

Honolulu, Hawaii

April 26, 2013

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

Honorable Joseph M. Souki
Speaker, House of Representatives
Twenty-Seventh State Legislature
Regular Session of 2013
State of Hawaii

Honorable Donna Mercado Kim
President of the Senate
Twenty-Seventh State Legislature
Regular Session of 2013
State of Hawaii

Sir and Madam:

Your Committee on Conference on the disagreeing vote of the House of Representatives to the amendments proposed by the Senate in H.B. No. 200, H.D. 1, S.D. 1, entitled:

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

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

I. INTRODUCTION

As submitted to the Legislature prior to the start of the 2013 Regular Session, the proposed general fund portion of the executive budget exceeded the revenue forecast of the Council on Revenues on an annual basis. The state general fund financial plan relied upon a carryover balance and revenue measures that the Legislature was not certain to adopt. As would be expected of any household or business, your Committee on Conference carefully scrutinized expenses in an effort to avoid a budget that could not be supported by realistic operating revenues.



Your Committee on Conference was conservative in its approach to fiscal matters and has successfully controlled growth in the budget. About \$253,000,000 was reduced from the Governor's general fund budget request over the upcoming fiscal biennium. As the economy begins to recover, your Committee on Conference's priority is to build a solid financial base upon which the State and its citizens may prosper.

In developing a measured budget for the executive branch of government for fiscal biennium 2013-2015, your Committee on Conference continued its adherence to the following principles:

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

Although your Committee on Conference has substantially reduced the Governor's budget request, it still provided needed resources for education, important safety net programs, environmental protection, and modernization of the State's information technology infrastructure.

II. ECONOMIC OUTLOOK

While lingering concerns remain, economic data have generally been positive. Unemployment continues to decline, the housing market continues to improve, and financial markets have rallied to all-time highs. However, the effects of the federal budget sequestration, the congressional budget paralysis, and a potential European fiscal crisis are largely unknown. Sequestration is of particular concern, given its likely far-reaching impact and uncertainty on how programs, as well as the local economy, will ultimately be impacted.

The Congressional Budget Office (CBO), which produces ten-year economic forecasts for the congressional budget committees, expects economic growth to remain slow this year as gradual improvements to the economy will be offset by scheduled budgetary changes. CBO projects that the nation's real gross domestic product will grow by



just 1.4 per cent this year, as measured by the change from the fourth quarter of 2012, and by 3.4 per cent next year due to improving economic factors. CBO also forecasts that the national unemployment rate will remain near 7.5 per cent through 2014 and will eventually fall to 5.5 per cent by the end of 2017.

The Federal Reserve, which is tasked with setting the United States' monetary policy, stated that they will continue to stimulate the economy and keep interest rates at exceptionally low levels until the unemployment rate falls to 6.5 per cent. Continued stimulation by the Federal Reserve, coupled with sluggish short-term growth forecasts, indicates that significant risks still exist and will continue to exist for the next couple of years.

Hawaii's economy is also experiencing positive growth, largely driven by a continued surge in the visitor industry. The Hawaii visitor industry experienced a 9.6 per cent growth in arrivals and an 18.5 per cent increase in visitor spending in 2012 compared to 2011, according to the Department of Business, Economic Development, and Tourism (DBEDT).

III. GENERAL FUND REVENUE OUTLOOK

By law, the Council on Revenues (COR) reports its latest tax revenue forecast to the Governor and 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, COR has made significant forecast changes.

At the September 6, 2012, meeting, COR lowered their forecast for fiscal year 2012-2013 tax revenue growth from 5.3 per cent to 4.9 per cent, citing the reassessment of the cost of renewable energy tax credits as the basis for the decrease. COR subsequently raised their forecast at the January 3, 2013, meeting, from 4.9 per cent to 5.1 per cent, mainly citing a strong visitor industry and expansion in the overall economy.

At the most recent meeting on March 13, 2013, COR raised their fiscal year 2012-2013 forecast from 5.1 per cent to 6.7 per cent, in addition to raising their forecasts for fiscal years 2013-2014 and 2014-2015. COR based the revisions on the strong visitor industry and growth of the economy. The latest change in COR projections adds approximately \$343,000,000 in general fund revenues to the 2012-2013 fiscal year and the 2013-2015 fiscal biennium.



Your Committee on Conference notes, however, that COR also warned of potential adverse effects from sequestration relating to the federal Budget Control Act of 2011. Moreover, your Committee on Conference prefers to take a conservative approach in its assumption of future revenue growth and the funding of new programs that will require annual resources.

IV. REDUCING UNFUNDED LIABILITIES

Over the past several years, the State has made significant progress on addressing the unfunded liability of the Employees' Retirement System (ERS). Measures taken to address this issue include reducing benefits for new employees, increasing the contributions made by new employees, establishing disincentives for spiking of benefits, and providing additional funding for the ERS. The State is now on a course that will allow it to fully resolve this liability.

Your Committee on Conference is also committed to addressing the other major unfunded liability of the State -- health benefits costs for public sector employees and retirees. An appropriation to prefund Other Post Employment Benefits (OPEB) will demonstrate the State's commitment to address the unfunded liability of the Employer-Union Health Benefits Trust Fund (EUTF).

Your Committee on Conference firmly believes that paying down the State's unfunded liabilities must be a priority, and not treated as a discretionary expense.

V. BUDGET OVERVIEW

As adjusted for governor's message items, the Governor's general fund budget request adds \$526,000,000 for fiscal year 2013-2014 and \$693,000,000 for fiscal year 2014-2015. While these are significant sums, large portions are non-discretionary in nature.

The budget request includes \$78,000,000 each year to restore previously reduced labor costs. This amount represents the five per cent reduction in compensation that state workers have endured, but does not include funding of potential additional collective bargaining costs.

This cost and others, such as debt service, health premiums, retirement benefits, Medicaid, federal budget sequestration mitigation, and the State's first payments for its share of the EUTF's unfunded liability, amount to \$384,000,000 for fiscal year



2013-2014 and \$524,000,000 for fiscal year 2014-2015, or nearly three quarters of the Governor's general fund budget request.

The Governor also requested funds for several significant initiatives. Over the fiscal biennium, these initiatives include over \$60,000,000 for the Office of Information Management Technology, \$32,000,000 for an early learning program, and \$29,000,000 for a 1:1 digital device per student strategy. Many other requests were also made to restore or strengthen government services.

Your Committee on Conference evaluated the Governor's requests and funded those costs that pertain to core state functions, support programs for those in need, encourage economic growth, and lower future costs.

Your Committee on Conference does not support a budgeting philosophy that asserts that departments are entitled to base funding levels. Excess moneys from existing appropriations, and lower priority purposes, should be budgeted for higher-priority programs and services on a statewide basis. Budgetary accountability and transparency for the public regarding how and where state funds are expended is of critical importance to your Committee on Conference. Your Committee on Conference firmly believes that the communication of these expenditures to the Legislature is an integral step in the budgeting process.

In addition, total vacancies across all state departments represent \$168,000,000 in all sources of funds. These funds remain with the departments for their use. Your Committee on Conference does not condone the practice of holding positions vacant to utilize the funds for other purposes. Shifting of budgeted funds and development of budget details that do not accurately depict expected costs have and continue to frustrate the efforts of the Legislature.

