manage resources through centralized data collection and evaluation. This funding will enable all county aging and disability resource centers to be fully functional by 2015.

Your Committee 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 healthcare costs. Consequently, your Committee understands that this is an issue that requires a well planned and sustainable approach. Thus, your Committee has provided \$250,000 in general funds and \$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 high quality healthcare accessibility at reasonable costs. To this end, they investigate health care costs, promote cost-saving techniques, and coordinate 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 applications and fees, your Committee supports maintaining SHPDA positions through the use of general funds until the program is able to sustain itself through revenue collection.

#### Hawaii Health Systems Corporation

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

Your Committee is cognizant of the outstanding loan between Maui Memorial Medical Center (MMMC) and the State of Hawaii, as a result of operating deficits caused by the financial market collapse in 2008. MMMC has made progress in correcting structural imbalances, enhancing its profitable services, and serving the needs of the community more effectively. However, MMMC still bears the financial pressure that all hospitals face. In an effort to ameliorate this, your Committee has provided \$10,000,000 in general funds for payment to settle and fully satisfy MMMC's outstanding loan to the State.

Your Committee is aware of the difficulty that the State encounters in recruiting and retaining physicians, especially in rural communities on the neighbor islands. The East Hawaii region faces a shortage of over one hundred and fifty physicians, with this number expected to increase in the coming years as more doctors retire. Therefore, the recruitment of primary care



physicians is important to meet the growing needs of the community. In order to expand the training, recruitment, and retention of primary care physicians, your Committee proposes the establishment of the Hawaii Health Systems residency programs (HTH214). In addition, your Committee has provided \$400,000 for the Hilo Medical Center (HMC) residency program. As the largest hospital on the island, HMC continues to serve the needs of its patients, regardless of their ability to pay.

The administration's budget request included a \$10,100,664 general fund reduction to account for HHSC's projected labor savings. However, by virtue that HHSC is a twenty-four-hour a day operation, this projected savings amount cannot be met. 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 recognizes the importance of state and private hospitals in providing access to health services for medicaid beneficiaries. Moreover, your Committee 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. This would enable HHSC to retain part of the amount currently used to support private hospitals. Your Committee considered the amount HHSC would be able to secure on this basis and has accordingly adjusted its labor savings reduction to \$7,500,000.

#### Education

Your Committee 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 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 believes funds provided for public education are generally best directed for expenditure by schools. During the Department's January 19, 2012, briefing of your Committee 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 finds the concept that school directed expenditures are the preferred method for administering state resources is ingrained in state law. Section 302A-1301(b), Hawaii Revised Statutes, addresses this issue. Among other things, the section 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 understands that several aspects pertaining to how funds are budgeted for the Department have changed over the years. Nonetheless, your Committee is confounded by the Department's apparent disregard or ignorance of laws that govern it. Your Committee expects the Department to review this law and plan accordingly.

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 expected that schools would be prioritized. Unfortunately, your Committee finds that WSF shouldered a substantial portion of the reduction. Your Committee 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 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 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. Under the assumption that this pledge is upheld, and in conjunction with supplementary legislative measures and provisions that will encourage the Department to expend funds as intended by the Legislature, your Committee believes that appropriations to WSF are wise investments 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 provided \$15,000,000 for the WSF. This funding will increase the amount provided to schools from between \$79.70 and \$92.61 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.

Distinct from your Committee's dedication to providing the resources necessary to achieve quality education in the classroom, is your Committee'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 the 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.



Your Committee is troubled by the Department's lack of action. However, 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 has provided \$23,000,000 in general funds to sustain student bus services where they are needed most. 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 notes that the \$23,000,000 provided in this year's budget is fifteen per cent more than the funding provided for fiscal year 2011-2012.

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 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 has appropriated \$2,500,000 in general funds to support the community school for adults program operations and maintenance of effort requirements.

Your Committee appreciates the importance of early education for Hawaii's keiki. The period from birth to age five is the most critical period of learning in a child's life. The junior kindergarten program, which currently provides public education to targeted four year-olds, is scheduled to sunset in school year 2014-2015. As such, your Committee has provided \$250,000 to establish the Executive Office on Early Learning and the Early Learning Advisory Board, which will transition the junior kindergarten program to the keiki first steps program in school year 2014-2015.





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 agrees with the USDA 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 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. As such, your Committee has reduced 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 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 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.

