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## DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of  
**MIKE MCCARTNEY**  
Director

Department of Business, Economic Development, and Tourism  
before the

**SENATE COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM**

Monday, March 11, 2019  
2:45 PM  
State Capitol, Conference Room #414

In consideration of  
**HB 852 HD1**  
**RELATING TO THE HAWAII STATE ENERGY OFFICE.**

Chair Wakai, Vice Chair Taniguchi, and members of the Committee.

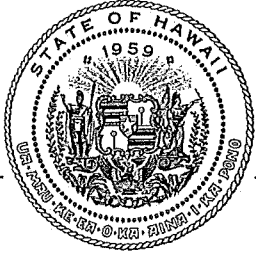
The Department of Business, Economic Development, and Tourism (DBEDT) **offers comments** on HB 852 HD1, which is a vehicle for appropriating funds for the fiscal biennium 2019-2021 operating budget of the Hawaii State Energy Office (BED120).

In response to the Office of the Auditor's recommendations, DBEDT reported on February 28, 2019, that all recommendations have been fully implemented. See attached.

The position amounts and appropriated amounts are unspecified amounts and the special fund source of funding is changed to general funds.

DBEDT respectfully requests that the position amounts for BED120 be restored to 5.00 permanent full-time equivalent and 28.00 temporary full-time equivalent positions in FY19-20 and FY20-21, and that the operating budget for BED120 be restored to \$4,887,258 special funds (MOF B) and \$240,000 trust funds (MOF T) in FY19-20 and FY20-21. HSEO's Energy Security Special Fund, its primary source of funding, will allow for sustainable operations into the future based on adjustments made to planned expenditures.

Thank you for the opportunity to testify.



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ECONOMIC DEVELOPMENT & TOURISM**

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February 28, 2019

Mr. Leslie H. Kondo  
State Auditor  
Office of the Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813

Dear Mr. Kondo:

Subject: Information of Status of Implementation of Audit Recommendations

As requested in your letter dated February 1, 2019, the Department of Business, Economic Development, and Tourism (DBEDT) is providing the status of audit recommendations from Report No. 18-01, Audit of the Hawaii State Energy Office.

**Recommendation 1.a. The Energy Office should establish short-term and long-term financial plans to ensure sustainability.**

**IMPLEMENTED.** HSEO implemented this recommendation. When the audit was initiated in November 2016, the Energy Security Special Fund (ESSF) could sustain the HSEO only through FY2019 based on its rate of spending at that time. As of February 2019, short-term and long-term financial plans show the Energy Office sustained and fully operational through FY2023, after which funding for operations must be reevaluated. With no sunset date for the Environmental Response, Energy, and Food Security Tax (known as the Barrel Tax), the ESSF will continue to receive approximately \$3.8 million in revenue annually. HSEO has made reductions to personnel and other operating expenditures to a more sustainable level. The revised multi-year financial plan for the ESSF is provided as Attachment 1.

**Recommendation 1.b. The Energy Office should reduce operating expenses to a sustainable level.**

**IMPLEMENTED.** HSEO implemented this recommendation. From FY2017 to FY2018, expenditures from the ESSF were reduced by 12 percent. Expenditures for FY2019 are expected to be contained below the FY2018 level. The significant reduction since FY2017 can be attributed to implementation of the following measures:

- Ceasing to use ESSF funds for new projects and programs (and reserving ESSF for personnel and limited operating expenses);
- Not filling vacant positions;

- Adjusting existing contracts for cost savings; and
- Reducing travel and other expenses.

These cost-cutting measures will remain in place through FY2023 and beyond in order to sustain the Energy Office. Factored into the financial plans is the filling of only one vacant ESSF-funded position, the Energy Conservation Program Manager. Funding for projects will be pursued from other sources, such as federal grants and partnerships. Travel will continue to be restricted. The operating expenses for FYs 2019 through 2023 reflect what is necessary to cover salaries and fringe benefits, special fund assessments, and limited administrative expenses.