Accordingly, your Committee on Conference made several significant adjustments, notably for the Departments of the Attorney General and Public Safety, that reflect the Committee's desire to budget funds in the manner that they are expected to be used. Through reduction of vacant positions, your Committee on Conference finds that it has already changed the budgeting behavior of the various departments. Your Committee on Conference appreciates the departments that, on their own initiative, volunteered to trade off positions to keep those they felt were essential. Your Committee on Conference looks forward to continued efforts by the departments towards accountability and transparency in the budgeting process.



VI. DEPARTMENT HIGHLIGHTS

Human Services

Your Committee on Conference has taken the sensible approach of restoring and allocating funds for programs and operations that provide needed services and generate the most social benefit among Hawaii residents. The Department of Human Services has reported that, despite growth trends in Hawaii's economy overall, many of the State's assistance programs continue to experience increased enrollment, and the demand for services has left many of the Department's divisions operating beyond capacity.

The Department's Benefit, Employment, and Support Services Division programs reported a 2.8 per cent enrollment increase in Temporary Assistance for Needy Families (TANF) and Temporary Assistance for Other Needy Families (TAONF) and a 4.8 per cent enrollment increase in general assistance beneficiaries. In fiscal year 2011-2012, the Med-QUEST Division reported enrollment increases of five per cent. Your Committee on Conference understands that many of the services and resources provided by the Department constitute a critical safety net for Hawaii's most vulnerable population and is mindful of its duty to provide adequate resources for human services programs.

Homelessness in Hawaii has been a major concern in recent years. The Department's Homeless Services program has implemented a Housing First initiative to address chronic homelessness through a rapid transition to housing and has sought to enhance available shelters by means of asset management and contract review. In support of the Administration's efforts and for the continued piloting of the Housing First program, your Committee on Conference has provided positions and \$997,806 in fiscal year 2013-2014 and \$595,612 in fiscal year 2014-2015 in general funds to address homelessness throughout the State.

Your Committee on Conference is committed to investing in Hawaii's youth and is mindful of the need to provide avenues of care for all children. Without proper programmatic support, outreach, and infrastructure, a child in need is more likely to experience hunger and homelessness and is statistically more likely to engage in criminal behavior. To address these concerns, your Committee on Conference has provided \$1,088,790 in fiscal year 2014-2015 to support the Voluntary Foster Care to Twenty-One project. Your Committee on Conference believes this program will successfully help



foster children aged eighteen to twenty-one to gradually transition out of foster care and become financially stable and productive members of the community. Further, your Committee on Conference has also provided \$400,000 in general funds to expand the Youth Community Service Centers pilot program. These facilities will continue to provide alternatives to incarceration and reduce recidivism among juvenile offenders.

Rising national health care costs lead to higher Medicaid costs to the State and inevitably reduce funding available for other priorities in Hawaii's overall fiscal plan. More than thirteen per cent of the executive branch's general fund expenditures is devoted to capitation payments, and with the expansion of coverage through the Affordable Care Act (ACA), that percentage may rise. Your Committee on Conference understands that the high cost of health care is a national issue. Without a national solution to implement industry controls, the State must either fund the cost of care or sacrifice services. However, your Committee on Conference notes that Hawaii offers a Medicaid benefits package that is among the nation's most generous.

Your Committee on Conference finds growth in Medicaid without an accompanying effort in managing costs to be unsustainable. Your Committee on Conference recognizes that managed care payments for QUEST and QUEST Expanded Access in the state Medicaid program should be funded and appreciates the Department's efforts to thoroughly vet enrollment and capitation rate projections; however, your Committee on Conference would like to allow the Legislature an opportunity to address these untenable cost increases over the interim. To this end, your Committee on Conference has provided general funds in accordance with the Department's request for Medicaid health care payments for fiscal year 2013-2014 only, in the amount of \$43,153,802. For fiscal year 2014-2015, your Committee on Conference has provided an adjusted general fund amount of \$76,744,627 to encourage cost management initiatives and give the State time to more thoroughly evaluate the necessary funding for Medicaid health care payments in fiscal year 2014-2015.

Your Committee on Conference is also aware of the need to address the increases in enrollment levels and additional coverage requirements that come under ACA. The Department has identified a number of cost drivers and projects enrollment increases of roughly forty-six thousand individuals as a direct result of ACA. Further, under ACA, states will be required to reimburse primary care physicians for one hundred per cent of Medicaid costs, in contrast to the sixty per cent paid by Hawaii prior to ACA. While the



federal government has agreed to fund the entire forty per cent increase through fiscal year 2013-2014, thereafter, the State must pay a fifty per cent share of the one hundred per cent Medicaid reimbursement to primary care physicians. Your Committee on Conference recognizes these imminent health care changes and associated costs; however, your Committee on Conference is also particularly aware of the variability with which the timing and rates of cost increases under ACA may occur. As such, your Committee on Conference has provided the Department's requested amount of \$20,195,448 in fiscal year 2013-2014 and the adjusted amount of \$25,203,267 in fiscal year 2014-2015 for the general fund portions of ACA related health care costs.

Your Committee on Conference acknowledges the Department's good faith efforts to restore reimbursements in acute care facilities and proactively implement seriously mentally ill client services, which would be mandated under ACA, in order to phase in additional coverage costs in the Med-QUEST Division. To this end, your Committee on Conference has provided for expenditures from the hospitals and nursing facilities sustainability special funds to supplement general and federal funds for these purposes.

Your Committee on Conference supports the Department's goals to provide timely service delivery and improve access to resources. Accordingly, your Committee on Conference has provided positions and funding throughout the Department to manage processing backlogs, restore critical personnel, and expedite the transformation and integration of information technology solutions, including \$1,500,000 in general funds and \$7,500,000 in federal funds for the Med-QUEST integrated eligibility system.

Health

Your Committee on Conference acknowledges the Department of Health's role in providing health care and services to protect the well-being of people in Hawaii.

Your Committee on Conference recognizes the significance of caring for our kupuna and is aware of the need for a single, coordinated system of information and access for our elderly and disabled population. Your Committee on Conference recognizes the improvements that the Executive Office on Aging has made to our existing aging and disability resource centers in becoming fully-functional under federal standards. For example, the aging and disability center on Maui has recently become fully-functional by federal standards, with the other counties scheduled to follow



shortly. Your Committee on Conference understands that the completion of this effort is dependent upon continued funding and, therefore, has provided \$1,400,000 in general funds to support this initiative.

Your Committee on Conference is also aware of the Hawaii's Long-Term Commission's recommendation to establish a public long-term care insurance program, to be funded primarily through premiums rather than general fund revenues. Therefore, your Committee on Conference has provided \$380,000 in general funds in fiscal year 2013-2014 for the Executive Office on Aging to conduct the necessary actuarial analysis to provide future design details for a public long-term care program for the working population.

The Department's Developmental Disabilities Division oversees the waiver program that provides home and community based services to individuals with a developmental disability. Your Committee on Conference is aware of the waiver program's difficulty in meeting the state matching fund requirement for federal Medicaid funds, especially in adhering to prior lawsuit settlements, which require a reasonable pace of new admissions into the waiver program. In addition, your Committee on Conference is cognizant of the federal government's concern over this program's state funding shortage and the risk of losing Medicaid funds if the program is not supported with additional state funds. As such, your Committee on Conference has provided \$1,500,000 in general funds for the waiver program. Further, your Committee on Conference has provided \$640,000 in fiscal year 2013-2014 and \$350,000 in fiscal year 2014-2015 in general funds to better reflect the program's portion of costs for shared contracts with the Department of Human Services.

