

STAND. COM. REP. NO.

1241

Honolulu, Hawaii

APR 02 2013

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

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

Madam:

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

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

begs leave to report as follows:

The purpose and intent of this measure is to appropriate funds for the operating and capital improvements budget of the executive branch for fiscal year 2013-2014 and fiscal year 2014-2015.

Your Committee received testimony in support of this measure from the Hawaii Housing and Finance Development Corporation, Department of Business, Economic Development, and Tourism (DBEDT); C.S. Wo & Sons Ltd; Kukaiiau Ranch; Palani Ranch Company; Panoholo Ranch Ltd.; Goodwill Industries of Hawaii Inc.; Castle Foundation; Healthcare Association of Hawaii; and eight individuals.

Your Committee received testimony in opposition to this measure from the Hawaii State Public Library System; and one individual.

Your Committee received comments on this measure from United States Senator Mazie Hirono; Office of the Governor; Office of the Lieutenant Governor; Security and Emergency Management, Judiciary; Department of the Attorney General; Department of Budget and Finance; Department of Taxation; Department of Accounting and General Services (DAGS); Department of Agriculture; Department of

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Education; University of Hawaii System; Department of Commerce and Consumer Affairs (DCCA); Department of Labor and Industrial Relations (DLIR); Department of Public Safety; Department of Human Resources Development; Department of Transportation; Hawaiian Homes Commission; Department of Health; Department of Defense; Department of Human Services (DHS); Department of Land and Natural Resources; Office of Planning, DBEDT; Contractors License Board, DCCA; Regulated Industries Complaints Office, DCCA; Office of Language Access, DLIR; Hawaii Health Systems Corporation; Office of Information Practices; Office of Community Services, DLIR; Executive Office on Early Learning; Executive Office on Aging; Hawaii Civil Rights Commission; William S. Richardson School of Law; Hawaii Public Housing Authority, DHS; Public Utilities Commission; Hawaii Tourism Authority; Office of Information Management and Technology, DAGS; State Council on Developmental Disabilities; State of Hawaii Early Learning Advisory Board; Hilo Medical Center; the Mayor of the County of Hawaii; Department of the Prosecuting Attorney, City and County of Honolulu; Department of the Prosecuting Attorney, County of Maui; Prosecuting Attorney, County of Hawaii; 4 Ag Hawaii; Hawaii Family Caregiver Coalition; KCAA Preschools of Hawaii; Hyperspective Studios Inc.; Hawaii Laborers' Union; Hawaii Alliance for Community-Based Economic Development; Pacific Gateway Center; Building Industry Association Hawaii; Catholic Charities Hawaii; Kamehameha Schools' Charter School Support Department; and two hundred forty-nine individuals.

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 carefully scrutinized expenses in an effort to avoid a budget that could not be supported by realistic operating revenues.

Your Committee was conservative in its approach to fiscal matters and has successfully controlled growth in the budget. About \$136,000,000 was reduced from the Governor's general fund budget request over the upcoming fiscal biennium. As the economy begins to recover, your Committee'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 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 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.

Also of significance is your Committee's efforts to allow for serious consideration of measures not encompassed by the executive budget. This includes considering targeted tax relief and incentives to help those in need and to spur economic growth. It is your Committee's intent to address these issues without raising any broad-based tax.

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). DBEDT projects Hawaii's economy will grow by 2.6 per cent in 2013 and 2.5 per cent in 2014.

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, the 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 notes, however, that COR also warned of potential adverse effects from sequestration relating to the federal Budget Control Act of 2011. Moreover, your Committee 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 is also committed to addressing the other major unfunded liability of the State. An appropriation of funds to prefund Other Post Employment Benefits (OPEB) and passage of the Senate's version of Senate Bill No. 946, that sets a solid framework for future payments, will demonstrate the State's commitment to fully address the unfunded liability of the Employer-Union Health Benefits Trust Fund (EUTF).

Your Committee firmly believes that paying down the State's unfunded liabilities must be a priority, and no longer left to discretion. The Senate version of Senate Bill No. 946, requires that all state and county employers pay one hundred per cent of the annual required contribution for OPEB within six years. Passage of such a measure would put the State at the leading edge of efforts dealing with this issue.

