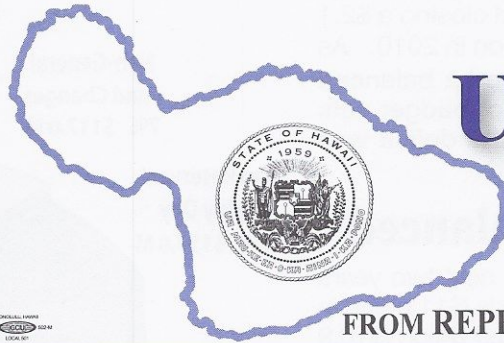


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UPCOUNTRY UPDATE

2011 LEGISLATIVE SESSION
FROM REPRESENTATIVE KYLE YAMASHITA

Aloha Friends,

As we head into the second half of 2011, I see positive signs that our economy is improving. This is not a signal to revert back to old spending habits, but a challenge to work within the state's means and reduced size. As we rebound, I believe we need the discipline to build reserves for future and inevitable economic downturns.

After closing a \$2.1 billion deficit in 2009 and a \$1.2 billion deficit in 2010, lawmakers faced another \$1.3 billion deficit in 2011. In all three years, about half the deficit was resolved by making very difficult budget cuts. Considering that the total general fund budget for the state is around \$5 billion, state agencies have taken a significant reduction in positions, programs and services.

The other half of the deficit was resolved through increases in various fees and taxes. For the future, I support a thorough review of our state taxes by the tax review commission and any independent body in order to structure our tax system fairly and to better position our state for growth.

We were able to balance the budget without raising the general excise tax which would have impacted every resident and business in the state. Additionally, we restored working days for state employees by eliminating furloughs which ended up causing great confusion, inconvenience and hardship for the public.

During the interim, I look forward to spending more time in the community, preparing for next session, and working on important issues that affect our state and Maui residents.

Kyle T. Yamashita

Crafting The CIP

As a Finance Committee member, Rep. Yamashita was assigned in 2010 to oversee and coordinate the Capital Improvement Project (CIP) process on behalf of the House of Representatives. He continued in that position for the 2011 session.

CIP are government funded construction, repair and maintenance projects for all public facilities, such as schools, roads, airports, harbors, health centers, prisons, etc. The legislature, through the budgeting process, reviews the infrastructure needs and appropriates funds by priority for both statewide and district projects.

Capital improvements are financed through other means and are not part of the operating budget. The majority of CIP are financed through general obligation bonds authorized and issued by the state, on which the state must pay a debt service over time. There is a ceiling on how much the state can borrow so new projects are carefully prioritized. CIP are also funded through special funds and federal funds.

Each member of the House maintains a list of CIP priorities for their district. Rep. Yamashita reviews the priorities and considers if the project is required for health and safety purposes and operational needs. Another consideration is whether the project is close to being "shovel-ready" to more quickly benefit the community.

A final list is compiled by the House and Senate of approved CIP for the full House and Senate to vote upon. After the funds have been appropriated by the legislature, it must be allocated and released by the Governor before the project(s) can be started.

The investment in our state infrastructure helps our local economy through the creation of new jobs and increased spending within the state. CIP is crucial to the state's efforts to stimulate our economy as we recover from a difficult recession.

During the 2011 session, we had a "Pet Project" drive to benefit animals at various pet shelters.





2011 LEGISLATIVE SE

At the start of the session, the primary challenge of the legislature was how to rectify a \$1.3 billion deficit (over the period including the current FY11 and the next biennium FY12 and FY13), after facing and closing a \$2.1 billion deficit in 2009 and another \$1.2 billion in 2010. As in 2009 and 2010, the legislature achieved a balanced budget this year through a combination of budget cuts and increasing revenue. About half of the deficit was closed by making cuts to the state budget.