Your Committee on Conference further finds that the Developmental Disabilities Division does not currently have an electronic health records system that meets privacy safeguard standards and reporting requirements as mandated by the Affordable Care Act. Your Committee on Conference understands that compliance with these requirements must be met by 2016 to avoid reduced federal reimbursements. Therefore, your Committee on Conference has provided \$1,000,000 in general funds in fiscal year 2013-2014 for the development and implementation of an electronic health records system that will meet federal requirements.

Your Committee on Conference understands how crucial it is to provide children with a safe, encouraging environment in which to develop, as well as to identify those children with developmental delays so that appropriate services can be provided. To this end,



the Department's Early Intervention Program conducts comprehensive multi-disciplinary developmental evaluations for children and provides necessary services through community providers. Since this program was reduced during the economic downturn, it has faced a recurring deficit in serving Hawaii's special needs keiki. As such, your Committee on Conference has provided \$1,271,698 in general funds in fiscal year 2013-2014 to assist children with special health needs. To ensure a positive environment for childhood growth and development, your Committee on Conference supports the continued use of tobacco settlement special funds for the Home Visitation Program, formerly known as Healthy Start, that provides parenting and childhood health services and, therefore, has provided \$3,000,000 of those funds for this purpose.

Due to the closure of Hawaii Medical Center's hospitals in December 2011, the Department's emergency ambulance program has been tasked with meeting an increased demand for services. In an effort to continue to support growing emergency medical transportation needs, your Committee on Conference has provided \$1,300,000 in general funds in fiscal year 2013-2014 and \$1,000,000 in special funds in fiscal year 2014-2015 to reflect the increase in cigarette tax revenue to the Department. In view of the cigarette tax increase from .0075 cents per cigarette to .0125 cents that will revert to the Department effective July 1, 2013, your Committee on Conference has also provided for additional expenditures of \$5,300,000 for the state comprehensive trauma system and \$3,750,000 for community health centers in special funds.

Your Committee on Conference recognizes the importance of monitoring disease-carrying vectors for the betterment of State public health. Further, your Committee on Conference is cognizant of the reduction of these services during times of fiscal constraint. As such, your Committee on Conference has provided positions and \$73,920 in general funds in fiscal year 2013-2014 and \$147,840 in general funds in fiscal year 2014-2015 to increase vector surveillance at state ports of entry. In addition, your Committee on Conference has provided positions and \$223,771 in special funds in fiscal year 2013-2014 and \$480,804 in special funds in fiscal year 2014-2015 to improve sanitation health services inspection rates for food establishments throughout the State.

Your Committee on Conference supports efforts to improve health care coordination and increase access for all of Hawaii's residents. The Hawaii Health Information Exchange is a non-profit organization designated by the State to build the statewide health information exchange. Your Committee on Conference is cognizant that their



five-year funding contract will be coming to an end, despite the vast amount of work ahead in improving Hawaii's health care information system. As such, your Committee on Conference has provided \$1,000,000 in general funds in fiscal year 2013-2014 to support the organization's efforts towards improving the State's health information technology. Your Committee on Conference has also provided positions and \$53,000 in general funds and \$961,250 in federal funds in fiscal year 2013-2014, and \$165,830 in general funds in fiscal year 2014-2015 for the Healthcare Transformation Initiative in the Office of the Governor. This initiative will help the State implement components of the ACA, as well as identify strategies to improve the delivery of healthcare in the State.

Hawaii Health Systems Corporation

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

Hale Makemae is a program housed in Kula Hospital in Maui. It is the State's only twenty-four-hour long-term care facility for medically fragile, severely physically disabled, and developmentally disabled patients on the islands of Hawaii, Maui, and Oahu. These patients are bedbound and unable to participate in activities of daily living without trained assistance. In support of expanding the unique services at Hale Makemae, your Committee on Conference has provided \$800,000 in general funds for each year of the 2013-2015 fiscal biennium. These funds will be used to double the program's patient intake and subsidize a recurring operating deficit caused by unreimbursed Medicaid costs.

Further, in consideration of providing funds to maintain operations at HHSC hospitals, your Committee on Conference has provided \$1,000,000 in special funds for the operational deficit in Alii Community Care and Roselani Place. Roselani Place provides care to elderly individuals who need help with daily tasks but do not need the restrictive and full-time health care services of a nursing home.



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.

Your Committee on Conference understands that the University system is experiencing unprecedented increases in enrollment; however, your Committee on Conference is concerned about the University's decision to continuously increase tuition without a clear nexus between the increases in tuition and the quality of education for students. Furthermore, your Committee on Conference remains unsettled by the University's salary determination process for its top executive and managerial staff, as well as its lack of financial transparency and accountability. Your Committee on Conference believes in the potential of the University to be an internationally recognized place of learning and sincerely hopes that bettering the educational experience for its students is the primary focus for the University when making decisions.

The University of Hawaii West Oahu (UHWO) opened its new Kapolei campus in Fall 2012. Your Committee on Conference supports UHWO's goal of raising the educational and economic attainment levels in the West Oahu region. Your Committee on Conference recognizes that with the initial opening, UHWO focused on providing academic and curriculum options for incoming students. Now that the campus is operational, your Committee on Conference recognizes the need to provide support for the campus and, therefore, has provided positions and \$3,000,000 in general funds.

Your Committee on Conference recognizes that the University of Hawaii Community Colleges play an indispensable role in providing post-secondary educational opportunities for those wanting to pursue higher education or specific technical skills. As such, your Committee on Conference realizes the importance of keeping community college tuitions low to provide more prospective post-secondary students with an alternative path to higher education. Your Committee on Conference also understands that unlike four-year institutions that have a larger student population, the community colleges lack the enrollment concentrations that would enable them to generate sufficient tuition revenues to meet their operational needs and, consequently, may not be as well-equipped in comparison. Therefore, your Committee on Conference has provided \$4,000,000 in general funds in fiscal year 2013-2014 and \$2,000,000 in general



funds in fiscal year 2014-2015 for the operating expenses of community colleges statewide.

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 on Conference has provided positions and \$2,086,371 in general funds to build capacity for workforce growth and to support the growing needs of multi-media industries.

In addition, your Committee on Conference has provided positions and \$400,000 for the 'Ulu'ulu: Henry Ku'ualoha Giugni Moving Image Archive of Hawaii, which preserves film and videotape related to Hawaiian history and culture.

Your Committee on Conference recognizes the importance of tracking Hawaii's students to capture, analyze, and use student data from pre-school to high school, college, and the workforce. To this end, your Committee on Conference has provided \$100,000 for fiscal year 2013-2014 and \$200,000 for fiscal year 2014-2015 in general funds for the statewide longitudinal data system.

Your Committee on Conference acknowledges the significance of Science, Technology, Engineering and Math (STEM) initiatives at the University of Hawaii. Further, your Committee on Conference supports the University's role of advancing STEM education through outreach to pre-college students. Therefore, your Committee on Conference has provided positions and \$1,500,000 in general funds for STEM initiatives, which include supporting the Fostering Inspiration and Relevance through Science and Technology Pre-Academy. This program provides Hawaii's middle-school students in both regular education and charter schools statewide with hands-on, interactive learning opportunities across STEM subjects, which allow them to develop critical thinking skills to address real-world problems.

Education

Your Committee on Conference remains concerned with the Department of Education's management of state funds and resources in relation to its ability to meet the new assessments under the Common Core State Standards (CCSS), which were adopted by the Board of Education in June 2010. The new CCSS assessments are scheduled for implementation in the 2014-2015 school year.