V. BUDGET OVERVIEW

As adjusted for governor's message items, the Governor's general fund budget request adds \$535,000,000 for fiscal year 2013-2014 and \$696,000,000 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 Senate version of the executive budget supports the payment of these costs.

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. Myriad other requests were also made to restore or strengthen government services.

The House of Representatives' draft of the executive budget either did not fund or substantially reduced many of the Governor's significant initiatives. In addition, the House version of the executive budget deleted the authorization and funding for approximately one thousand positions believed to be vacant.

Unlike the House of Representatives, your Committee was able to consider COR's most recent revenue projection increase. Consequently, your Committee had more flexibility to fund a number of the Governor's initiatives that are core state functions, support programs for those in need, encourage economic growth, and lower future costs.

Your Committee did not make extensive reductions of vacant positions. Current information indicates that many of the positions were or will soon be filled. Also, funds budgeted for



these positions are often used by state agencies for emergency hires and other expenses necessary to provide services.

While your Committee is aware of the practice of holding positions vacant to utilize the funds for other purposes, it does not condone such practices. 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. Your Committee intends to work with the House of Representative's Committee on Finance to address this issue.

VI. DEPARTMENT HIGHLIGHTS

Human Services

Your Committee 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 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 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 has provided positions and \$2,393,952 in fiscal year 2013-2014 and \$1,128,045 in fiscal year 2014-2015 in general funds to address homelessness throughout the State.



Your Committee 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 has provided \$983,043 in fiscal year 2013-2014 and \$1,088,790 in fiscal year 2014-2015 to support the Voluntary Foster Care to Twenty-One project. Your Committee hopes that 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 has also provided \$800,000 in general funds to expand the Youth Community Service Centers throughout the State and hopes that these facilities will continue to provide alternatives to incarceration and reduce recidivism among juvenile offenders.

Your Committee appreciates the significant impact early education can have on a child's future. Following the sunset of the Junior Kindergarten program, your Committee has examined other avenues for early learning. To this end, your Committee has provided \$4,000,000 in general funds to increase child care subsidy payments for Preschool Open Doors (POD). This program is dedicated to four year olds, the year prior to kindergarten, and affords income eligible families licensed preschool options by offering subsidies up to one hundred per cent of the cost. Your Committee provides these funds with the intent to increase POD enrollment ceilings and allow for more families to participate in education-oriented child care programs that complement the State's early education program. Your Committee intends that POD complement the early learning program also funded and described later.

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. However, your Committee 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. Therefore, your Committee finds 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. In accordance with the Department's request, your Committee has provided \$43,153,802 in fiscal year 2013-2014 and \$85,828,768 in fiscal year 2014-2015 in general funds for Medicaid health care payments.

Your Committee 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 46,000 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 its fifty per cent share of the one hundred per cent Medicaid reimbursement to primary care physicians. In recognition of these imminent health care changes and associated costs, your Committee has provided \$20,195,448 in fiscal year 2013-2014 and \$49,203,267 in fiscal year 2014-2015 for the general fund portion of ACA related health care costs.

Your Committee 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 has provided for expenditures from the hospitals and nursing facilities sustainability special funds to supplement general and federal funds for these purposes.

Your Committee supports the Department's goals to provide timely service delivery and improve access to resources. Accordingly, your Committee 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 acknowledges the Department of Health's role in providing health care and services to protect the well-being of people in Hawaii.

Your Committee recognizes the significance of caring for our kupuna population and is mindful of the positive impact that Kupuna Care has had in serving the elderly so that they can continue to age in place. With additional support provided by the Legislature last year, Kupuna Care was able to target its most vulnerable population and provide an increased level of services. As such, your Committee has provided \$4,200,000 in general fund support to continue this effort. In addition, your Committee is aware of the need for a single, coordinated system of information and access for our elderly and disabled population. Your Committee 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 understands that the completion of this effort is dependent upon continued funding and therefore provides \$1,400,000 in general funds to support this initiative.

The Developmental Disabilities Division oversees the waiver program, which provides home and community based services to individuals with a developmental disability. Your Committee 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 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 moneys. As such, your Committee has provided \$2,683,384 in general funds for the waiver program. Further, your Committee has provided \$994,504 in general funds to the Division in order to better reflect the program's portion of costs for shared contracts with the Department of Human Services. Moreover, 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 understands that compliance with these



requirements must be met by 2016 to avoid reduced federal reimbursements. Therefore, your Committee has provided \$1,580,000 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 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. 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 has provided \$1,271,698 in general funds to this program to assist children with special health needs. The Home Visitation Program, formerly known as Healthy Start, provides parenting and childhood health services to ensure a positive environment for childhood growth and development. Your Committee supports the continued use of tobacco settlement special funds for this program and, therefore, has provided \$3,000,000 of those funds.