### 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 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.

In accordance with the findings and recommendations of the task force, the Senate Committees on Education and Ways and Means have moved S.B. 2115, S.D. 2, forward in hopes of establishing a new charter school law that effectuates a solid governance structure with clear lines of authority and accountability to foster improved student outcomes. Your Committee finds that this measure is a starting point to address the deficiencies identified in the existing charter school system. Your Committee has provided \$500,000 to support timely implementation of the charter school transition plan, as described in S.B. 2115, S.D. 2.

Funding for charter schools is premised on the concept of providing operating funds in an amount equal to that provided for regular education students on a per pupil basis. Your Committee 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 has provided \$1,031,902,385 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 \$5,919.18 per student.

Your Committee used the charter schools' projected student enrollment of 10,431 in its calculation of an appropriate funding level. Under use of this enrollment figure, the charter schools' appropriation must be \$61,742,960 to achieve a per pupil funding amount equal to regular education students. Thus, your Committee has denied an executive request to reduce the charter schools' budget by \$76,008 and has instead provided an additional \$417,343 in general funds to achieve this end.

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 will continue to assess the validity of using the charter schools' projected enrollment number in its calculations. However, to ensure funding amounts provided for regular education and charter school students on a per pupil basis are equal, your Committee requires the Director of Finance to make an appropriate adjustment based upon actual student enrollment that will account for any errors in student enrollment projections.

### Libraries

Your Committee finds that in times of fiscal constraint, the demand for free and public services increases. Commensurate with this trend, Hawaii's libraries are reporting record high usage, with a steady flow of physical visits and electronic access rates increasing nearly thirty per cent from 2009 to 2011. Hawaii's public libraries are struggling to meet this rising demand due to budget reductions and an increasingly competitive e-book industry in the private sector. Currently, Hawaii's libraries are managing a budget that has been reduced by over \$3,000,000 over the last three years, and must utilize the modest collection of late fees and lost book fines to purchase any additional materials. Your Committee recognizes the valuable services libraries provide and is mindful of the need to modernize public services to keep pace



with advancements in technology. Accordingly, your Committee has provided \$500,000 to the Hawaii State Public Library System for the purchase of books, e-books, and other circulatory materials.

### 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 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 feature several unique degree and certificate programs, as well as new laboratories, a resource center, library, campus center, and more. UHWO's enrollment is projected to increase an additional twenty per cent for the upcoming school year. This increase will require additional faculty in heavily concentrated and new program areas. Your Committee is dedicated to providing support for the new campus and its goal of raising the educational and economic attainment levels in the West Oahu region. As such, your Committee has provided sixteen positions and \$900,000 in general funds for the University to recruit faculty in business, creative media, accounting, Hawaiian studies, and other areas of study.

Your Committee 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 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 has provided eighteen positions and \$700,000 in general funds to expand and institutionalize na pua noeau statewide. This will allow the program to provide outreach to more students, enhance the science, technology, engineering and math (STEM) activities, and provide better coordination among all the University of Hawaii campuses.



Your Committee acknowledges the significance of preparing students in the STEM fields to the future of Hawaii. In order to further advance and support the University's goal of increasing STEM initiatives in higher education, your Committee has provided \$2,396,982 in general funds. In addition, your Committee has provided positions and \$300,000 to establish an engineering consortium to recruit and retain students in this field across all campuses.

The Academy for Creative Media empowers students to express their stories through multiple digital media platforms within a context of cultural and aesthetic value. In support of expansion of the Academy's film and digital media programs statewide, your Committee has provided \$2,129,967 in general funds to build capacity for workforce growth and to support the growing needs of multi-media industries. In addition, your Committee has provided \$51,674 for fiscal year 2011-2012 and \$236,203 for fiscal year 2012-2013 for the Uluulu Henry Kuualoha Giugni Moving Image Archive of Hawaii, which preserves film and videotape related to Hawaiian history and culture.

Enrollment at the University of Hawaii community colleges has increased steadily for the past several years. Your Committee is cognizant of the success of the performance based funding that is employed by the community colleges in rewarding campuses that exceed measurable outcomes. To this end, your Committee has provided \$2,000,000 in general funds to strengthen the incentive for the community college campuses to surpass their goals.

Your Committee understands the importance of integrating current technology into our public school system. As such, your Committee has provided \$1,000,000 in general funds to launch a one-to-one laptop initiative pilot program, with the ultimate goal of providing all of Hawaii's public school children grades K-12 with a laptop or tablet-like device to use as an integral part of their learning experience.