Under Act 89, Session Laws of Hawaii 1996, the Legislature determined that the traditional centralized school system was not the best model to meet the needs of Hawaii's diverse student population. Thus, Act 89 began a systemic reform that envisioned "top-down support for bottom-up reforms" to provide individual schools with the flexibility and autonomy to develop and implement alternative administrative and instructional frameworks that would lead to better quality education and higher student performance. The Legislature's intent was to empower each school to be directly accountable for student achievement and "to put students first."

Although your Committee on Conference is encouraged by the Department's efforts to achieve the objectives of Act 89, your Committee on Conference finds that the Department is still mired in bureaucratic inertia. The Department's responses to your Committee on Conference's requests for information were reiterations of the inadequate information contained on budget forms and references to complying with the Department of Budget and Finance's budget instructions. While your Committee on Conference understands that the Department submits its budget in accordance with certain instructions, legislative review and oversight dictate that your Committee on Conference asks the probing and practical questions to determine what the funds will be used for and whether such use is appropriate under law, rule, or policy.

Your Committee on Conference has grave concerns with the Department's ability to monitor and track its resources. Your Committee on Conference requested a breakdown by categorical program of the appropriations reported by the Department that comprise the seventy per cent of appropriations that are supposed to be expended by principals pursuant to section 302A-1301(b), Hawaii Revised Statutes. However, your Committee on Conference was informed that it would take some time to compile because such a report is not usually prepared by the Department's budget branch.

Your Committee on Conference also requested a report of all temporary positions established by the Department under section 302A-1116, Hawaii Revised Statutes, which requires that each temporary position created by the Department not exceed a one year term. The law also requires the Department to report the creation of all temporary positions to the Department of Budget and Finance. Your Committee on Conference was advised that the Department has created approximately one thousand temporary positions, with many continuing from year to year. However, the Department has never reported any of these positions to the Department of Budget and



Finance since the enactment of the law in 1996. Your Committee on Conference finds these actions, or lack thereof, disturbing.

Your Committee on Conference further notes the recent audit of the Department's \$92,000,000 food services program and its findings that mirror the audit of the student transportation program:

- (1) Unclear ownership of the food purchasing and meal payment collections processes;
- (2) Lack of oversight, monitoring, and accountability of purchases;
- (3) Insufficient controls in the payment collection process;
- (4) Lack of current and comprehensive purchasing policies and procedures;
- (5) Lack of technology in menu planning, ordering, and inventory;
- (6) Systemic failure to follow internal procedures regarding the completion and retention of required forms and supporting documentation; and
- (7) Undefined methods for staffing school kitchens, thus rendering the process susceptible to manipulation.

If the Department is unable to efficiently provide such essential services as school lunches and bus transportation, the latter of which is estimated to face an \$8,000,000 shortfall in each year of the fiscal biennium, how can it instill confidence that it will efficiently manage new programs such as the 1:1 digital device per student strategy in meeting the new CCSS assessments?

Your Committee on Conference's adjustments to the Department's budget reflect these ongoing concerns.

Your Committee on Conference acknowledges that public schools will be required to meet the new assessments under the CCSS in the coming 2014-2015 school year and that, under the recently negotiated employment contract, teachers' compensation will be tied, in part, to the assessment results. However, your Committee on Conference is hard pressed in finding that the 1:1 digital device per student strategy is the best means of meeting the CCSS assessments.



Your Committee on Conference is aware that Hawaii is one of twenty-five states in the SMARTER Balanced Assessment consortium of states. Your Committee on Conference requested information on what the other states in the consortium were doing to meet the CCSS assessment requirements and was provided with information on seven states. Although all seven states had employed computers or laptops in a 1:1 initiative, none of the states had done so specifically in response to meeting the CCSS assessments as Hawaii proposes to do. It appears premature for the Department to commit such resources and staff time to an initiative that is being pursued by only a handful of states on an anecdotal basis.

Your Committee on Conference has denied the Department's request for \$7,125,000 for fiscal year 2013-2014 and \$22,250,000 for fiscal year 2014-2015 for the 1:1 digital device per student strategy. Because of the concerns with implementation of the program, your Committee on Conference has instead provided \$8,219,659 for fiscal year 2013-2014, which the Department will use to undertake a pilot program.

Your Committee on Conference also has provided \$1,000,000 for the development of assessments in the Hawaiian language for Hawaiian language immersion students to more accurately measure their academic achievement. Your Committee on Conference strongly encourages the Board of Education to consult with Aha Kauleo, the University of Hawaii, the Office of Hawaiian Affairs, Kamehameha Schools, and other relevant organizations in the development grade specific assessments.

As one of the fundamental precepts of Act 89, your Committee on Conference maintains that state funds are best spent at the school level under the direction of principals. Your Committee on Conference further believes that any federal impact aid funds received by the State should be used at the school level to directly benefit students. Although your Committee on Conference understands that the Department proposes to move federal impact aid funds from the classroom to school support and replace it with general funds, your Committee on Conference would rather apply such federal dollars directly to the schools and classrooms.

To this end, your Committee on Conference has provided \$10,000,000 in federal funds for each fiscal year for weighted student formula (WSF), \$40,000,000 in federal funds for each fiscal year for regular instruction, and \$3,600,000 in federal funds for each fiscal year for special education in regular schools. Your Committee on Conference rejects the Department's proposal to add



\$45,980,154 in federal funds in fiscal year 2013-2014 and \$46,774,111 in federal funds in fiscal year 2014-2015 for various programs in the school support program. The Department's proposal funds ancillary services, not direct classroom instruction. Your Committee on Conference's approach maintains use of federal impact aid funds only for school-based budgeting and special education.

Your Committee on Conference has also provided \$12,857,918 in general funds in fiscal year 2013-2014 for WSF to support student learning at our schools.

Your Committee on Conference acknowledges the Department's efforts to address problems with student transportation services. Your Committee on Conference remains optimistic that the Department will be able to break the cycle of tiered, non-competitive contracts, establish internal controls and accountability, and develop greater expertise and ownership within the Student Transportation Division. Your Committee on Conference, however, is mindful that the Department remains less than forthcoming with information. In the initial phases of budget development, it was revealed that there was an \$8,000,000 shortfall and that the Department planned to use federal impact aid funds currently programmed for school based budgeting to cover the shortfall. Your Committee on Conference accepts this proposal for fiscal year 2013-2014 only, with the expectation that the Department will have made meaningful changes in the way it negotiates and contracts for transportation services by fiscal year 2014-2015 and will not require further funds to cover shortfalls. Your Committee on Conference further notes that this Legislature has passed specific measures intended to remove impediments and give the Department greater leeway in negotiating and contracting with transportation providers. This will allow the Department to leverage these statutory changes so as to engender greater competition, which will result in lower costs and a more efficient transportation system.

Early Learning

Your Committee on Conference supports early education for Hawaii's keiki and acknowledges that, with the upcoming change to the entrance age for kindergarten students, services will need to be made available for the estimated 3,472 unserved late-born four-year olds. Your Committee on Conference has provided \$315,000 in general funds for the Executive Office on Early Learning. However, your Committee on Conference has concerns as to how many families of these unserved four-year olds will actually seek day care services and whether the projected service capacity can be achieved.

To assist in the transition of the program, your Committee on Conference has provided one temporary position and \$125,000 in federal funds for both fiscal years for the Head Start coordinator to work on early learning program coordination.