Your Committee 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 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 has provided \$1,000,000 in general funds for fiscal year 2013-2014 to support the organization's efforts and in allowing them to continue their improvements for state health information technology. Your Committee has also provided positions and \$115,000 in general funds, \$61,250 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.

Your Committee is aware of the increase in the portion of the cigarette tax from .0075 cents per cigarette to .0125 cents that will revert to the Department effective July 1, 2013, to perform



mandated services. In view of this increase in funds, your Committee has provided \$5,300,000 for the state comprehensive trauma system, \$3,750,000 for community health centers, and \$1,300,000 for emergency ambulance services in special funds.

Hawaii Health Systems Corporation

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

Hale Makemae is a program housed in Kula Hospital on Maui. It is Hawaii's only twenty-four-hour long-term care facility for severely developmentally disabled people. Due to declining federal Medicaid reimbursements, Hale Makemae has experienced operational deficiencies. In order to address this program's increasing demand, as well as their financial shortfall, your Committee has provided \$400,000 in general funds. In addition, in consideration of providing funds to maintain operations at HHSC hospitals, your Committee has provided \$1,000,000 in special funds for the operational deficit in Alii Community Care and Roselani Place.

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 understands that the University system is experiencing unprecedented increases in enrollment; however, your Committee 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 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 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 driver for the University's decision making.



The University of Hawaii West Oahu (UHWO) opened its new Kapolei campus in Fall 2012. Your Committee supports UHWO's goal of raising the educational and economic attainment levels in the West Oahu region. Your Committee 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 recognizes the need to provide support for the campus facilities in the form of maintenance, security, and special needs specialist staff and, therefore, has provided \$3,000,000 in general funds.

Your Committee recognizes 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 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 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 has provided \$4,000,000 in general funds 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 has provided \$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 has provided \$236,203 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 acknowledges the significance of Science, Technology, Engineering and Math (STEM) initiatives at the University of Hawaii. Further, your Committee supports the University's role of advancing STEM education through outreach to pre-college students. Therefore, your Committee has provided \$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.

Your Committee is aware of the negative effect of higher tuition on university students. Your Committee believes that employing students at the university enables them to financially support their studies, while gaining valuable work experience to enhance their career prospects. Thus, your Committee has provided \$500,000 in general funds for student employees at new or expanded worksites at each University of Hawaii campus.

Education

Your Committee 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 is encouraged by the Department's efforts to achieve the objectives of Act 89, your Committee finds that the Department is still mired in bureaucratic inertia. The Department's responses to your Committee'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 understands that the Department submits its budget in accordance with certain instructions, legislative review and oversight dictate that your Committee asks the mundane and



practical questions to determine what will the funds be used for and whether such use is appropriate under law, rule, or policy.

Your Committee has grave concerns with the Department's ability to monitor and track its resources. Your Committee 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 was informed that it will take some time to compile because such a report is not usually prepared by the Department's budget branch.

Your Committee 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 was advised that the Department has created about a thousand temporary positions, with many continuing from year to year. However, the Department has never reported such positions to the Department of Budget and Finance since the enactment of the law in 1996. Your Committee finds these actions, or lack thereof, disturbing.

Your Committee 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 mundane and practical 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's adjustments to the Department's budget reflect these ongoing concerns.

Your Committee acknowledges that the 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 is hard pressed in finding that the 1:1 digital device per student strategy is the best means of meeting the CCSS assessments.

The Department's plan to roll out an entirely new program with 1:1 digital devices, while having to meet new assessment standards, appears to place an enormous expectation, if not an unfair burden, upon teachers. The schedule of deploying the devices to teachers the first semester and requiring that they undergo professional development training on how to use the devices, while maintaining their normal course work and preparing for the new CCSS assessments, and then deploying the devices to students in the second semester and expecting the students to pass the CCSS assessments, appears to be overly optimistic.

Your Committee is aware that Hawaii is one of twenty-five states in the SMARTER Balanced Assessment consortium of states. Your Committee 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.



