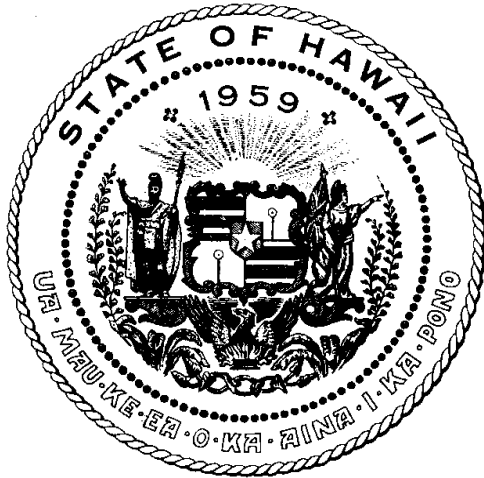


THE HAWAII SENATE MINORITY ALTERNATIVE BIENNIUM BUDGET

For the Fiscal Years 2014-2015



A BLUEPRINT TO FISCAL SUSTAINABILITY AND ECONOMIC PROSPERITY

27TH LEGISLATURE OF THE STATE OF HAWAII
April 3rd, 2013

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A BLUEPRINT TO FISCAL SUSTAINABILITY AND ECONOMIC PROSPERITY

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Link to Budget Worksheets: <http://senateminority.wordpress.com/issues/budget/>

Foreword

Article VII of the State of Hawaii Constitution grants the legislature the authority to raise revenues and appropriate funds for public purposes.

In each regular session of an odd-numbered year, the legislature submits a budget in the form of a general appropriation bill representing the state's operating and capital improvement plan for the upcoming two fiscal years, also known as the fiscal biennium. During each regular session in an even-numbered year the legislature is able to amend any appropriated expenditures through the enactment of a supplemental budget bill.

In addition to the appropriations powers, the state constitution also contains a general fund expenditure ceiling and debt limitation provision, as well as a requirement that the budget be based on the Council of Revenues projections of state revenue.

To supplement the constitutional provisions, The Executive Budget Act of 1970 requires the submission of separate budgets for the Judicial and Legislative branches of government, as well as the Office of Hawaiian Affairs.

The Senate Minority Alternative Budget is submitted in compliance with the state constitution and builds upon last year's supplemental budget that was enacted in the form of Act 106/12, Act 107/12, and Act 5/12. The proposed budget only includes the operating expenditures of the legislative, executive, and judicial branches as well as the Office of Hawaiian Affairs. Capital improvement projects are not included in this budget.

Committed to the principles enshrined in the U.S. Constitution – liberty, limited government, and equality under the rule of law – this budget seeks to guide the state's policies by those principles, freeing it from an unsustainable spending history and debt burden that is threatening the future of Hawaii's residents.

This document only provides details on the proposed operating appropriations for the executive branch. Additional details about the judicial and legislative branches and the Office of Hawaiian Affairs are provided in the budget worksheets, which can be accessed at <http://senateminority.wordpress.com/issues/budget/>.

Message from the Senate Minority Leader

The Senate Minority Alternative Budget represents a bold agenda for reform that puts Hawaii on a more sustainable path. The economic competitiveness of our state can only be enhanced if we make our state government less expensive, and more effective, for our taxpayers and small businesses.

The budget proposes a long-term solution to address the state's problem with the unfunded pension liabilities. Over the last two decades, state retirement costs have more than doubled and the gap between promised benefits and what we have to pay for those benefits has tripled to \$19 billion today. Hawaii taxpayers are already spending nearly 40 cents out of every dollar on debt and retirement benefits payments, and if both the costs for debt and retirement benefits continue on the current path, Hawaii taxpayers will spend more than 50 percent on non-service related expenditures by the end of the decade.



The path that we are on is unsustainable, and if we don't act now to reform our state government, then we will be forced to choose among several unacceptable options: break our promises to our state workers, default on our debt payments, be forced to cut critical services, or saddle future generations with our debt and higher taxes. That's not the future we want for Hawaii, and we must act now to alleviate our state from its spending and debt problem.

This budget reflects the responsible approach we must take to begin to get the growing spending and debt problem of our state under control. For our budget, we have identified duplicate and low impact programs that save Hawaii's taxpayers \$96 million. In addition, we have also used strategies such as removing budgeted vacant positions and prioritizing and consolidating programs to streamline government while protecting critical services for our taxpayers. As a result of these initiatives, the proposed biennium budget calls for a reduction of 1,052 full-time executive branch positions and a \$300 million cut in general fund appropriations. These strategies for targeted cuts have allowed us to find enough funds for critical investments to upgrade our state's outdated information technology system. Investments in our information technology system will create a more efficient and transparent government and are therefore prioritized in this budget.

Today, the fiscal challenges that our state faces provides an opportunity to position Hawaii for long-term success. However, we must have the wisdom and courage to make the tough choices that are needed to put us on a more sustainable path. As the Governor proposes to create a "new day" for Hawaii, we at the Senate Minority are committed to create a "better day" for our state. This budget proposal is a critical step towards that goal.

A handwritten signature in black ink, appearing to read "Sam Slom". The signature is fluid and cursive, with a large initial "S" and "M".

State Senator Sam Slom
Senate Minority Leader
March, 2013

Fiscal Outlook

The 2011 credit rating downgrade of Hawaii’s general obligation bonds should be viewed as a tipping point in Hawaii’s ultimate path towards bankruptcy. Despite the loss of confidence that investors have in our ability to pay off our state’s debt and unfunded retirement benefit liabilities, the legislature has put Hawaii’s taxpayers and small businesses at jeopardy by ignoring our fiscal problems and enacting a platform of more unsustainable spending and excessive borrowing.

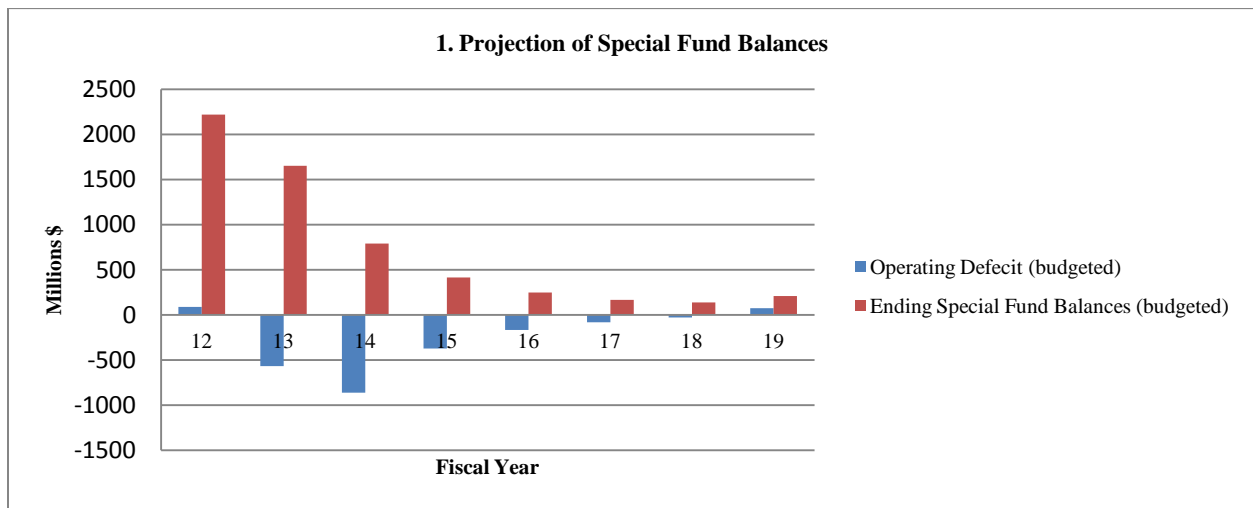
The Hawaii Senate Minority Alternative Budget proposes an alternative pathway that is based on simple, yet proven effective fiscal policies that will improve our business climate, grow our economy, and diminish the growing debt burden for our hardworking taxpayers and small businesses.