The Office on Mauna Kea Management recently received approval from the Board of Land and Natural Resources on their comprehensive management plan. This plan solicited community input throughout its development, in addition to offering ongoing education and continued community consultation in the management



of Mauna Kea's resources. Your Committee has provided seven positions and \$650,000 in general funds to implement this plan.

Your Committee 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 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 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 remains adamant that the University fund, through its resources, all costs associated with salary snapbacks, paybacks, and any other collective bargaining increase associated with the University of Hawaii Professional Assembly (UHPA). Accordingly, your Committee reduced the University's general fund appropriation by \$3,096,600 to reflect, as modified for prior year budget adjustments, the additional amount that the Department of Budget and Finance will incur as a result of higher fringe related costs for the UHPA agreement in relation to other collective bargaining agreements.

Your Committee 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. To rectify this, your Committee reduced the University's general fund appropriation by \$5,908,922 to reflect the surplus amount for fiscal year 2012-2013, thus allowing the University to retain the additional moneys received for fiscal year 2011-2012.

#### 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'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's Union Benefit 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.

The treasury branch experienced considerable delays in processing temporary deposit receipts (TDR) following the reduction-in-force in fiscal year 2009-2010. Processing TDR's increased from one or two days to forty-two days and resulted in restricted access to state funds for several agencies. Your Committee 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 has reestablished positions and provided funds for the Office of Economic Reinvestment and Recovery. Your Committee 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 per 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 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 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 has established permanent position counts and funds 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 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 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 the local economy. To date, State efforts to reduce the use of out-of-state prisons have been limited.

In June 2011, the efforts began pertaining to the Justice Reinvestment Initiative (JRI), a multi-state effort 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 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 is concerned about the actual savings the initiative will generate by recently reduced estimates on savings. Nonetheless, your Committee has approved the transfer of \$4,744,257 from non-state facility funding to expand and establish programs corresponding to JRI.

Your Committee is aware that cooking equipment at various detention facilities is outdated and parts are no longer available for repairs and maintenance. Your Committee has provided \$291,000 for the replacement of the outdated equipment. It is your Committee'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 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 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 older 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.

Your Committee 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 has provided \$5,000,000 in general obligation bond funds to support the Governor's initiative to increase protection of priority watersheds throughout the State.

Your Committee also understands the need for the Department to increase its revenue sources in order to support this ten-year initiative. Thus, it is your Committee's intent that a portion of the revenue generated from S.B. No. 2511, S.D. 2, will be utilized to sustain this initiative. While your Committee recognizes the goal of the ten-year watershed initiative plan in safeguarding water resources for future generations, your Committee is cognizant of the fact that this will be the first year of the watershed initiative plan. As such, your Committee has required the Department to submit a detailed status report outlining implementation, funding, and any complications in advancing the initiative.



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

Your Committee also understands the importance of integrating information technology into existing statewide systems in order to increase access, transparency, and cost savings in the future. To this end, your Committee has provided \$400,000 to digitize land documents, and \$97,700 to implement a statewide video conferencing system, for the benefit of public access.

Your Committee 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 has provided three positions and \$350,000. Additionally, due to increasing demand for geothermal energy resources, your Committee 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 of achieving a more diversified economy. Your Committee is dedicated to promoting agricultural self-sufficiency, conserving farmland resources, and preventing the establishment of invasive species statewide.

Your Committee 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 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 has converted two positions from temporary to permanent for the creation of the Agricultural Infrastructure Branch to manage irrigation systems and other infrastructure resources statewide.

Your Committee is aware that prior year reductions have negatively impacted the management of invasive species in Hawaii. Your Committee is also aware that certain federal aviation grants and fee deposits are terminating. To mitigate these effects, your Committee has provided nine positions and \$215,568 for quarantine inspectors to be located at Kahului Airport. In addition, your Committee 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 declaration terminating air carrier cargo fee deposits to the pest inspection, quarantine, and eradication fund.

Your Committee has also provided two positions and \$169,859 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 acknowledges the personnel challenges faced by the Department's Measurement Standards Branch. Prior year reductions have eliminated all but one inspector for ethanol



measurement services statewide. As a result, inspections have been limited to Oahu and gas pumps on neighbor islands have gone unchecked. As such, your Committee has provided four positions and \$420,000 to improve services, including regular inspections statewide.

#### Business, Economic Development, and Tourism

Last year, your Committee 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 finds that last year's concerns have been addressed. Therefore, your Committee has approved the transfers of positions and funds that reflect the Department's reorganization plan for fiscal year 2012-2013.