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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.

Moreover, as the intent is to phase in the 1:1 digital device per student strategy, some students and their teachers will be unfairly burdened by the imposition of this new strategy while tasked with meeting the new CCSS assessments. Your Committee is concerned that this disparate burden imposed upon some students and teachers, but not others, will be unfairly reflected in the outcome of the CCSS assessments. Accordingly, it appears imprudent for the Department to compound what will already be an important and fundamental change to the State's assessments with an additional set of objectives and requirements stemming from the 1:1 digital device per student strategy.

Accordingly, your Committee 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, and instead your Committee is providing \$5,000,000 in each fiscal year for weighted-student formula (WSF) funding in acknowledgement of costs that may be incurred to prepare students for the CCSS assessments.

As one of the fundamental precepts of Act 89, your Committee maintains that state funds are best spent at the school level under the direction of principals. Your Committee 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 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 would rather apply such federal dollars, in whatever amounts received, to the schools and classrooms.

To this end, your Committee has provided \$10,000,000 in federal funds for each fiscal year for 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 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. This funds ancillary services, not direct classroom instruction. Your Committee



maintains use of federal impact aid funds only for school-based budgeting and special education.

Your Committee acknowledges the Department's efforts to address problems with student transportation services. Your Committee is hopeful 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, 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 rejects this proposal.

In order to engender operational efficiencies, your Committee proposes to cover half of the student transportation shortfall for each fiscal year with \$4,000,000 in general funds; however, your Committee will require that the Department match the funds with funds from the Department's school or state administration program accounts on a 1:1 basis.

The administration's request to increase the WSF general fund appropriation by \$12,857,918 in fiscal year 2013-2014 for enrollment growth and the reduction of \$1,897,428 in fiscal year 2014-2015 due to a change in the kindergarten entrance age only reflects the net adjustments and does not fully reflect the actual budget adjustment that should have occurred given that the Department will not be responsible for the approximately five thousand one hundred students that will no longer be enrolled in kindergarten. Accordingly, your Committee provided \$20,000,000 in fiscal year 2013-2014 and \$25,000,000 in fiscal year 2014-2015 in general funds, and reduced general fund appropriations for fiscal year 2014-2015 by \$20,366,539 to more accurately reflect the reduction for five thousand one hundred junior kindergarten students in the Department's budget requirements in WSF.

Early Learning

Your Committee 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 has provided positions and \$367,000 in



general funds for the Executive Office on Early Learning. However, your Committee 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 this end, your Committee has provided \$1,269,200 for fiscal year 2013-2014 and \$1,653,000 for fiscal year 2014-2015 in general funds to provide for subsidies application and eligibility processing, data systems, and program evaluation. These funds will help to determine the breadth and scope of the demand for services, track the families being served, and allow an evaluation of the program in its early stages. Your Committee has also provided \$22,900,000 for fiscal year 2014-2015 in general funds for contracts for direct services for school readiness to assist families that do seek services.

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 has provided \$1,083,022,254 in fiscal year 2013-2014 and \$1,059,771,305 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 \$6,158.15 per student for fiscal year 2013-2014 and \$6,143.85 for fiscal year 2014-2015.

Your Committee used the charter schools' projected student enrollments of 10,911 for fiscal year 2013-2014 and 11,732 for fiscal year 2014-2015 in its calculation of an appropriate funding level. This projected enrollment reflects the governor's message adjustments and the deferred opening of the Malama Honua Learning Center. Under use of this enrollment figure, the charter schools' general fund appropriations must be \$67,191,620 for fiscal year 2013-2014 and \$72,079,661 for fiscal year 2014-2015 to achieve a per pupil funding amount equal to regular education students. Thus, your Committee has adjusted the executive budget request to add \$3,142,175 in fiscal year 2013-2014 and \$7,782,053 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, given how easily the counts can fluctuate, 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 finds that having the Director of Finance make an appropriate adjustment based upon actual student enrollment will account for any other fluctuations in student enrollment projections.