Charter Schools

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 on Conference has provided \$1,074,881,407 in fiscal year 2013-2014 and \$1,043,025,951 in fiscal year 2014-2015 in general funds 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 has projected regular education enrollments of 175,868 students for fiscal year 2013-2014 and 172,493 for fiscal year 2014-2015, which does not include the Department's projected 5,100 junior kindergarten students. This equates to a funding amount of \$6,111.86 per student for fiscal year 2013-2014 and \$6,046.77 for fiscal year 2014-2015.

Your Committee on Conference used projected student enrollment figures provided by charter schools of 10,541 for fiscal year 2013-2014 and 11,254 for fiscal year 2014-2015 in its calculation of an appropriate funding level. Under use of these enrollment figures, the charter schools' general fund appropriations must be \$64,428,297 for fiscal year 2013-2014 and \$68,392,955 for fiscal year 2014-2015 to achieve a per pupil funding amount equal to regular education students. Thus, your Committee on Conference has adjusted the executive budget request to add \$127,557 in fiscal year 2013-2014 and \$3,752,771 in fiscal year 2014-2015 in general funds to achieve this end.

Projected student enrollment and comparable funding for charter school and regular education students remains an ongoing concern. Counts can fluctuate dramatically, as evidenced by the inclusion of the student-count from five new charter schools, their removal from the count, the reinstatement of two schools, and then the removal of one school due to a deferred opening. Your Committee on Conference finds that the requirement under 302D-28(c), Hawaii Revised Statutes, that the Director of Finance make an appropriate adjustment based upon actual student enrollment effectively accounts for the imprecise student enrollment projections and provides each agency with comparable non-facility funding.



Libraries

Your Committee on Conference finds that services provided by public libraries reach a broad spectrum of the population and are an invaluable public resource. Further, your Committee on Conference remains mindful of the need to modernize public library services to keep pace with advancements in technology and to update and maintain the circulated materials. Accordingly, your Committee on Conference has provided \$700,000 in general funds for fiscal year 2013-2014 for the purchase of books, e-book subscriptions, and other circulated materials.

Hawaiian Home Lands

In 1978, the following provisions were added to article XII, section 1 of the State Constitution:

The proceeds and income from Hawaiian home lands shall be used only in accordance with the terms and spirit of such Act. The legislature shall make sufficient sums available for the following purposes: (1) development of home, agriculture, farm and ranch lots; (2) home, agriculture, aquaculture, farm and ranch loans; (3) rehabilitation projects to include, but not limited to, educational, economic, political, social and cultural processes by which the general welfare and conditions of native Hawaiians are thereby improved; (4) the administration and operating budget of the department of Hawaiian home lands; in furtherance of (1), (2), (3) and (4) herein, by appropriating the same in the manner provided by law.

In 2007, *Nelson v. Young*, Civil No. 07-1-1663-08 BIA, a suit for declaratory and injunctive relief was filed in the First Circuit Court against the Director of Finance and the Hawaiian Homes Commission (Commission). The Attorney General has provided your Committee on Conference with information regarding the lawsuit. The Committee on Conference understands that plaintiffs asked the court to declare that the Commission and the Director are required to budget and request, and the Legislature is required to appropriate, "sufficient sums" to enable the Department of Hawaiian Home Lands (DHHL) to fulfill each of the four purposes set out in the 1978 addition to article XII, section 1 of the State Constitution. Your Committee on Conference further understands that plaintiffs also asked the court to prospectively enjoin the Commission from entering into general leases of the "available lands," and to instead require that the Commission rely solely on "sufficient sums" appropriated by



the Legislature to fund its implementation of the Hawaiian Homes Commission Act (HHCA), 1920, enacted by Congress. Under the HHCA, receipts from general leases are the principal source of funding for DHHL's homesteading and other programs.

After concluding that the political question doctrine prevented the court from judging the plaintiffs' claims, the circuit court dismissed the plaintiffs' complaint and entered judgment in favor of the Director of Finance and the Hawaiian Homes Commission. The plaintiffs appealed the judgment to the Intermediate Court of Appeals (ICA). The ICA concluded that the plaintiffs' demand for legislative funding for all four constitutionally specified purposes was not barred by the political question doctrine. It vacated the circuit court's judgment and remanded the case back to the circuit court to determine what constituted "sufficient sums." The Director of Finance petitioned the Hawaii Supreme Court to review the ICA's decision; the Hawaiian Homes Commission did not file an appeal.

The ICA's judgment was affirmed in part, and vacated in part, by the Hawaii Supreme Court. *Nelson v. Young*, 127 Haw. 185, 277 P.3d 279 (2012). The Supreme Court ruled that a court could determine what constituted "sufficient sums" for DHHL's administrative and operating expenses only, but not for the other enumerated purposes. The Supreme Court held, "[i]t is clear that the constitutional delegates intended to require appropriation of 'sufficient sums' to relieve DHHL of the burden of general leasing its lands to generate administrative and operating funds, and to that end, they identified the minimum funding necessary for such expenses." 127 Haw. at 203, 277 P.3d at 297. With respect to that amount, the Court stated, "[a]t a minimum, funding at or above the \$1,300,000 to \$1,600,000 envisioned in 1978 [presumably . . . adjusted to reflect the impact of factors such as inflation or increased collective bargaining costs] would be required." *Id.*

Your Committee on Conference understands that the case will be remanded to the circuit court to determine what constitutes "sufficient sums" for DHHL's administrative and operating expenses, as soon as the Supreme Court rules upon the plaintiffs' counsels' motion for attorneys' fees and costs on appeal.

Your Committee on Conference does not wish to intrude upon or influence the pending court proceedings. However, your Committee on Conference recognizes that administrative and operating costs will be incurred and that both DHHL and the Governor have included requests for general fund appropriations for DHHL's administrative and operating expenses for the 2013-2015 fiscal biennium. As such,



your Committee on Conference has provided \$9,632,000 in general funds for DHHL's administrative and operating expenses.

Accounting and General Services

One important function of the Department of Accounting and General Services is the timely production of the State's comprehensive annual financial report (CAFR). Due to publication delays that negatively impacted state bond ratings, the Department was authorized to hire a private accounting firm in fiscal year 2011-2012. However, your Committee on Conference recognizes the cost-savings and enhanced oversight that can be achieved by producing the CAFR in-house. As such, your Committee on Conference has provided positions and \$96,724 in fiscal year 2013-2014 and \$49,048 in fiscal year 2014-2015 in general funds to transition the responsibility back to the Department.

Your Committee on Conference understands the vital importance of preserving historical documents for ensured access in the future. Therefore, your Committee on Conference has provided \$262,500 in general funds in fiscal year 2013-2014 and \$325,090 in special funds in fiscal year 2014-2015 for the digital archives project at the Hawaii State Archives.

In order to ensure the State's assets and liabilities are adequately protected, proper insurance coverage is essential. Risk is present in the delivery of all government services and is coupled with costlier litigation and complex intergovernmental risk pools. The State is challenged with unique risks and a significant scope of coverage that could affect budgetary stability and potentially result in catastrophic financial losses. Your Committee on Conference understands the importance of a comprehensive risk management plan and has provided \$4,700,000 in general funds for property, liability, and crime insurance coverage over fiscal biennium 2013-2015.