Your Committee recognizes the Department's significant role in piloting programs and projects that align with the Governor's broadband initiative to develop a modern broadband infrastructure in Hawaii. However, your Committee believes that the requested pilot projects for both the e-gov upgrades and one-to-one laptop initiative may be better situated under departments with a stronger nexus to the projects' core objectives. To this end, your Committee has provided requested funds, such as the e-gov upgrades, through the Office of Information Management and Technology, and the one-to-one laptop broadband initiative shall be administered by the Science, Technology, Engineering, and Mathematics program of the University of Hawaii.

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 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 and activities related to the Hawaii clean energy initiative, in accordance with the State's successful grant extension.

### Taxation

Your Committee appreciates the Department of Taxation's attempts to waive the fee for Hawaii taxpayers to electronically file tax returns. However, your Committee finds the ongoing payment of fees with state dollars to be an unsuitable method of mitigating fees paid by the public. Accordingly, your Committee encourages further discussions with the Hawaii Information Consortium on the administration of electronic filing service fees.

Your Committee recognizes the importance of tax collection and compliance for the State. As such, your Committee has provided ten revenue generating positions. These positions will increase collections by approximately \$2,000,000 in the first year and will continue to facilitate higher collections in subsequent years. Your Committee acknowledges the changes and improvements made in the processing of state tax returns. Your Committee has provided three positions to further enhance the Department's efforts.

### Commerce and Consumer Affairs

Your Committee 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 is concerned over 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 has provided \$400,000 from the compliance resolution fund for the purchase of services and software related to ALIAS updates. Your Committee 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 has provided \$114,532 and two positions for the new registration of individual security guards. Initial funding provided from the compliance resolution fund will be reimbursed using fees collected from individual guards.

Your Committee 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 provided \$117,341 in compliance resolution funds. Your Committee 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.

In support of the Governor's Hawaii broadband initiative, your Committee has provided \$2,500,000 in special funds for projects geared toward the implementation of a statewide broadband network in cooperation with county governments. This supports the provisions outlined in Act 199, Session Laws of Hawaii 2010, which require the Department to assist in the deployment and accessibility of a statewide broadband system.

#### Attorney General

To support the Department of the Attorney General's operations, your Committee 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 has provided \$72,000 for the continued



operation of the child support payments in relation to Internal Revenue Service compliances.

Your Committee is concerned that funding deficiencies could result in the loss of important needed services. As such, your Committee has provided \$466,000, which will support an expiring grant-in-aid for support sex assault services available through Kapiolani Medical Center.

Your Committee understands that prior appropriation reductions have inhibited the Department's ability to fill positions. The Department must hold a significant portion of its positions vacant to meet savings targets. Your Committee has provided \$384,101 and moved an additional \$100,000 from other current expenses to personal services to enable the Department to fill mission critical positions in legal services. An additional \$140,000, matched on a two-to-one basis from federal sources, is provided for child support enforcement services for similar purposes. Your Committee 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 will be better able to make 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 has provided \$80,000 to assist with the development of the CAFR. The Department will use the appropriation to hire an accounting firm for consultant services concerning timely production of the CAFR.

Your Committee 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, your Committee has provided two positions and \$3,442,141 in general funds to the Information and Communication Services Division for technology triage. Additionally, two positions and \$1,825,000 in general funds has been provided for various information technology pilot projects. Further, your Committee has provided \$6,800,000 in general funds to initiate various business process and information technology reengineering projects. Among these are projects for electronic filing of tax returns, contracts processing dashboard, and streamlining film and media production permit processing to generate increased revenues and provide timely and comprehensive economic data.

Your Committee 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 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.

### Transportation

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

Your Committee is aware that rising energy costs have created a shortfall in the Department's ability to meet airport utility needs. The lack of available funds has caused various projects to be canceled or postponed. As such, your Committee 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. As a result, overall response times will improve. Your Committee commends the Department's effort to increase efficiency through the multi-skilled worker program and has provided \$1,646,708 in special funds for this purpose.

#### Defense

The Department of Defense is uniquely situated to draw down significant sums of federal funds. As such, your Committee 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 Kauai and electrical system infrastructure developments at Kalaeloa on Oahu.

The State Civil Defense Division provides important emergency services to the State, including coordinating private and public authorities, planning and mobilizing rapid response services and recovery efforts, and restoring essential public services. Your Committee has provided \$30,000 to help alleviate the burden of constant overtime costs on the Department by paying for overtime hours instead of awarding compensatory time-off.