Libraries

Your Committee finds that services provided by public libraries reach a broad spectrum of the population and are an invaluable public resource. Further, your Committee remains mindful of the need to modernize public services to keep pace with advancements in technology. Accordingly, your Committee agrees with the executive budget request for \$300,000 in general funds to provide for the expansion of service hours and \$500,000 in general funds for the purchase of books, e-book subscriptions, and other circulatory 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 with information regarding the lawsuit. The Committee 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 to fulfill each of the four purposes set out in the 1978 addition to article XII, section 1 of the State Constitution. Your Committee 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, 1920, enacted by Congress (HHCA). Under the HHCA, receipts from general leases are the principal source of funding for the Department of Hawaiian Home Lands' (DHHL) 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 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 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 further 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 does not wish to intrude upon or influence the pending court proceedings. However, your Committee 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 has included \$9,632,000 in general funds for each fiscal year of the next biennium, 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 recognizes the cost-savings and enhanced oversight that can be achieved by producing the CAFR in-house. As such, your Committee 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.

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 and privacy, governance, and shared services. Your Committee recognizes the need to revolutionize information technology within



the State. In support of these efforts, your Committee has provided positions and \$27,341,000 in fiscal year 2013-2014 and \$27,119,110 in fiscal year 2014-2015 in general funds to launch the strategic plan.

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 catastrophic financial losses. Your Committee understands the importance of a comprehensive risk management plan and has provided \$2,700,000 in general funds for property, liability, and crime insurance coverage.

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's ability to modify on a near term basis.

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

Your Committee 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 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 has provided for interdepartmental transfer of \$6,000,000 each year from state agencies to make payments for the ERS unfunded liability attributable to employees spiking their pension benefits. Your Committee has directed the Director of Finance to transfer the funds based upon an assessment.

Your Committee acknowledges the Public Utilities Commission's operational efficiencies despite its limited office space. Your Committee 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 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 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 understands the need for improved safety measures and healthy meal options. Therefore, your Committee 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 recognizes the need for the visual presence of sheriff deputies in public buildings as a deterrent to potential problems. In particular, the presence of sheriff deputies 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 notes that significant safety and security threats were identified throughout public access points for several judiciary facilities. As a result, your Committee has provided positions and \$514,426 in fiscal year 2013-2014 and \$845,299 in fiscal year 2014-2015 in general funds for the provision of security in Oahu, Hawaii, and Maui courts.

Your Committee understands the importance of restoring prison services and returning inmates back 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 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 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 has provided positions and \$3,500,000 in special funds to increase watershed protection throughout the State.

Invasive species are extremely detrimental to Hawaii's native ecosystems and natural resources. Your Committee 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 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 has provided \$1,000,000 in general funds to the Hawaii Invasive Species Council. These funds will be used as part of a competitive funding grant process for invasive species prevention, control, and outreach. In addition, your Committee 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 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 is mindful of the Department's efforts to accommodate the increase in visitors to Hawaii's State Parks, despite limited funding. Therefore, your Committee 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 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 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 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 has provided \$200,000 in general funds to support lifeguard services throughout the State.

Hawaii's State Historic Preservation Division works to preserve Hawaii's rare historical and cultural sites. Your Committee 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 has provided positions and \$122,448 in general funds to support federally required positions, as well as \$62,400 in special funds for the Division to upgrade its computer systems in compliance with federal equipment requirements.

Agriculture

Agriculture is an integral part of Hawaii's economy. Your Committee is aware that the Department of Agriculture's primary responsibilities are to promote agricultural sustainability and protect the State from invasive species. Your Committee is dedicated to promoting self-sufficiency, conserving resources, and preventing the introduction and proliferation of invasive species in the State.

Your Committee recognizes the need to attract farmers and ranchers to ensure a sustainable future for the State's food security. Therefore, your Committee has provided \$1,000,000 in special funds in fiscal year 2014-2015 to attract new farmers and



ranchers by offering low interest rate loans and allowing for the opportunity to enhance Hawaii's locally grown food sources and reduce our dependence on imported food.

Your Committee 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 has provided positions and \$739,995 in fiscal year 2013-2014 and \$1,109,213 in fiscal year 2014-2015 in special funds for Plant, Pest, and Bio Control Programs and \$306,112 in special funds for the Maui Plant Quarantine Inspector Positions, where federal funding was recently reduced. Further, your Committee has provided positions and \$230,808 in special 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 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 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 for the Hawaii fashion industry; \$250,000 for two international trade shows and the Small Business State Trade Export Promotion program, which will receive a federal match of \$1,000,000; \$100,000 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. Your Committee has also provided \$8,000,000 in general funds for the Hawaii Growth Initiative (HI Growth) as an investment in the State's long term economic



stability. These funds are expected to generate one hundred per cent matching funds through private investments that will sustain the program going forward. Your Committee hopes that the Department will be able to achieve its investment goals through HI Growth and succeed in the cultivation and retention of private sector businesses and investors in the local economy.