1. LIMIT THE GROWTH OF GOVERNMENT BY PRIORITIZING SPENDING

No new special funds!

The term special funds refer to sources of revenues that are set aside by law for specific earmarked purposes. The creation of special funds is troublesome, because appropriations that are made out of special funds are not subject to an equivalent level of legislative scrutiny as those appropriations from the general fund. In addition, most special funds are not used for the purpose they were established for and ultimately are “raided” by the legislature for other purposes in the general fund. Today, almost 25 percent of the state operating budget consists of special funds, which means that funding decisions on a significant proportion of our state operating budget are not subject to the regular standards of legislative scrutiny. In addition to the lack of oversight, it is also important to note that the special funds appropriations are also not subject to the constitutional general fund expenditure ceiling, which means less control to constrain the excessive spending addiction of the legislature.

Because of poor oversight and a lack of transparency, the special fund balances are currently projected to run structural operating deficits throughout the next decade, which means higher taxes and fees for our taxpayers and small businesses!

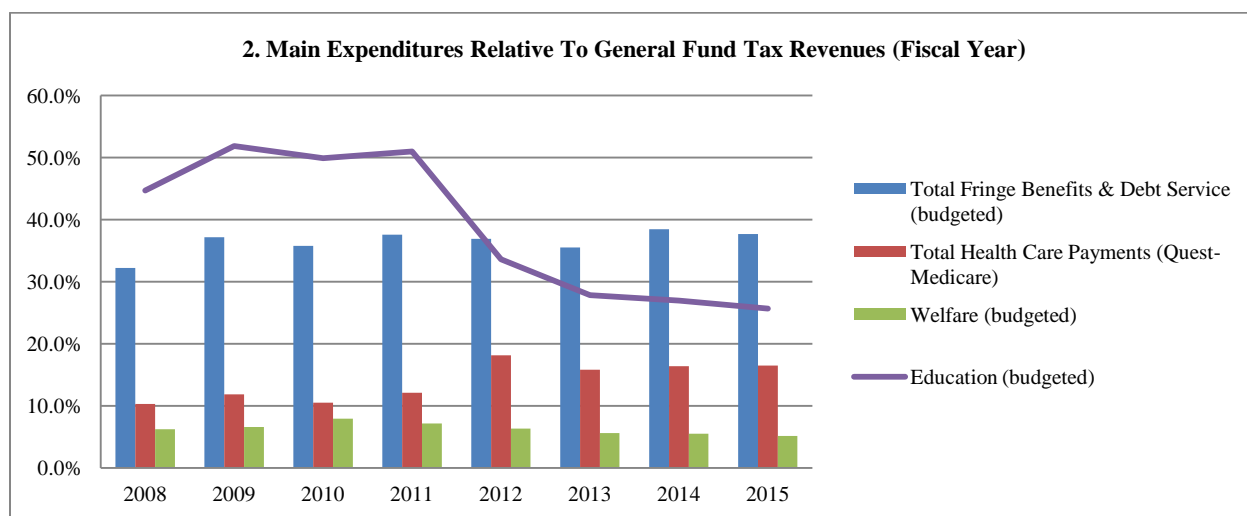


Source: State of Hawaii Executive Biennium Budget FY 14-15

More money is being spent on debt payments and health care as opposed to education

During the last five years, spending for education has declined while spending for debt service and retirement benefits for state workers have increased significantly. Today, out of every tax dollar, 26 cents is spent on education, while 38 cents is spent on debt service and retirement benefits.

In addition to the high proportion of debt service and retirement benefit payments, the share of federally mandated health care payments (Medicare) has also increased substantially, which means that more and more of taxpayer's money is being spent on non-service related programs which have no direct benefits to our state's taxpayers.



Source: Executive Budgets FY 2008-2015 (budgeted amounts)

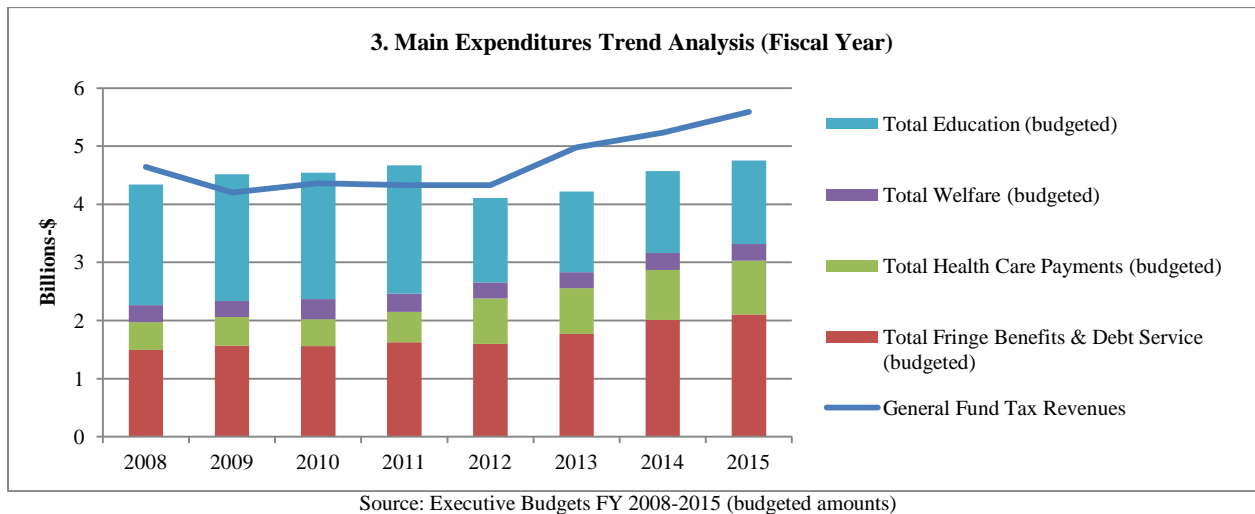
The growing share of non-discretionary expenditures makes budgeting more challenging

From a budgeting perspective, the growing share of mandated health care payments, retirement benefits and debt service, which are also referred to as non-discretionary expenditures¹ or “fixed-costs,” is alarming.