Your Committee also recognizes the importance of state supported scholarship funds to the Hawaii Air National Guard tuition assistance program. Your Committee has provided \$100,000 in general funds to reestablish a 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 is concerned with the operations of the Department of Labor and Industrial Relations Hawaii Occupational Safety and Health Division (HIOSH). HIOSH faces a large outstanding backlog with limited staff, which is tasked with inspecting six thousand elevators and boilers in the State. Thus, your Committee has provided for the addition of ten positions to address the pressing issue of elevator safety.

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

#### Hawaiian Home Lands

Your Committee recognizes the need to assess the modernization and digitization of the Department of Hawaiian Home Lands' database and records. Digitization could 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 encourages the Department to work with the chief information officer to further this goal.

Your Committee recognizes that Act 14, Special Session Laws of Hawaii 1995, settled all claims made on behalf of the Hawaiian Home Lands Trust against the State between August 21, 1959, and July 1, 1988. The final \$30,000,000 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 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 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 notes 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 finds that the requested adjustment simply shifts costs to other state agencies and that no efficiencies or savings would be achieved. Accordingly, your Committee 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

Your Committee finds 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 unemployment and few major new construction projects on the horizon. 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.

Your Committee took very seriously the intent and focus of the Invest in Hawaii Act of 2012 in S.B. No. 2012 and its goal to drastically reduce the backlog of repair and maintenance projects in our State facilities by funding deferred maintenance projects for the Department of Education, Hawaii State Library System, University of Hawaii, University of Hawaii's athletic facilities, Department of Accounting and General Services, Department of Agriculture, Department of Defense, Department of Health, Hawaii Health Systems Corporation, Department of Human Services, Department of Land and Natural Resources, Department of Public Safety, and Judiciary. Consequently, your Committee removed all repair and maintenance projects included in the Invest in Hawaii Act of 2012 from the capital improvement program supplemental budget for fiscal year 2012-2013.

Your Committee finds that due to fiscal policies recently implemented by the administration, the State was able to obtain record low interest rates and realize significant general fund savings from the State's most recent re-financing and issuance of state bonds. Accordingly, the administration's capital



improvement program supplemental budget, as amended pursuant to Governor's Messages, provided a total of \$724,503,000 for projects funded by general obligation (GO) bonds and general obligation reimbursable (GOR) bonds and \$2,501,622,000 for all projects funded by all means of financing. Similarly, your Committee, after carefully considering current economic conditions, along with the proposals, needs, and priorities of the administration and the departments, as well as consideration of the anticipated impact of the Invest in Hawaii Act of 2012, has provided a total of \$721,640,000 for projects funded by GO and GOR bonds and \$2,597,426,000 for projects funded by all means of financing. However, your Committee, mindful of the administration's proposed debt service level, has followed a different approach from that of the administration in formulating its capital improvement program supplemental budget.

First, your Committee has reevaluated the funding for prior appropriated Executive Budget projects and, as a result, has lapsed funding for numerous projects in the amount of \$46,191,986. These lapses represent unrequired balances for completed projects; funds for which the administration has denied allotment for various reasons; funds that the departments have indicated are otherwise unnecessary, insufficient, or for projects that are unlikely to be undertaken within the necessary timeframe to avoid standard lapsing; and funds that do not advance the current priorities of the State.

Next, your Committee crafted a supplemental capital improvement budget that includes projects that are essential to achieving short-term economic stimulation, as well as projects that will help to stabilize the infrastructure to accommodate long-term growth. This supplemental capital improvement budget aggressively focuses on funding significant and critically-needed capital projects that can be undertaken immediately in fiscal year 2012-2013. This approach not only concentrates on the merits of the proposed fiscal year 2011-2012 funded projects, but also, more importantly, provides increased funding for several projects.

These projects:

- (1) Address many critical health, safety, and code requirements;



- (2) Reduce current repair and maintenance backlogs throughout several departments not included in the Invest in Hawaii Act;
- (3) Provide jobs for unemployed and underemployed residents; and
- (4) Provide the framework for growth and expansion of services, programs, and facilities.

Additionally, prior to fully funding the capital investment needs of the State for fiscal year 2011-2012, the Legislature has had the opportunity to monitor and reassess economic conditions; the needs and priorities of the State, administration, and departments; the ability of the departments to utilize the funds previously appropriated; and the adequacy and capacity of the State's workforce to deliver necessary services. Your Committee believes that this approach aided the Legislature in formulating a more comprehensive and responsive capital improvements program budget for fiscal year 2012-2013.