While the tourism industry continues to grow, your Committee is aware that the State is approaching visitor capacity. However, your Committee 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 has provided \$2,405,000 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 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 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 \$250,000 and \$1,112,664, 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 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 has provided positions in various divisions to support operational efficiency and oversight throughout the Department. Your Committee 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 recognizes the Department of Commerce and Consumer Affairs's role in delivering consumer protection services, including consumer education outreach and commerce regulation. Your Committee is concerned about unlicensed contracting and advocates education as a way to mitigate this concern. As such, your Committee has provided \$306,461 in special funds for the Mortgage Foreclosure Dispute Resolution Program and \$140,000 in trust funds to support consumer education campaigns.

Attorney General

Your Committee 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. Therefore, your Committee has provided positions and \$250,591 in general funds to the Department of the Attorney General Family Law Division to ameliorate the budgetary impact of the newly adjusted DHS reimbursement rate. To better serve the Division, your Committee 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. To this end, your Committee has provided \$145,000 in general funds for relocation costs to Kapolei.

Your Committee recognizes the importance of providing services to victims of crime. Therefore, your Committee has provided \$440,000 in fiscal year 2013-2014 and \$749,959 in fiscal year 2014-2015 in general funds to collect, compile, and disseminate timely and accurate restitution information to victims throughout the State. Your Committee is also cognizant of the fact that a substantial and disproportionate number of serious crimes are committed by repeat offenders. Your Committee 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 has provided \$850,000



in general funds for the Career Criminal Prosecution Program and Victim Witness Program.

Your Committee 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.

Taxation

Your Committee 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 has provided positions and \$1,788,966 in fiscal year 2013-2014 and \$4,277,600 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 understands the significance of managing the State's public airports, commercial harbors, and highways. Your Committee 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 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.

Your Committee recognizes that airports are the primary means for travelers entering the State and that the Honolulu International Airport receives the bulk of incoming overseas travelers. Your Committee is dedicated to ensuring that the initial reception and impression of travelers passing through Hawaii's airports is positive. For this purpose, your Committee 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 understands the significance of identifying and preparing for potential disasters. In support of the Department of Defense's efforts to avert loss of life and destruction caused by landslides, your Committee has provided \$1,000,000 in general funds for land destabilization studies.

Your Committee is aware of the positive impact tuition assistance programs can make for Hawaii National Guard service members. As such, your Committee 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 acknowledges the importance of caring for our veterans. Therefore, your Committee 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 recognizes that prior year reductions have greatly affected the day-to-day operations of the Disability Compensation Division. 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 to reduce the growing backlog of Disability Compensation Division cases and help the Department of Labor and Industrial Relations address these pressing cases for the State. To this end, your Committee has provided positions and \$214,000 in fiscal year 2013-2014 and \$428,000 in fiscal year 2014-2015 in general funds to alleviate the backlog of disability compensation cases.

Your Committee acknowledges the important services provided by the Office of Community Services to Hawaii's vulnerable immigrant and ex-offender populations. Due to the federal budget sequestration, the Department faces significant reductions in its federal funding. Therefore, your Committee has provided \$1,056,118 in general funds for staffing and services to administer New Day Programs in the Office of Community Services and ameliorate the loss of federal funds.



Human Resources Development

Your Committee 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 has provided positions and \$153,540 in fiscal year 2013-2014 and \$278,280 in fiscal year 2014-2015 in general funds to address these deficiencies and alleviate the vacancy backlog throughout the State.

Your Committee is aware of the rising cost and occurrence of workers' compensation claims as well as the Department of Human Resource Development's responsibility to pay such claims to injured state employees as required by state law. To this end, your Committee 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 finds that the State's economic outlook continues to steadily improve. 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. Investment in infrastructure and facilities is crucial for sustained economic growth and job creation. Your Committee also recognizes the need to support a sustained program that will diversify the State's economy, while streamlining government operations in a responsible way.