Today, 70 percent² of the budget consists of non-discretionary expenditures, which is troublesome because it provides the legislature with less flexibility to control the growth of those expenditures. Although the legislature has no ability to amend federal mandates or to control the rapid pace of healthcare inflation, it does have the ability to reduce the proportion of future debt service payments by simply borrowing less money today.

¹ Non-Discretionary Expenditures are restricted expenditures that are not completely controllable by the legislature.

² Source: State of Hawaii Executive Biennial Budget FY 14-15.



The constitutional debt-ceiling does not protect us from our growing unfunded pension liability

On average, the legislature borrows \$1 billion³ each biennium by issuing general obligation bonds to pay for various statewide infrastructure projects. Since general obligation bonds are generally paid off over a period of 20 plus years, the debt that the state incurs today will be paid off by future generations. To prevent “excessive borrowing” by the legislature, the state constitution contains a debt-ceiling⁴ which caps the interest and principal payment on general obligation bonds to 18.5 percent of the general fund.

The problem with our constitutional debt limit is that it does not provide any safeguards that protect taxpayers from the state’s growing unfunded pension liability. To put this problem into perspective, the state’s debt of \$5.4 billion in total outstanding general obligation bonds is significantly less than the \$8.8 billion unfunded pension liability.

From an economic and fiscal perspective, debt and pension payments are identical, since both obligations are backed by the state’s constitutional taxing powers. In other words, taxpayers are responsible for both debt service and pension payments, regardless of the state’s payment capacity. The problem is, however, that the state constitution only accounts for debt payments and completely ignores pension payments, which contribute to the legislature’s continued spending and borrowing addiction.

“Do more with less”

The current fiscal landscape has changed dramatically with not only taxpayers, but also credit rating agencies and the Government Accounting Standards Board (GASB)⁵, demanding state governments “to do more with less.”

The only solution to survive in today’s fiscally uncertain but more demanding landscape, without imposing any additional taxes on our already overburdened taxpayers, is to reduce the size of government by cutting spending. In order to constrain the legislature’s spending addiction and to bring Hawaii back

³ Average for the proposed biennial executive budgets FY09-15.

⁴ Hawaii State Constitution, Article 7, Section 13.

⁵ The GASB is the source of the generally accepted accounting principles used by State and Local governments.

on a path towards fiscal sustainability and economic prosperity, the Senate Minority provides the following policy solutions:

i. Limit the growth of discretionary programs to inflation only:

The current fiscal growth rate of the state's general fund is determined by the constitution, and capped to the three year average of the state's projected personal income growth. This general fund expenditure ceiling⁶ does not account for the state's current deteriorating fiscal condition and needs to be amended in order to prevent further tax increases. The 10 year compounded average annual growth rate for personal income is 5 percent, which includes 3 percent inflation. By capping the general fund ceiling to inflation only, government spending growth will gradually decline with an average of 2 percent annually. This will constrain the growth of government and could save the state's taxpayers more than \$100 million annually, which could instead be used to pay off our growing debt and unfunded retirement benefit liabilities.

ii. Include mandatory pension payments in the state's constitutional debt limit:

Including mandatory pension payments in the state's constitutional debt limit will effectively limit the legislature's authority to borrow more money and therefore reduce the proportion of future debt service payments, which are non-discretionary expenditures. Currently, an unsustainable amount of 37 percent of the general fund is spent on debt service and retirement benefits for state workers. To prevent the legislature from passing our debt onto future generations, the proportion of debt service payments will have to be reduced.

2. PROTECT OUR CREDIT RATING BY PAYING OUR UNFUNDED LIABILITIES

Although the state has promised pension and health care benefits to state workers, the legislature has over time failed to provide adequate funding for both the Employment Retirement System (ERS) and the Employer Union Health benefit Trust Fund (EUTF).

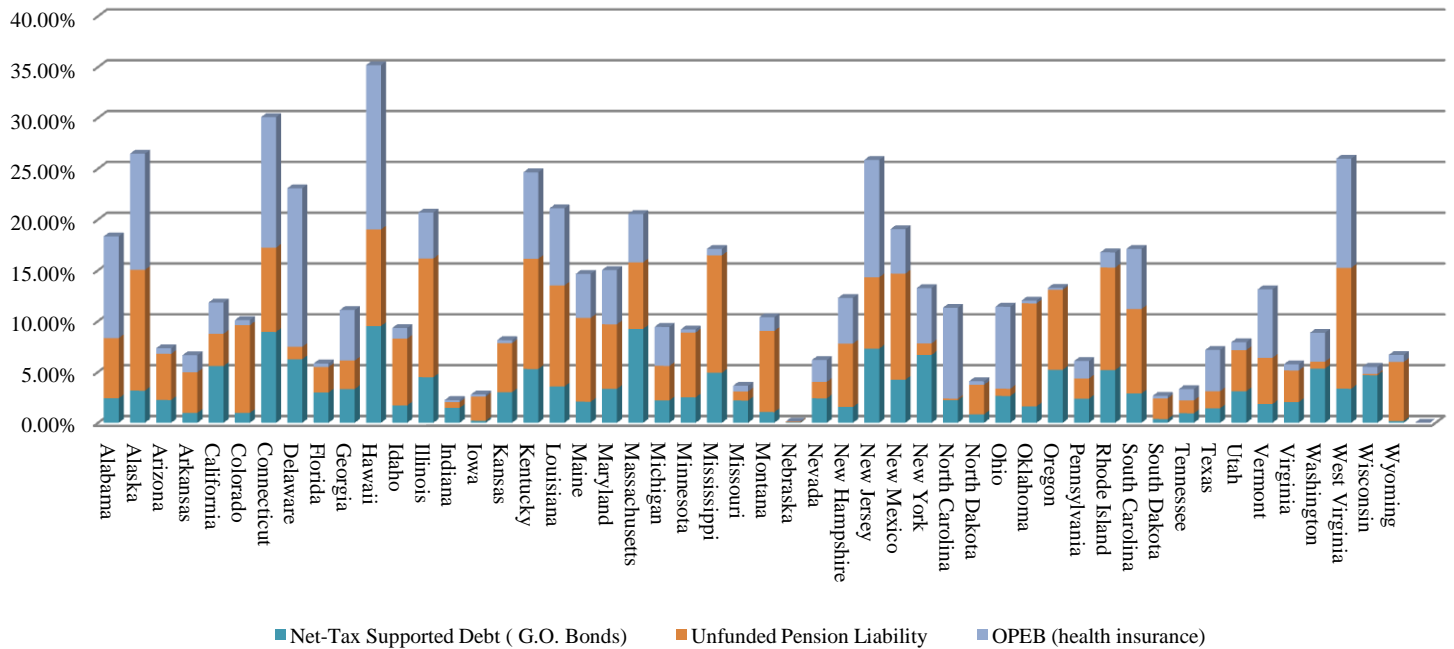
Instead of paying for the annual costs of both plans, the legislature has made it a habit to pass today's pension and health care benefits payments onto future generations, leaving tomorrow's taxpayers with accumulated unfunded retirement benefit liability of \$19 billion.⁷ Today, Hawaii's general obligation bonds still hold a relatively high grade investment. However if we want to protect our credit rating, we can no longer afford to ignore the underlying causes of our fiscal imbalances.