Education of our keiki has been the focus of the Legislature in recent years with passage of Act 167, Session Laws of Hawaii 2010, and Act 52, Session Laws of Hawaii 2011, that increase classroom instructional time for our public school students. With students spending more time in classrooms, it is imperative that those classrooms, buildings, and libraries are not only structurally sound but also conducive to learning. Your Committee has demonstrated its ongoing commitment to invest in public schools by including \$287,010,000 for classroom renovations and school building improvements in the fiscal year 2012-2013 supplemental budget. These include electrical upgrades to support the rapidly evolving technology that is imperative to keep students competitive in the global economy. Your Committee also addressed population growth in the Leeward districts on Oahu to relieve overcrowded schools - especially in the Campbell District Complex - by providing an appropriation of \$16,100,000 for Ewa Makai Middle School to build a sixth grade wing, thereby reducing the number of students at district elementary schools. Also to address the needs in Kihei, Maui, your Committee has provided \$20,000,000 for a new high school to reduce overcrowding and travel times for students.



Your Committee has also taken note of the needs of the University of Hawaii system in light of increased student enrollment on virtually all University of Hawaii campuses. Your Committee also realizes that because it is significantly more expensive - sometimes prohibitively so - for Hawaii students to pursue higher education out-of-state, it is incumbent on the Legislature to provide high school graduates with opportunities for an affordable and competitive education in-state. Your Committee provided \$38,000,000 for the construction of phase one for the University of Hawaii at Hilo College of Pharmacy, which will bring much needed jobs to the island of Hawaii as well as ensure the continued accreditation and growth of the only pharmacy program in the State. University of Hawaii West Oahu was provided \$9,000,000 for planning, design, and construction for the Academy for Creative Media facility as well as the allied health building, which will allow programs to expand beyond current offerings, and funding for the construction of additional infrastructure for the new campus. Your Committee also acknowledges that historically, some community colleges might not have been given much needed funding to keep up with the rise in student enrollment. Your Committee has therefore provided \$64,110,000 to support the community colleges, including \$10,000,000 for Kapiolani Community College to begin construction of the Culinary Institute of Pacific; \$36,000,000 for the construction of a Science and Technology Facility at Honolulu Community College; 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 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. Your Committee realizes the benefits of funding some of these programs and has therefore provided \$13,291,000 for non-profits in the 2011-2013 fiscal biennium budget.

Finally, the 2011-2013 fiscal biennium supplemental budget provides funding for various other capital projects that your Committee believes should be included at this time, but that may warrant additional discussion as the budget is further refined during the remainder of the 2012 Regular Session to meet the evolving needs and priorities of the State.



## VII. CONCLUSION

Your Committee appreciates all those that have worked toward the development of the responsible expenditure plan represented by this measure. Further, your Committee looks forward to working with the House of Representatives and all other interested parties through the remainder of the Regular Session as it works to finalize this supplemental appropriations measure.

Your Committee has adjusted the Governor's operating supplemental budget request by appropriating through this measure \$5,443,503,333 in general funds and \$11,027,306,126 in all means of financing for fiscal year 2011-2012 and \$5,603,357,218 in general funds and \$11,164,672,688 in all means of financing for fiscal year 2012-2013.

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

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

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

  
\_\_\_\_\_  
DAVID Y. IGE, Chair





The Senate  
Twenty-Sixth Legislature  
State of Hawai'i

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

Bill / Resolution No.:*	Committee Referral:	Date:		
HB2012 HD1	WAM	4-2-2012		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
IGE, David Y. (C)	/			
KIDANI, Michelle N. (VC)	/			
CHUN OAKLAND, Suzanne	/			
DELA CRUZ, Donovan M.				/
ENGLISH, J. Kalani	/			
ESPERO, Will	/			
FUKUNAGA, Carol	/			
KIM, Donna Mercado	/			
KAHELE, Gilbert	/			
KOUCHI, Ronald D.	/			
RYAN, Pohai	/			
TOKUDA, Jill N.	/			
WAKAI, Glenn	/			
SLOM, Sam		/		
<b>TOTAL</b>	12	1	0	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <div style="text-align:center; font-family: cursive; font-size: 1.2em;">Michelle N. Kidani</div>				
<b>Distribution:</b> Original             Yellow             Pink             Goldenrod File with Committee Report             Clerk's Office             Drafting Agency             Committee File Copy				

\*Only one measure per Record of Votes