How the Budget Was Balanced

HB200 State budget bill - Covers the next two years and appropriates \$5.4 billion in General Funds (\$11 billion in All Means of Financing) for FY2012, and \$5.5 billion (\$10.9 billion in All MOF) for FY2013. In order to solve a projected deficit of about \$1.0 billion over the next biennium, the legislature made over \$600 million in cuts and passed revenue generating or transfers bills totaling over \$600 million (the financial plan leaves a healthy projected surplus in case revenue projections fall again).

Included in the cuts are labor savings of \$88.2 million in each year of the biennium on the assumption that most state workers will take a 5% pay cut.

HB575 Extension of salary cuts which extended a 5% pay cut for state legislators, judges, the governor, lieutenant governor, and department heads and deputies.

Revenue generation bills include:

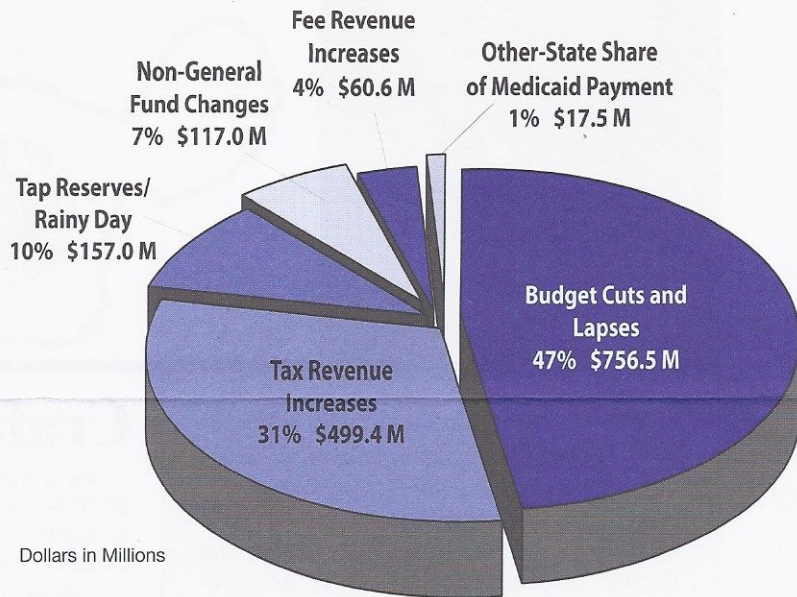
SB120 Non-general fund transfers - Transfers \$38 million from special funds to the general fund.

SB570 Tax deduction - Eliminates the deduction for state taxes paid for high income individuals, temporarily limits itemized deductions for high income individuals, and delays the standard deduction increase for low-income filers. Generates \$113.5 million.



Visited the Hawaii State Civil Defense headquarters at Diamond Head.

2011 Regular Session



Deficit \$1.3 Billion — Solutions \$1.6 Billion

SB754 Repeal GET exemptions - Repeals various GET business exemptions for 2 years. Generates \$385.8 million.

SB1186 TAT and HTA Cap - Caps the counties' share of the Transient Accommodations Tax (TAT) until 2015 generating \$40.4 million. Caps the TAT going to the Hawaii Tourism Authority generating \$34.9 million.

HB1039 Rental Vehicle Surcharge - Increases the rental vehicle surcharge for one year and diverts the increase to the General Fund for FY12 only. Generates \$60 million for FY12.

Capital Improvements (CIP) - The budget bill includes an investment in local infrastructure, mostly through the issuance of general obligation (GO) bonds, to help stimulate job creation through the construction industry and to ensure that state facilities are properly maintained. Total appropriations (all means of financing) for CIP projects are \$1.8 billion in FY12 and \$1.0 billion in FY13 (of those totals, GO bond appropriations are \$1.0 billion in FY12 and \$412 million in FY13). The CIP budget funds:

\$816 million for Department of Transportation projects - Airports, Highways and Harbors

\$328 million for Department of Education projects, including charter schools and public libraries

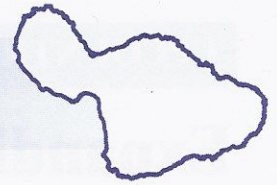
\$174 million for the University of Hawaii system

\$149 million for the Department of Health and the state hospital system through the Hawaii Health Systems Corporation

\$7.8 million to repair and reconstruct infrastructure due to tsunami damage

\$20 million for various grants to nonprofit organizations

SESSION HIGHLIGHTS



Exploratory Water Well for Upcountry Water System

Good news on the Upcountry Maui water system. The State has released \$150,000 in general obligation bonds for the planning and design of an exploratory water well and other improvements as a supplement to the existing water system. The current system has reached its capacity and cannot accommodate current needs. This additional water source will help our district with its water demands.