Credit rating agencies primarily base their judgment on the default risk of debt relative to other states. Hawaii's proportion of net tax supported debt and unfunded retirement benefits are significantly larger in comparison to other states. If we ignore these facts and continue to pass our debt and unfunded retirement benefit liabilities onto future generations, our relative share of total debt and unfunded retirement benefit liabilities will far outgrow that of any other state, which will result in a further downgrade of our credit rating and accelerate Hawaii's devastating path towards bankruptcy.

⁶ Hawaii Constitution, Article 7, Section 9.

⁷ Includes both the UAAL for the Other Post Employment Benefits (OPEB) (EUTF:\$11.3B) and the pension (ERS: \$8.4B); both based on FY 12 actuarial valuations.

4. Total Debt & Unfunded Liabilities Relative to Personal Income (2009)

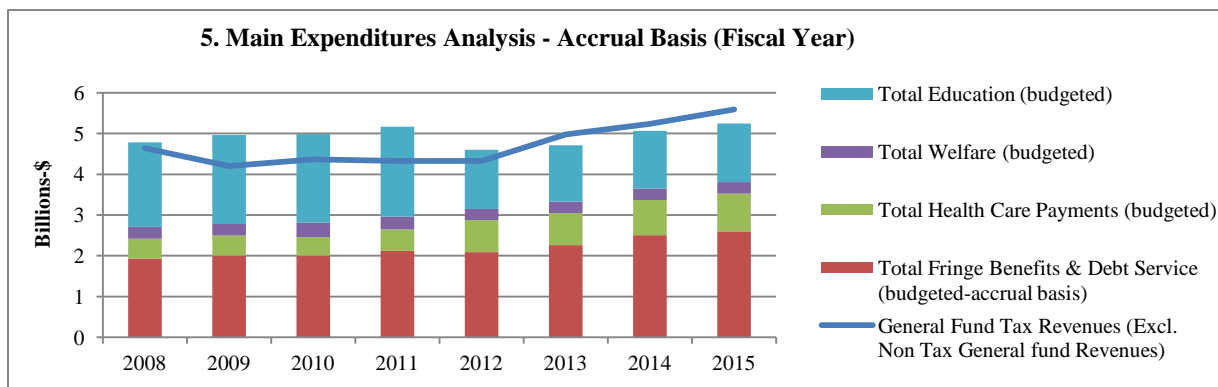


Source: S&P (Net-Tax Supported Debt) and Unfunded Pension Liability; Moody's (OPEB)⁸

Hawaii is not bankrupt....yet

From an accrual based accounting perspective, which recognizes the required payments that the state will have to set aside to pay for future retirement benefits, the state will be required to set aside \$500⁹ million each year for the next 30 years in order to prefund the post employment retirement benefits for state workers. As a result of the record-high year for the tourism industry, the state is able to afford this required contribution. However, we cannot assume that the tourism industry will continue to grow at its current pace. Therefore, we cannot also assume that the state's general fund revenues will continue to grow at the projected growth rates. This means that we will be able to pay only for our current obligations granted we don't add any more government programs and spending!

5. Main Expenditures Analysis - Accrual Basis (Fiscal Year)



Source: Executive Budgets FY 2008-2015 (budgeted amounts)

⁸ Hawaii is the only state that appropriates funds for education. In other states, funding for education is provided at the municipal level. Because of this policy difference, Hawaii's debt and retirement benefit payments are relatively inflated in comparison to other states, because the debt and retirement benefit payments for the department of education is not included in the financial statements of other states. Adjusted for the department of education's share of debt and retirement payments, Hawaii's relative total debt and unfunded liabilities share is 21.9 percent, which is still significantly higher than the 11.84 percent statewide average.

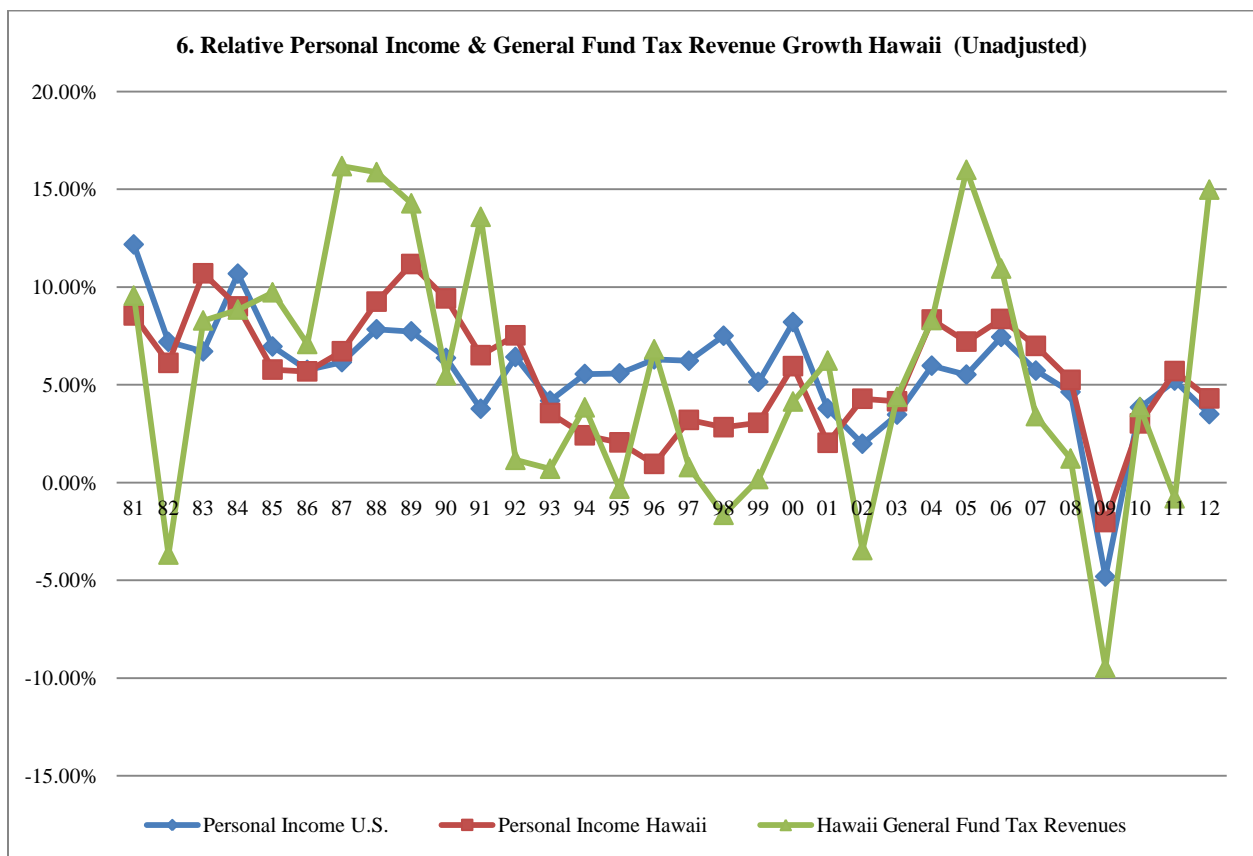
⁹ EUTF Annual Required Contribution (ARC) based on FY12 actuarial valuation.