Your Committee finds that due to responsible fiscal policies implemented by the State over the past two years, as well as strategic investments in capital improvement program projects, your Committee took a more robust approach to the Capital Improvement Program appropriations. Accordingly, your Committee, after carefully considering the current economy along with the proposals, needs, and priorities of the administration and its departments, has provided a total of \$992,512,000 for fiscal year 2013-2014 and \$533,644,000 for fiscal year 2014-2015 for projects funded by general obligation bonds and \$3,035,850,000 in fiscal biennium 2013-2015 for projects funded by all means of financing.



In comparison, the administration's proposed capital improvement program biennium budget, as amended pursuant to governor's messages, provided a total of \$827,189,000 for fiscal year 2013-2014 and \$516,448,000 for fiscal year 2014-2015 for projects funded by general obligation bonds and \$2,763,980,000 in fiscal biennium 2013-2015 for projects funded by all means of financing.

Next, your Committee crafted a capital improvement program budget that focused on funding both critical and significant capital projects that:

- (1) Upgrade and modernize information technology infrastructure, with over \$120,000,000 in funding for the Enterprise IT System and Tax Modernization program, as well as other departmental projects;
- (2) Address critical health, safety, and building code requirements with appropriations to the Department of Health, Hawaii Health Systems Corporation, and the University of Hawaii System;
- (3) Renovate and maintain existing state-owned facilities to reduce general fund expenditures in the future. To this end, your Committee proposes over \$230,000,000 to fund renovations to:
 - (A) The Department of Health's Waimano Ridge facility;
 - (B) Hawaii Health Systems Corporation's network of hospitals; and
 - (C) Hundreds of other projects for the Department of Education, University of Hawaii, Department of Land and Natural Resources, and the Department of Accounting and General Services; and
- (4) Designate appropriations for projects to address future capacity needs and economic growth. To this end, your Committee included:
 - (A) The College of Pharmacy building at University of Hawaii-Hilo, to meet the needs of a growing pharmacy program;



- (B) Renovations and expansion of the Foreign Trade Zone facility;
- (C) Four projects at the University of Hawaii-West Oahu campus; and
- (D) Funding for Ewa Makai Middle School to complete the campus master plan and reduce overcrowding in schools in the Ewa plain.

Your Committee 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 has demonstrated its commitment to transportation projects by appropriating, for fiscal biennium 2013-2015, \$1,200,000,000 for the Department of Transportation, including \$390,000,000 for state highways on every island.

Your Committee recognizes the great need in the State for services provided by non-governmental groups and nonprofit agencies. Therefore, your Committee has appropriated \$27,000,000 for fiscal year 2013-2014 for grants to nonprofit organizations for facilities improvements and expansion. Such assistance is vital, as these nonprofit organizations continue to provide much needed services to our residents.

In addition, your Committee provided funding for various projects within the Department of Transportation, Department of Defense, Department of Agriculture, Department of Health, Department of Education, and the University of Hawaii, among others, to ensure that matching federal, private, and other funds contributions are maximized and not lost or forfeited.

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



VIII. CONCLUSION

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

- (1) \$6,085,598,679 in general funds and \$11,904,318,805 in all means of financing for fiscal year 2013-2014; and
- (2) \$6,204,190,655 in general funds and \$12,152,166,440 in all means of financing for fiscal year 2014-2015.

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 on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 200, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 200, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.

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

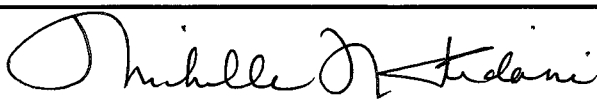


DAVID Y. IGE, Chair



The Senate
Twenty-Seventh Legislature
State of Hawai'i

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:*	Committee Referral:	Date:		
HB200, HD1	WAM	3-27-13		
<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	✓			
KAHELE, Gilbert	✓			
KEITH-AGARAN, Gilbert S.C.	✓			
KOUCHI, Ronald D.	✓			
RUDERMAN, Russell E.	✓			
THIELEN, Laura H.	✓			
TOKUDA, Jill N.	✓			
SLOM, Sam		✓		
TOTAL	12	1	0	0
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
				
Distribution:				
Original File with Committee Report	Yellow Clerk's Office	Pink Drafting Agency	Goldenrod Committee File Copy	

*Only one measure per Record of Votes