Office of Information Management and Technology

The Office of Information Management and Technology (OIMT) has laid the groundwork to transform the use of technology throughout the State. OIMT strives to make access to state government more responsive and secure while enhancing service delivery to both the public and government employees. The administration continues to promote the State's information technology infrastructure needs as a high priority.



The Information Resource Management Transformation Strategic Plan has outlined the specific projects necessary to enhance security, privacy, and governance. Your Committee on Conference understands how crucial it is to continue to support OIMT as the Plan enters the implementation phase. Your Committee on Conference also recognizes the need to revolutionize information technology within the State. In support of these efforts, your Committee on Conference has provided positions and \$18,811,090 in fiscal year 2013-2014 and \$14,358,110 in fiscal year 2014-2015 in general funds to launch the strategic plan.

Budget and Finance

Fixed costs for debt service, the Employees' Retirement System (ERS), and health benefit payments comprise nearly one-third of the State's total general fund budget. These components require annual adjustments based upon assumptions for interest rates, payroll increases, and membership growth, which are beyond your Committee on Conference's ability to modify on a near term basis.

Your Committee on Conference recognizes that the State's positive fiscal condition is the result of financial prudence exhibited over the last two years. As previously indicated, your Committee on Conference is mindful of the opportunity to address the State's growing unfunded liability for Other Post-Employment Benefits (OPEB). As such, your Committee on Conference has provided \$100,000,000 in fiscal year 2013-2014 and \$117,400,000 in fiscal year 2014-2015 in general funds to begin prefunding OPEB. Although your Committee on Conference is aware that these amounts are not fully reflective of the proposed thirty year amortization schedule, your Committee on Conference finds this to be a necessary step toward reducing the State's unfunded OPEB liabilities.

Your Committee on Conference also requests the Director of Finance to explore ways to assess non-general funds for the reasonable and equitable portion of the unfunded liability of retirees whose salaries were paid from the non-general funds.

Your Committee on Conference finds that paying the additional amounts of the ERS unfunded liability attributable to spiking with new general fund appropriations will not encourage state agencies to deter the activity. Thus, your Committee on Conference has provided \$2,000,000 in fiscal year 2013-2014 and \$4,000,000 in fiscal year 2014-2015 in interdepartmental transfers from state agencies to make payments for the ERS unfunded liability attributable to employees spiking their pension benefits. Your Committee on Conference has



directed the Director of Finance to transfer the funds based upon an assessment.

Your Committee on Conference acknowledges the Public Utilities Commission's operational efficiencies despite its limited office space. Your Committee on Conference has provided \$3,980,000 of the Commission's revenue surplus to be reinvested in the form of office expansion and renovation for the Commission.

Public Safety

Your Committee on Conference understands that economic conditions have caused a significant rise in energy costs. Despite efforts to reduce energy usage, increases in electricity and utility rates have driven utility costs beyond the Department of Public Safety's authorized budget. Thus, to accommodate cost increases, your Committee on Conference has transferred \$3,312,295 in fiscal year 2013-2014 and \$3,491,253 in fiscal year 2014-2015 in general funds from the Department's administration program account to several facilities for rising energy and sewer costs. Outdated security and rising food costs have also adversely impacted the Department's budget. Your Committee on Conference understands the need for improved safety measures and healthy meal options. Therefore, your Committee on Conference has provided \$1,046,338 in fiscal year 2013-2014 and \$945,751 in fiscal year 2014-2015 in general funds for updated cameras, phone systems, and food services.

Your Committee on Conference recognizes the need for the visual presence of deputy sheriffs in public buildings as a deterrent to potential problems. In particular, the presence of deputy sheriffs to provide security in the State's courthouses is necessary to protect the public and ensure the safe and efficient operations of the Judiciary. Your Committee on Conference notes that significant safety and security threats were identified throughout public access points for several judiciary facilities. As a result, Your Committee on Conference has provided positions and \$321,518 in fiscal year 2013-2014 and \$528,313 in fiscal year 2014-2015 in general funds for the provision of security in Oahu, Hawaii, and Maui courts.

Your Committee on Conference understands the importance of restoring prison services and returning inmates to Hawaii. The Department seeks to transform the current correctional system in an effort to lower recidivism rates while providing mental health and career services. Your Committee on Conference supports the Justice Reinvestment Initiative and has provided for the transfer of



\$4,337,824 in fiscal year 2013-2014 and \$7,258,243 in fiscal year 2014-2015 in general funds from non-state facilities to local facilities to reopen the Kulani Correctional Facility and facilitate the transition of inmates and services back to Hawaii.

Land and Natural Resources

The Department of Land and Natural Resources is committed to protecting, conserving, and managing Hawaii's unique and limited natural, cultural, and historic resources.

Your Committee on Conference recognizes the Department's efforts 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. The Department launched the *Rain Follows the Forest Initiative* last year, which identifies and protects high priority watershed areas. With the Legislature's support, the Department was able to protect and maintain over one hundred sixty thousand acres of watersheds in fiscal year 2012-2013. In order to continue this initiative, your Committee on Conference has provided positions and \$3,500,000 in general funds in fiscal year 2013-2014 to increase watershed protection throughout the State.

Invasive species are extremely detrimental to Hawaii's native ecosystems and natural resources. Your Committee on Conference is aware of the increase in invasive species over the past two years, including the increasing population of axis deer and fire ants on the Big Island and Maui, and the first detection of mongooses on Kauai, which previously served as a seabird refuge. Your Committee on Conference is also cognizant of the fiscal need to control invasive species now, to avoid exponentially increased costs of addressing invasive species damage in the future. Therefore, your Committee on Conference has provided \$750,000 in general funds to the Hawaii Invasive Species Council. These funds will be used as part of a competitive grant funding process for invasive species prevention, control, and outreach. In addition, your Committee on Conference is conscious of the growing invasive algae problem in Kaneohe Bay and the Department's recent success in combating the algae with the introduction of indigenous sea urchins. As such, your Committee on Conference has provided \$229,932 in general funds to continue the Department's Super Sucker project that removes the invasive algae from Kaneohe Bay.

Your Committee on Conference is mindful of the Department's efforts to accommodate the increase in visitors to Hawaii's State



Parks, despite limited funding. Therefore, your Committee on Conference has provided \$442,000 in general funds for the State Parks Division's recurring payroll deficit and \$300,000 in general funds for rising electricity costs. Your Committee on Conference has also provided \$500,000 in fiscal year 2013-2014 and \$1,000,000 in fiscal year 2014-2015 in special funds for the State Parks Division to utilize their revenues from state park fee increases. In addition, your Committee on Conference has provided maintenance positions for the new Diamond Head Linear Park and Kauai District State Parks, to be funded with these increased fee revenues.

Your Committee on Conference is aware of the Department resorting to state parks special funds to fund required lifeguard services, at the expense of parks' repair and maintenance. Thus, your Committee on Conference has provided \$200,000 in general funds to support lifeguard services throughout the State. Your Committee on Conference has also provided \$100,000 in fiscal year 2013-2014 for land appraisals and other studies at Turtle Bay on the island of Oahu.

Hawaii's State Historic Preservation Division works to preserve Hawaii's rare historical and cultural sites. Your Committee on Conference is cognizant of the Division's recent federal review and the resulting corrective action plan requiring the Division to maintain a minimum staffing level, among other stipulations, in order to avoid federal funding decreases. As such, your Committee on Conference has provided positions and \$122,448 in general funds to support federally required positions, as well as \$62,400 in fiscal year 2013-2014 and \$44,900 in fiscal year 2014-2014 in special funds for the Division to upgrade its computer systems in compliance with federal equipment requirements.