3. PREPARE FOR A RAINY DAY

During the last decade, the legislature has made it a habit to raid our rainy day funds in order to pay for the state’s operating expenses. Because of this fiscally irresponsible practice, our budget reserves are completely depleted, which means that we are not prepared for any upcoming recessions¹⁰ or unpredictable potential events such as the “Inouye Cliff”¹¹.

Our current budget reserves are depleted

To put this problem into perspective, today our combined balance of the *Hawaii Hurricane Relief Fund* and the *Emergency Budget Reserve Fund* account for \$47 million¹², which is less than 1 percent of our entire general fund. Although our general fund tax revenues are projected to grow significantly throughout the next two fiscal years, the growth rates are unsustainable and therefore the recapitalization of our budget reserves should be prioritized so we are adequately prepared for a rainy day.



¹⁰ In an average recession, general fund revenues have historically decreased by 5 percent.

¹¹ The “Inouye Cliff” refers to the potential loss of federal grants (\$200-400 million) due to the passing of US Senator Inouye.

¹² Department of Budget and Finance (FY 12). *Reports to the Legislature: Non-General Fund Reports*.

Budget Comparison Tables

1. A Contrast in Visions

| | The Governor's Budget | The Senate Minority Alternative Budget |
|--|---|--|
| Spending | According to the Tax Review Commission's general fund projection, the state has a projected structural accrual budget deficit of \$828 million (FY14) and \$1,142 million (FY15). ¹³ The Governor's Budget does nothing to alleviate this problem and instead adds \$160 million of discretionary general fund appropriations. The proposed Governor's Budget increases total spending by \$870 million. | Cuts \$300 million of discretionary general fund appropriations. Has \$1.6 billion less appropriations (biennium) in comparison to the proposed Governor's Budget. |
| Taxes and Fees | Transfers \$112 million of new taxes and fee increases into various special funds. | Adds no new special funds and no new tax or fee increases. |
| Unfunded Retirement Benefits Liability | Adds an additional \$100 million to pre-fund the EUTF, which is only a drop in the bucket, as it represents 20 percent of the required contribution. Without any spending cuts, taxes will most likely have to increase by 11 percent, which represents an additional tax burden of \$1,288 per household. ¹⁴ | Proposes to cap discretionary spending to inflation and includes pension payments into the constitutional debt limit. Both policy changes will constrain the growth of government spending and provide a sustainable long-term solution to our unfunded pension benefit liability problem without raising any taxes. |
| Collective Bargaining | Proposes 5% across the board pay increase for all state workers with a total price tag of \$177 million (biennium). | Does not include any pay raises for state workers. |
| New Positions | Adds 499 new full-time positions. | Cuts 1,052 permanent full-time positions and saves taxpayers \$83 million in budgeted positions that have been vacant prior to Dec 31, 2011. |
| Governor's Initiatives: | | |
| Early Childhood Initiative | Appropriates \$35 million in general funds, which is expected to grow to \$170 million in additional annual spending over a ten year period. | Opposes the Early Childhood Initiative and saves taxpayers hundreds of millions of dollars in unsustainable spending. |
| Hawaii Growth Initiative | Appropriates \$20 million of investment capital to support high tech startups. | Hawaii taxpayers have already lost \$1 billion in tax revenues as a result of the failed high-tech tax credits. The state has tried to develop a high tech industry before. It did not work then, so why would the outcome for this initiative be any different? |
| Enterprise Resource Planning (ERP) Initiative | Appropriates \$100 million for the ERP and Tax Modernization Projects. | Supports the Governor's ERP Initiative as it promotes a more efficient government. |
| Food, Agriculture and Watershed Initiative | Adds \$17 million as part of the food self-sufficiency strategy, \$2 million for a farmer loan program and \$8 million for watershed protection. | Opposes all these initiatives, because they are all funded by tax and fee increases, primarily by the proposed increase in the conveyance tax. |

¹³ Hawaii Tax Review Commission 2012.

¹⁴ Healey et al. (2012). "Underfunded Public Pensions in the United States: The Size of the Problem, the Obstacles to Reform and the Path Forward." *Harvard Kennedy School*.

2. Comparison with House Budget (HB 200)

| Means of Financing | House Budget (HB 200) | | The Senate Minority Alternative Budget | | Over/Under House Budget | |
|-----------------------------|-----------------------|-----------------------|--|-----------------------|-------------------------|--------------|
| | FY14 | FY 15 | FY14 | FY 15 | Total Biennium | |
| General Funds | 5,974,441,097 | 6,068,234,460 | 5,598,503,188 | 5,691,659,705 | (752,512,664) | -6.2% |
| Special Funds | 2,861,110,455 | 2,909,563,665 | 2,750,898,236 | 2,769,152,773 | (250,623,111) | -4.3% |
| Federal Funds | 2,018,381,511 | 1,970,593,506 | 2,000,098,205 | 1,952,967,815 | (35,908,997) | -0.9% |
| Federal Grants | 177,741,679 | 177,741,679 | 184,306,117 | 179,958,135 | 8,780,894 | 2.5% |
| Private Contributions | 433,067 | 433,067 | 461,786 | 461,786 | 57,438 | 6.6% |
| County Funds | 674,179 | 674,179 | 674,179 | 674,179 | 0 | 0.0% |
| Trust Funds | 83,403,470 | 86,689,389 | 70,665,427 | 73,892,688 | (25,534,744) | -15.0% |
| Interdepart. Transfers | 65,268,397 | 65,280,507 | 56,952,964 | 56,982,777 | (16,613,163) | -12.7% |
| Fed. Stimulus Funds | 151,535 | | 181,535 | 30,000 | 60,000 | 39.6% |
| Revolving Funds | 383,817,130 | 384,417,199 | 372,536,181 | 373,136,250 | (22,561,898) | -2.9% |
| Other Funds | 11,048,393 | 11,255,963 | 11,048,393 | 11,255,963 | 0 | 0.0% |
| Total Appropriations | 11,576,470,913 | 11,674,883,614 | 11,046,345,484 | 11,110,172,071 | (1,094,062,462) | -4.7% |