The funding includes \$50,000 for planning and \$100,000 for the design of the well. The project will be administered through the Department of Land and Natural Resources (DLNR). DLNR has selected a consultant, Akinaka and Associates, and will be meeting with them shortly. In addition, the legislature approved \$2.5 million in construction funds for the exploratory well project in the 2012 state capital improvement project budget. DLNR will be working closely with the Maui Department of Water Supply to locate and select a site for the well.

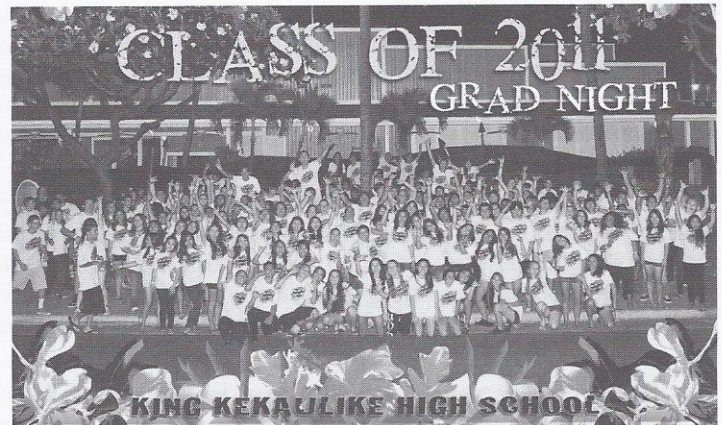
Protecting Consumers and Business

HB 519 Workers' Compensation. Excludes services performed by an individual who is a member of a limited liability company or a partner of a limited liability partnership who has a distributional interest in the company or partnership of at least fifty percent, a partner of a partnership, and a sole proprietor from the definition of "employment" under the workers' compensation law. Introduced by Rep. Yamashita, HB519 became Act 196 on July 7th.

HB555 Graffiti. Requires a person convicted of criminal property damage by graffiti to remove graffiti from property within two hundred fifty yards of the site of the offense, if the property owner consents and the act of removal does not endanger the person or others nor inconvenience the public. Allows the court to require the person to perform one hundred hours of community service in lieu of removing the graffiti.

Improving Education

SB8 Appointed BOE. Implements the constitutional amendment passed by voters in 2010 requiring that the Board of Education members be appointed by the governor with the advice and consent of the Senate. Allows the governor to nominate candidates directly and requires those nominees to meet certain qualifications.



Congratulations to the King Kekaulike High School Class of 2011.

HB945 Student instructional time. Implements the minimum school year and student instructional hours requirements passed last session in a feasible and fiscally responsible way. Exempts multi-track schools from the requirement, staggers the implementation of the student instructional hours requirements, permits waivers, and requires the DOE to assess the ability of schools to comply.

Promoting Renewable Energy

SB181 Photovoltaic for single family homes. Establishes a working group to determine the feasibility of requiring all new residential single family construction to incorporate the design and minimum installation equipment needed for future adoption of a photovoltaic system.

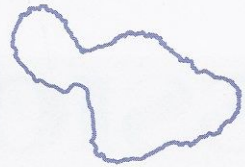
Protecting the Environment

HB865 Invasive species. Provides the state with increased revenue to detect, quarantine and eradicate invasive species. Signed into law as Act 36, the measure raises inspection fees from 50 cents to 75 cents per 1,000 pounds of freight, or part thereof, brought into the state.