Your Committee on Conference is aware of the recurring payroll shortage in recreational fisheries and the potential to exponentially increase federal funds with minimal state matching funds. Therefore, your Committee on Conference has provided \$150,000 in general funds that will generate an additional \$450,000 in federal funds to allow the program to meet payroll and perform various statewide projects, such as stocking rainbow trout for the Kokee Fishing area on Kauai, maintaining and constructing artificial reefs, and continuing Maui-Oahu marine resource assessments.

Agriculture

Agriculture is an integral part of Hawaii's economy. Your Committee on Conference is aware that the Department of



Agriculture's primary responsibilities are to promote agricultural sustainability and protect the State from invasive species. Your Committee on Conference is dedicated to promoting self-sufficiency, conserving resources, and preventing the introduction and proliferation of invasive species in the State.

Your Committee on Conference recognizes the need to attract farmers and ranchers to ensure a sustainable and secure future for the State's food supply. Therefore, your Committee on Conference has provided \$750,000 in general funds in fiscal year 2014-2015 for low interest rate loans and to enhance Hawaii's locally grown food sources and reduce our dependence on imported food.

Your Committee on Conference acknowledges the progress made by the Department's Agricultural Resource Management Division and the need to supplement existing operations in order to accommodate the Division's growing list of capital improvement projects for irrigation systems and agricultural parks. As such, your Committee on Conference has provided engineer positions and funding to enhance operational capacity and focus on improvements to pastures and the expansion of the Kunia irrigation system.

Your Committee on Conference is conscious of the threat of invasive species to the State and supports the Department's efforts to improve awareness, interception, and enforcement practices. To this end, your Committee on Conference has provided positions and \$505,098 in fiscal year 2013-2014 and \$639,196 in fiscal year 2014-2015 in general funds for plant, pest, and bio control programs and \$215,568 in general funds for the Maui Plant Quarantine Inspector positions, where federal funding was recently reduced. Further, your Committee on Conference has provided positions and \$162,540 in general funds for the Detector Dog Program in Honolulu Airport to intercept illegal invasive species.

Business, Economic Development, and Tourism

As a public entity, the State has the unique capacity to develop policies and strategies and make investments that promote job growth, industry development, and financial stability to the benefit of all Hawaii's citizens. Your Committee on Conference supports the Department of Business, Economic Development, and Tourism's efforts to generate long term economic stability through strategic multi-industry investments, business community outreach and development, and the maximization of federal funds.



The Department has identified key investment opportunities over the upcoming fiscal biennium that are expected to help promote and sustain positive growth trends throughout the economy. Through strategic implementations of business incubators and accelerators, international tradeshow, and partnerships with innovative industries, the Department has demonstrated Hawaii's potential as a strong, productive leader in a globally-competitive market. As such, your Committee on Conference has provided funds to targeted areas that are expected to augment and maximize the Department's efforts. Among these general funded investments are: \$50,000 in fiscal year 2013-2014 for the Hawaii fashion industry; \$175,877 in fiscal year 2013-2014 and \$250,000 in fiscal year 2014-2015 for the Small Business State Trade Export Promotion program, which will receive a federal match of \$1,000,000; \$75,000 in fiscal year 2013-2014 for the operation of the Beijing and Taipei out of state offices; and \$100,000 for economic studies to track consumer trends and industry growth in Hawaii.

While the tourism industry continues to grow, your Committee on Conference is aware that the State is approaching visitor capacity. However, your Committee on Conference is also cognizant of various emerging industries that have already experienced or anticipate significant growth potential. Clean energy has proven to be a primary area of growth and activity in Hawaii's economy. Still on track to achieve Hawaii's seventy per cent clean energy goal by 2030, Hawaii has already ranked among the top three states in the nation for solar water heaters and performance contracting per capita, power purchase agreements, cumulative installed photovoltaic capacity per capita, and clean energy job growth. In support of continuing these positive trends, as well as to mitigate the risk of the State's tourism industry reaching a plateau, your Committee on Conference has provided \$1,855,000 in special funds and \$10,468,000 in other federal funds for clean energy initiatives and continued public private partnerships to develop advanced low emission and zero emission vehicles centered on electric drive technologies.

Your Committee on Conference is also mindful of the growing interest, support, and progress of aerospace projects and technologies and recognizes the importance of timely investment in a potentially landmark industry. To this end, and in accordance with the foresight of prior legislative bodies, your Committee on Conference has provided general funds to allow for continued operations of the Challenger Center Hawaii and Pacific International Space Center for Exploration Systems in the amount of \$248,656 and \$400,000, respectively.



Prior year reductions to the Department's budget and personnel resources continue to inhibit the Department's ability to capitalize on investment opportunities and perform various statutorily mandated duties in a timely manner. Your Committee on Conference recognizes the need to address these operational deficiencies and has worked with the Department to restore critical positions and target strategic investments. To this end, your Committee on Conference has provided positions in various divisions to support operational efficiency and oversight throughout the Department. Your Committee on Conference expects that with these added positions, the Department can accommodate the growing private sector demand for services, such as land use petitions and film permits, and utilize additional administrative and clerical support to diminish internal inefficiencies.

Commerce and Consumer Affairs

Your Committee on Conference recognizes the Department of Commerce and Consumer Affairs' role in delivering consumer protection services, including consumer education outreach and commerce regulation. Your Committee on Conference is concerned about unlicensed contracting and advocates education as a way to mitigate this concern. As such, your Committee on Conference has provided \$612,922 in special funds for the Mortgage Foreclosure Dispute Resolution Program and \$150,000 in special funds to support consumer education campaigns over the 2013-2015 fiscal biennium.

Attorney General

Your Committee on Conference is aware that the federal government has decreased the percentage of federal funds that the Department of Human Services (DHS) may use to compensate the Department of the Attorney General for representation in Title IV-E cases from thirty-one per cent to twenty-five per cent. To better serve the Division, your Committee on Conference recognizes that the ability to manage more Title IV-E cases requires the Family Law Division to lease a space in closer proximity to the Family Law Court in Kapolei, Oahu. To this end, your Committee on Conference has provided \$145,000 in general funds for lease payments in the new Kapolei location.

Your Committee on Conference recognizes the importance of providing services to victims of crime. Therefore, your Committee on Conference has provided \$200,000 in fiscal year 2013-2014 in general funds to collect, compile, and disseminate timely and accurate restitution information to victims throughout the State.



Your Committee on Conference is also cognizant of the fact that a substantial and disproportionate number of serious crimes are committed by repeat offenders. Your Committee on Conference wishes to assist in creating a safer community by focusing prosecution on repeat and violent offenders. In order to better protect the public from repeat offenders and to provide services and counseling to crime victims, your Committee on Conference has provided \$850,000 in general funds for the Career Criminal Prosecution Program and Victim Witness Program.

Your Committee on Conference has provided \$127,000 in fiscal year 2013-2014 and \$200,000 in fiscal year 2014-2015 in general funds for maintenance and operating costs for the Automated Fingerprint Identification System, which is essential to the operations of law enforcement and is used on-site by law-enforcement agents to conduct criminal background checks using both fingerprints and photo identification.