| Department | House Budget (HB 200) | | The Senate Minority Alternative Budget | | Over/Under House Budget | |
|--------------------------------|-----------------------|-----------------------|--|-----------------------|--------------------------|--------------|
| | FY 14 | FY 15 | FY 14 | FY 15 | Total Biennium | |
| Accounting & General Services | 165,133,092 | 159,486,740 | 171,660,905 | 175,006,463 | 22,047,536 ¹⁵ | 6.8% |
| Agriculture | 46,624,493 | 45,279,844 | 29,281,105 | 29,281,105 | (33,342,127) | -36.3% |
| Attorney General | 69,566,764 | 69,666,120 | 69,415,170 | 65,951,170 | (3,866,544) | -2.8% |
| Business, Econ. Dev & Tourism | 241,935,422 | 241,546,556 | 224,816,696 | 224,523,809 | (34,141,473) | -7.1% |
| Budget and Finance | 2,127,714,025 | 2,263,860,032 | 2,074,069,241 | 2,165,616,703 | (151,888,113) | -3.5% |
| Commerce & Consumer Affairs | 53,489,606 | 53,385,906 | 38,245,081 | 37,841,493 | (30,058,210) | -28.3% |
| Defense | 109,778,643 | 110,504,439 | 109,442,639 | 110,185,538 | (654,905) | -0.3% |
| Education | 1,872,754,772 | 1,848,631,685 | 1,695,461,191 | 1,701,565,307 | (324,359,959) | -8.7% |
| Governor & Lieutenant Governor | 4,864,424 | 4,813,102 | 3,417,676 | 3,502,221 | (2,757,629) | -28.5% |
| Hawaiian Home Lands | 59,136,232 | 59,136,232 | 45,677,978 | 45,677,978 | (26,916,508) | -22.8% |
| Health | 1,505,671,953 | 1,506,506,907 | 1,427,976,799 | 1,431,234,907 | (152,967,153) | -5.1% |
| Human Resources Development | 20,572,428 | 20,746,054 | 18,379,060 | 19,176,756 | (3,762,666) | -9.1% |
| Human Services | 2,576,989,601 | 2,520,225,581 | 2,565,189,622 | 2,510,594,989 | (21,430,572) | -0.4% |
| Labor and Industrial Relations | 492,380,697 | 492,690,699 | 473,123,241 | 473,149,241 | (38,798,915) | -3.9% |
| Land and Natural Resources | 118,643,004 | 118,140,480 | 112,170,972 | 113,353,228 | (11,259,284) | -4.8% |
| Public Safety | 239,081,064 | 237,996,412 | 227,639,369 | 227,526,498 | (21,911,610) | -4.6% |
| Taxation | 23,095,599 | 24,449,551 | 24,036,317 | 22,642,238 | (866,595) | -1.8% |
| Transportation | 852,026,167 | 884,556,557 | 804,227,120 | 804,331,979 | (128,023,625) | -7.4% |
| University of Hawaii | 997,064,249 | 1,013,209,395 | 932,115,302 | 949,010,448 | (129,147,894) | -6.4% |
| Total Appropriations | 11,576,522,235 | 11,674,832,292 | 11,046,345,484 | 11,110,172,071 | (1,094,062,462) | -4.7% |

¹⁵ The difference is caused by Office of Information Management Technology (OIMT) appropriation (AGS 130). In contrast to the House Budget, funding for the Governor's Enterprise Resource Planning (ERP) Initiative is prioritized in Senate Minority Alternative Budget. HB 200 only includes \$8.5 M of the requested appropriation of \$60.8M.

3. Budget Comparison (All Means of Financing)

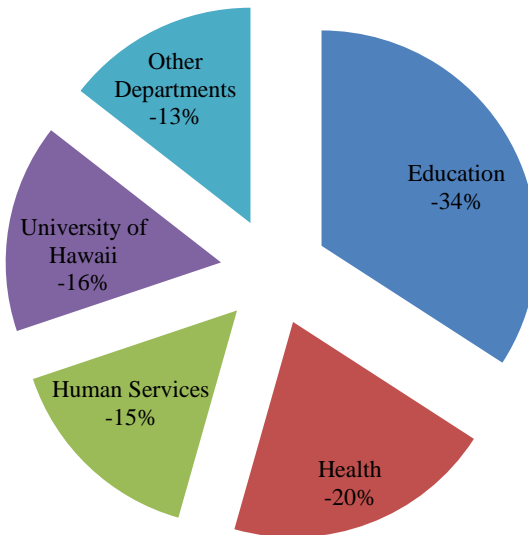
| Means of Financing | Existing Operating Budget | The Governor's Budget | | The Senate Minority Alternative Budget | | Over/Under Governor's Budget | % Change |
|-----------------------------|---------------------------|-----------------------|-----------------------|--|-----------------------|------------------------------|--------------|
| | FY 13 | FY 14 | FY 15 | FY 14 | FY 15 | Total Biennium | |
| General Funds | 5,597,852,326 | 6,090,237,502 | 6,254,459,721 | 5,598,503,188 | 5,691,659,705 | (1,054,534,330) | -8.5% |
| Special Funds | 2,818,834,831 | 2,885,790,373 | 2,931,316,953 | 2,750,898,236 | 2,769,152,773 | (297,056,317) | -5.1% |
| Federal Funds | 2,046,161,058 | 2,053,889,729 | 2,144,553,689 | 2,000,098,205 | 1,952,967,815 | (245,377,398) | -5.8% |
| Other Federal Funds | 0 | 185,722,185 | 181,374,203 | 184,306,117 | 179,958,135 | (2,832,136) | -0.8% |
| Private Contributions | 485,827 | 461,786 | 461,786 | 461,786 | 461,786 | 0 | 0.0% |
| County Funds | 674,179 | 674,179 | 674,179 | 674,179 | 674,179 | 0 | 0.0% |
| Trust Funds | 238,761,901 | 70,665,427 | 73,892,688 | 70,665,427 | 73,892,688 | 0 | 0.0% |
| Interdepartmental Transfers | 66,339,578 | 65,503,323 | 65,515,433 | 56,952,964 | 56,982,777 | (17,083,015) | -13.0% |
| Federal Stimulus Funds | 21,556,716 | 181,535 | 30,000 | 181,535 | 30,000 | 0 | 0.0% |
| Revolving Funds | 383,436,038 | 395,567,700 | 396,167,769 | 372,536,181 | 373,136,250 | (46,063,038) | -5.8% |
| Other Funds | 16,598,987 | 11,048,393 | 11,255,963 | 11,048,393 | 11,255,963 | 0 | 0.0% |
| Total Appropriations | 11,190,701,441 | 11,759,742,132 | 12,059,702,384 | 11,046,326,212 | 11,110,172,071 | (1,662,946,234) | -7.0% |