**Recommendation 1.c. Immediately update its strategic plan.**

**IMPLEMENTED.** HSEO implemented this recommendation. HSEO renewed its strategic planning efforts in March 2017. Led by the Energy Program Administrator, the HSEO leadership team reviewed the Energy Office's mission, vision, goals, objectives, strategies, and action plans. In December 2018, HSEO released the Hawaii State Energy Office Strategic Plan, provided as Attachment 2. The Strategic Plan continues to be updated as action plans are revised to reflect input and collaboration with stakeholders.

**Recommendation 2.a. The Energy Office should also develop and implement robust project management and reporting processes by documenting the justification for initiation of each project, measurable goals, budget and staffing requirements, implementation and execution strategies, and project schedule.**

**IMPLEMENTED.** HSEO implemented this recommendation. Project management processes and procedures were developed and documented. Project Initiation requirements and documentation are included. The Project Management Processes & Procedures are provided as Attachment 3. Implementation is ongoing with refinements and updates as needed.

**Recommendation 2.b. The Energy Office should also develop and implement robust project management and reporting processes by establishing performance measures for all programs and activities.**

**IMPLEMENTED.** HSEO implemented this recommendation. Project management processes and procedures were developed and documented. Performance measures are addressed in all phases of the project management process, from Project Initiation through Closing. The Project Management Processes & Procedures are provided as Attachment 3. Implementation is ongoing with refinements and updates as needed.

**Recommendation 2.c. The Energy Office should also develop and implement robust project management and reporting processes by monitoring the progress and status of programs and activities.**

**IMPLEMENTED.** HSEO implemented this recommendation. Project management processes and procedures were developed and documented. Monitoring & Controlling are included. The Project Management Processes & Procedures are provided as Attachment 3. Implementation is ongoing with refinements and updates as needed.

**Recommendation 2.d. The Energy Office should also develop and implement robust project management and reporting processes by ensuring an analysis of achievements and impacts on the State's clean energy goals upon project completion.**

**IMPLEMENTED.** HSEO implemented this recommendation. Project management processes and procedures were developed and documented. Closing includes a project review to assess whether project goals were met. The Project Management Processes & Procedures are provided as Attachment 3. Implementation is ongoing with refinements and updates as needed.

**Recommendation 2.e. The Energy Office should also develop and implement robust project management and reporting processes by reporting the resultant achievements and impacts in its annual and Act 73 reports clearly and concisely, so that the Legislature and public can evaluate the office's progress toward its goals.**

**IMPLEMENTED.** HSEO implemented this recommendation. The Energy Office's achievements and impacts were reported in a consolidated report beginning in 2017.

- *Energy Resources Coordinator's Report on the Status and Progress of Clean Energy Initiatives and the Energy Security Special Fund, December 2017*
- *Energy Resources Coordinator's Report on the Status and Progress of Clean Energy Initiatives and the Energy Security Special Fund, December 2018*

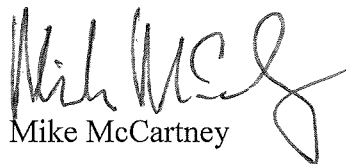
**Recommendation 2.f. The Energy Office should also develop and implement robust project management and reporting processes by establishing written policies and procedures that all program staff are to follow.**

**IMPLEMENTED.** HSEO implemented this recommendation. The Project Management Processes & Procedures are provided as Attachment 3. Staff training on the processes and procedures is ongoing with refinements and updates as needed.

HSEO remains committed to advancing Hawaii's clean energy goals. The vision for a clean energy future requires a resolute push for policies and actions that encourage progress to maximize energy efficiency and the integration of cost-effective investments in clean energy production and management for promoting Hawaii's energy security. HSEO is continually evaluating its strategies for impacting the State's energy self-sufficiency and security.

Thank you for this opportunity to provide the status of the audit recommendations.

With aloha,

  
Mike McCartney