Taxation

Your Committee on Conference understands that in order to enhance the State's tax revenue stream, it is essential to modernize the tax system. Currently, the Department of Taxation lacks the tools necessary to efficiently collect proceeds that fund important state programs. Therefore, your Committee on Conference has provided positions and \$1,572,070 in fiscal year 2013-2014 and \$4,062,808 in fiscal year 2014-2015 in general funds to expedite the modernization. This funding will improve the State's ability to effectively manage tax collection and streamline operations to ultimately improve service delivery, access, and returns processing in the State's tax system.

Transportation

Your Committee on Conference understands the significance of managing the State's public airports, commercial harbors, and highways. Your Committee on Conference has provided funds for debt service payments for both the airports special fund and harbors special fund. This will allow for modernization and refurbishment of airport and harbor facilities across the State. Your Committee on Conference has also provided \$87,000,000 in special funds in fiscal year 2014-2015 for various special repair and maintenance projects across the State's airports, harbors, and roadways.

The Aloha Tower Development Corporation has presented complicated issues for your Committee on Conference in the past. As



the partnership with Hawaii Pacific University continues to develop, your Committee on Conference supports this long-awaited movement toward committed investment in Aloha Tower by adding an administrative professional to manage the project. Your Committee on Conference has also approved special funds for a consulting contract for a Highways State Safety Oversight Agency that will work with the new rail-safety oversight officer at the Honolulu Authority for Rapid Transit on the Honolulu Rail Transit project.

Your Committee on Conference recognizes that airports are the primary means for travelers entering and leaving the State and that the Honolulu International Airport receives the bulk of incoming overseas travelers. Your Committee on Conference is dedicated to ensuring that the initial reception and last impression of travelers passing through Hawaii's airports is positive. For this purpose, your Committee on Conference has provided thirty-two janitorial positions and \$755,153 in fiscal year 2013-2014 and \$1,510,306 in fiscal year 2014-2015 in special funds to ensure that the Honolulu International Airport is well-maintained and instills a lasting impression of aloha.

Defense

Your Committee on Conference is aware of the positive impact tuition assistance programs can make for Hawaii National Guard service members. As such, your Committee on Conference has provided \$100,000 in general funds to support recruitment and retention by means of reimbursing service members for post-secondary education costs.

Your Committee on Conference acknowledges the importance of caring for our veterans. Therefore, your Committee on Conference has provided five additional Veterans Services Counselors and \$474,196 in general funds to support veterans across the State.

Labor and Industrial Relations

Your Committee on Conference recognizes that prior year reductions have greatly affected the day-to-day operations of the Disability Compensation Division (DCD). Current staffing levels have limited the Division's ability to meet its duties, as described in Act 206, Session Laws of Hawaii 2011, resulting in worker's compensation claim decisions taking up to four months. The Division also faces an increasing number of cases for temporary disability insurance claims. It is the priority of your Committee on Conference to reduce the growing backlog of DCD cases and help the



Department of Labor and Industrial Relations address these pressing cases for the State. To this end, your Committee on Conference has provided positions and \$244,000 in fiscal year 2013-2014 and \$488,000 in fiscal year 2014-2015 in general funds to alleviate the backlog of disability compensation cases.

Human Resources Development

Your Committee on Conference understands the need for adequate staffing to fulfill departmental responsibilities. The Department of Human Resources Development has struggled to complete timely and effective recruitment actions as a result of significant budget cuts in prior years. Therefore, your Committee on Conference has provided positions and \$104,826 in fiscal year 2013-2014 and \$190,452 in fiscal year 2014-2015 in general funds to address these deficiencies and alleviate the vacancy backlog throughout the State.

Your Committee on Conference is aware of the rising cost and occurrence of workers' compensation claims as well as the Department of Human Resources Development's responsibility to pay such claims to injured state employees as required by state law. To this end, your Committee on Conference has provided \$457,000 in fiscal year 2013-2014 and \$545,000 in fiscal year 2014-2015 in general funds for these obligations.

VII. CAPITAL IMPROVEMENTS PROGRAM

Your Committee on Conference finds that the State's economic outlook continues to improve steadily. The infusion and investments made in state facilities over the past biennium has contributed to overall savings for our residents and has produced a steady increase in job creation for the construction industry as well. However, despite the increase in revenue collections and strengthening fiscal year ending balances, your Committee on Conference acknowledges that construction and service industries have not yet returned to pre-recession levels. Your Committee on Conference recognizes the need to support a sustained capital improvement program that will diversify the State's economy, while streamlining government operations in a responsible manner.

Accordingly, your Committee on Conference has provided \$980,506,000 in general obligation and general obligation reimbursable bonds and \$2,246,060,000 in all means of financing for fiscal year 2013-2014; and \$387,346,000 in general obligation bonds and \$843,817,000 in all means of financing in fiscal year 2014-2015.



While developing the capital improvement project budget, your Committee on Conference recognized the need to address the repair and maintenance and health and safety project backlogs that continue to plague the State's agencies and departments. Your Committee on Conference believes that this capital improvement project budget addresses the most basic necessities of many state facilities and remains cautiously optimistic about the future growth and technological advancement of state operations.

Highlights of the capital improvement project budget for the biennium include over \$454,009,000 in appropriations for the Department of Education to address school improvements, upgrades, and renovations. Appropriations for the Department of Education include funding for critical issues at many existing school campuses, such as the modernization project at Farrington High School. In addition, your Committee on Conference acknowledges the importance of investing in the future needs of the State's keiki and thus has provided funding for a number of new schools across the State, including East Kapolei Middle School, East Kapolei High School and Kihei High School.

To help the University of Hawaii address the needs of campus facilities statewide, your Committee on Conference has approved over \$233,094,000. Of those funds, \$30,000,000 has been designated for renovations and improvements of Snyder Hall at the University of Hawaii Manoa campus and \$50,000,000 has been designated for capital renewal and deferred maintenance of facilities statewide. Furthermore, your Committee on Conference sought to invest in the community college system by appropriating \$38,213,000 for the new advanced technology and training center at the Honolulu Community College, as well as \$10,000,000 for minor capital improvement projects for all community college facilities.

Your Committee on Conference has continuing concerns for the State's transportation infrastructure, which is a vital component of the State's long-term economic viability. Investment in airports, harbors, and highways is necessary to address the continued influx of visitors, the efficient transport of goods within and without the State, and the day-to-day needs of our residents. Your Committee on Conference has demonstrated its commitment to transportation projects by appropriating, for fiscal biennium 2013-2015, \$1,275,747,000 for the Department of Transportation, including \$299,696,000 for state highways on every island.



Your Committee on Conference believes that the capital improvement projects within this budget will help the State to maintain the long-term viability of its current facilities, while also laying the foundation for the State to improve its operating efficiency through technological infrastructure development and modernization.

VIII. CONCLUSION

Your Committee on Conference has adjusted the Governor's operating budget request by providing through this measure:

- (1) \$6,036,556,466 in general funds and \$11,819,318,188 in all means of financing for fiscal year 2013-2014; and
- (2) \$6,123,494,985 in general funds and \$11,988,000,674 in all means of financing for fiscal year 2014-2015.


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

As affirmed by the record of votes of the managers of your Committee on Conference that is attached to this report, your Committee on Conference is in accord with the intent and purpose of H.B. No. 200, H.D. 1, S.D. 1, as amended herein, and recommends that it pass Final Reading in the form attached hereto as H.B. No. 200, H.D. 1, S.D. 1, C.D. 1.

Respectfully submitted on behalf
of the managers:

ON THE PART OF THE SENATE

ON THE PART OF THE HOUSE



DAVID Y. ICE, Chair



SYLVIA LUKE, Chair