HB 1568 Biosecurity and Inspection Facilities. Requires the Department of Transportation (DOT) to coordinate with the Department of Agriculture (DOA) to facilitate inspections of imported and exported agriculture and other inspected commodities at airports. Requires the DOT to provide space at commercial harbors for biosecurity and inspection facilities and requires the DOT and DOA to design and construct biosecurity and inspection facilities for the DOA at harbors.



Attended a cattle branding event in Kaupo.



Expanding Broadband

Keeping up with cutting edge technology is crucial to Hawaii's ability to compete and to grow our state economy. Rep. Yamashita, who authorized and served on the Hawaii Broadband Task Force, has been instrumental in pushing forward Hawaii's efforts to acquire statewide access to broadband, or ultra high-speed Internet access.

In 2011, Rep. Yamashita introduced HB1342 which would help expand broadband technology so that businesses, organizations, educational institutions and private citizens will be able to utilize a higher level of Internet services and improve connectivity at higher speed and capacity.

The bill passed the legislature and Governor Abercrombie has signed it into law, effective July 1, 2011. The new law exempts certain broadband infrastructure improvements from state or county permitting requirements for five years. It exempts telecommunications companies from replacing utility poles when installing or improving telecommunications cables. It also requires the Director of the Department of Commerce and Consumer Affairs to oversee the exemption period and submit a report to the legislature by 2016 and to make broadband infrastructure investment recommendations for the future.

The ambitious goal is to bring Hawaii to 1 gigabit upstream and downstream service to 95% of our state and using advanced wireless solution for the remaining 5% within 10 years.



Celebrating with Governor Abercrombie signing HB1342 as Act 151 on June 21, 2011.

Upcountry Capital Improvement Projects for Fiscal Year 2011-2012

- Upcountry Maui Watershed Project \$6,000,000**
Land acquisition, design, construction for installation of pipeline. Project qualifies for federal aid.
- Haleakala, Maui \$1,500,000**
Replace/upgrade existing tower, new power building generator system and AC.
- Makawao Veterans Cemetery \$1,667,036**
Upgrade and improvements.
- Makawao Veterans Cemetery \$5,300,000**
Land acquisition and expansion of existing cemetery.
- Kula Elementary School \$35,678**
Renovate restrooms.
- King Kekaulike High School \$1,950,000**
Design, construction for new auditorium.
- Kula Hospital \$2,505,000**
Elevator upgrades, new call system.
- Makawao Waterline Improvements \$819,339**
Ai Street, Kehau, Mole & Malu Place.
- Omaopio Road \$1,286,334**
Tank replacement.
- Kamole Water Treatment Plant \$6,339,977**
High Lift Pumps.
- Kula Forest Reserve \$1,325,000**
Emergency Flood Response.
- Upcountry Water Well \$2,500,000**
Construction of a test well as 1st phase in the construction of a ground water well to supplement the surface water system.
- Old Haleakala Highway \$1,000,000**
Sidewalk.
- Haleakala Highway \$1,500,000**
Construction to install right turn lane on west-bound on Haleakala Highway, sidewalk, pave shoulder. To improve traffic flow at King Kekaulike High School.

Other Maui Capital Improvement Projects for Fiscal Year 2011-2012

- Kahului Harbor \$48,400,000**
Plan, design, construction of a protruding pier structure for fuel transfer. To reduce the cost of petroleum.
- Hale Hooluolu Hospice Facility \$500,000**
(Grant In Aid) Plan, land acquisition, design, construction of 12 bed hospice center.
- Easter Seals, Maui \$950,000**
(Grant In Aid) Plan, design, construction for improvements to campus on Maui.
- Central Maui Regional Park \$9,000,000**
Plans, land acquisition, design, construction of a regional park.
- Kahului Airport \$38,120,000**
Re-roof terminal building, improvement passenger information system, loading bridge, terminal improvements, land acquisition for parcel near airport.
- University of Hawaii Maui College \$4,501,000**
Construction, equipment, for renovation of original science building to house allied health programs.

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