| Departments | Existing Operating Budget | The Governor's Budget | | The Senate Minority Alternative Budget | | Over/Under Governor's Budget | % Change |
|--------------------------------|---------------------------|-----------------------|-----------------------|--|-----------------------|------------------------------|--------------|
| | FY 13 | FY 14 | FY 15 | FY 14 | FY 15 | Total Biennium | |
| Accounting & General Services | 166,205,378 | 190,196,436 | 193,268,401 | 171,660,905 | 175,006,463 | (36,797,469) | -9.6% |
| Agriculture | 42,101,954 | 57,542,083 | 50,997,083 | 29,281,105 | 29,281,105 | (49,976,956) | -46.0% |
| Attorney General | 74,025,640 | 73,407,654 | 69,977,542 | 69,415,170 | 65,951,170 | (8,018,856) | -5.6% |
| Business, Econ. Dev & Tourism | 241,367,661 | 263,501,328 | 263,176,567 | 224,816,696 | 224,523,809 | (77,337,390) | -14.7% |
| Budget and Finance | 1,847,935,987 | 2,074,195,029 | 2,165,742,491 | 2,074,069,241 | 2,165,616,703 | (251,576) | 0.0% |
| Commerce & Consumer Affairs | 50,586,801 | 55,680,835 | 52,790,194 | 38,225,809 | 37,841,493 | (32,403,727) | -29.9% |
| Defense | 109,118,969 | 110,918,009 | 111,695,117 | 109,442,639 | 110,185,538 | (2,984,949) | -1.3% |
| Education | 1,856,329,564 | 1,880,670,028 | 1,890,043,498 | 1,695,461,191 | 1,701,565,307 | (373,687,028) | -9.9% |
| Governor & Lieutenant Governor | 3,379,823 | 4,916,364 | 4,970,194 | 3,417,676 | 3,502,221 | (2,966,661) | -30.0% |
| Hawaiian Home Lands | 185,464,040 | 45,677,978 | 45,677,978 | 45,677,978 | 45,677,978 | 0 | 0.0% |
| Health | 1,509,303,676 | 1,544,531,860 | 1,549,458,971 | 1,427,976,799 | 1,431,234,907 | (234,779,124) | -7.6% |
| Human Resources Development | 19,804,446 | 20,621,142 | 20,833,882 | 18,379,060 | 19,176,756 | (3,899,208) | -9.4% |
| Human Services | 2,385,651,645 | 2,668,315,568 | 2,820,087,149 | 2,565,189,622 | 2,510,594,989 | (412,618,107) | -7.5% |
| Labor and Industrial Relations | 490,330,866 | 494,548,616 | 494,858,618 | 473,123,241 | 473,149,241 | (43,134,753) | -4.4% |
| Land and Natural Resources | 111,534,249 | 130,936,730 | 130,881,588 | 112,170,972 | 113,353,228 | (36,294,118) | -13.9% |
| Public Safety | 234,581,424 | 249,425,085 | 246,223,838 | 227,639,369 | 227,526,498 | (40,483,057) | -8.2% |
| Taxation | 22,764,775 | 25,875,431 | 29,955,713 | 24,036,317 | 22,642,238 | (9,152,589) | -16.4% |
| Transportation | 846,569,213 | 853,134,372 | 886,520,830 | 804,227,120 | 804,331,979 | (131,096,103) | -7.5% |
| University of Hawaii | 993,645,330 | 1,015,647,584 | 1,032,542,730 | 932,115,302 | 949,010,448 | (167,064,564) | -8.2% |
| Total Appropriations | 11,190,701,441 | 11,759,742,132 | 12,059,702,384 | 11,046,326,212 | 11,110,172,071 | (1,662,946,234) | -7.0% |

4. Budget Comparison (General Fund)

| Department Name | Existing Operating Budget FY 13 | The Governor's Budget | | The Senate Minority Alternative Budget | | Over/Under Governor's Budget | %Change |
|--------------------------------|---------------------------------|-----------------------|----------------------|--|----------------------|------------------------------|--------------|
| | | FY 14 | FY 15 | FY 14 | FY 15 | | |
| Accounting & General Services | 80,945,911 | 106,182,783 | 105,294,899 | 93,615,493 | 92,966,533 | (24,895,656) | -11.8% |
| Agriculture | 10,297,218 | 13,034,189 | 11,034,189 | 8,002,369 | 8,002,369 | (8,063,640) | -33.5% |
| Attorney General | 23,504,934 | 25,133,110 | 25,167,598 | 21,852,501 | 21,852,501 | (6,595,706) | -13.1% |
| Business, Econ. Dev & Tourism | 7,123,263 | 18,369,527 | 18,363,365 | 3,747,920 | 3,747,920 | (29,237,052) | -79.6% |
| Budget and Finance | 1,804,683,144 | 2,035,589,507 | 2,129,553,378 | 2,035,463,719 | 2,129,427,590 | (251,576) | 0.0% |
| Defense | 17,270,347 | 15,306,452 | 15,283,560 | 13,848,185 | 13,773,981 | (2,967,846) | -9.7% |
| Education | 1,437,937,060 | 1,508,034,280 | 1,514,746,265 | 1,328,749,092 | 1,335,091,423 | (358,940,030) | -11.9% |
| Governor & Lieutenant Governor | 3,292,676 | 4,791,364 | 4,845,194 | 3,292,676 | 3,377,221 | (2,966,661) | -30.8% |
| Hawaiian Home Lands | 0 | 14,688,526 | 14,688,526 | 14,688,526 | 14,688,526 | 0 | 0.0% |
| Health | 479,453,891 | 506,264,280 | 505,350,191 | 399,434,447 | 399,134,447 | (213,045,576) | -21.1% |
| Human Resources Development | 14,218,165 | 15,034,861 | 15,247,601 | 12,792,779 | 13,590,475 | (3,899,208) | -12.9% |
| Human Services | 1,066,786,677 | 1,148,739,035 | 1,211,740,369 | 1,101,777,254 | 1,096,235,425 | (162,466,726) | 0.0% |
| Labor and Industrial Relations | 12,169,377 | 14,451,325 | 14,716,327 | 7,184,904 | 7,195,904 | (14,786,845) | -50.7% |
| Land and Natural Resources | 25,738,532 | 28,160,327 | 28,223,599 | 21,987,777 | 22,048,804 | (12,347,345) | -21.9% |
| Public Safety | 215,259,729 | 229,635,506 | 226,402,248 | 209,546,836 | 209,401,954 | (37,088,965) | -8.1% |
| Taxation | 21,711,148 | 24,827,556 | 28,907,838 | 22,988,442 | 21,594,363 | (9,152,589) | -17.0% |
| University of Hawaii | 377,460,254 | 381,994,874 | 381,994,874 | 299,530,269 | 299,530,269 | (164,929,210) | -21.6% |
| Total Appropriations | 5,597,852,326 | 6,090,237,502 | 6,251,560,021 | 5,598,503,188 | 5,691,659,705 | (1,051,634,630) | -8.5% |

7. Total General Fund Cuts by Departments (Senate Minority Alternative Budget)

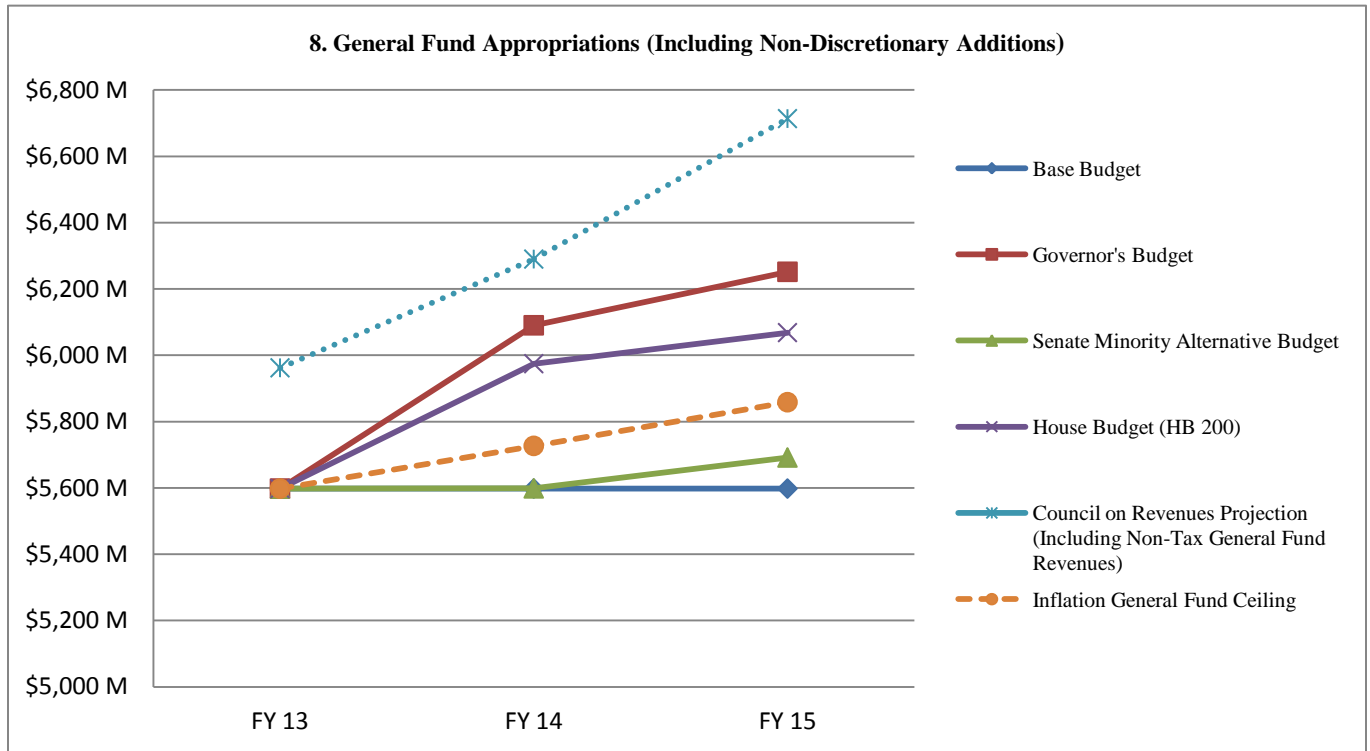


5. Position Analysis (Permanent Full Time Positions)

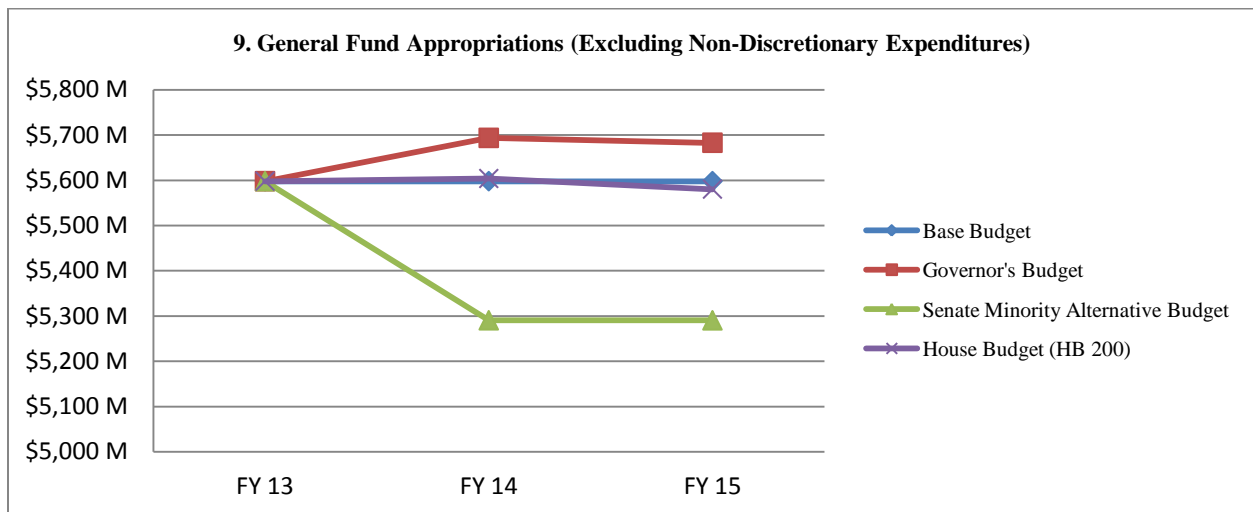
| Means of Financing (MOF) | Existing Operating Budget | The Governor's Budget | | | | | The Senate Minority Alternative Budget | | | | |
|-----------------------------|---------------------------|-----------------------|---------------|---|------------------------------------|-----------------|--|---|--|--------------|-----------------|
| | | Total Positions | | Total Position Added (Eliminated) - Above the EOB | Total Positions Added (Eliminated) | Total Positions | | Total Position Added (Eliminated) - Above the EOB | Total Positions Added (Eliminated) Above the EOB | | |
| | | 14 | 15 | 14 | 15 | Biennium | 14 | 15 | 14 | 15 | Biennium |
| FY | 13 | 14 | 15 | 14 | 15 | Biennium | 14 | 15 | 14 | 15 | Biennium |
| General Funds | 37,074 | 37,534 | 37,549 | 460 | 15 | 475 | 36,361 | 36,271 | (713) | (90) | (803) |
| Special Funds | 4,690 | 4,771 | 4,774 | 81 | 3 | 84 | 4,368 | 4,345 | (322) | (23) | (345) |
| Federal Funds | 2,324 | 2,227 | 2,227 | (97) | 0 | (97) | 2,227 | 2,227 | (97) | 0 | (97) |
| Other Federal Funds | 0 | 111 | 111 | 111 | 0 | 111 | 111 | 111 | 111 | 0 | 111 |
| Private Contributions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| County Funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Trust Funds | 154 | 132 | 132 | (21) | 0 | (21) | 132 | 132 | (21) | 0 | (21) |
| Interdepartmental Transfers | 167 | 110 | 110 | (57) | 0 | (57) | 164 | 108 | (3) | (57) | (59) |
| Federal Stimulus Funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revolving Funds | 304 | 305 | 305 | 1 | 0 | 1 | 294 | 288 | (11) | (6) | (17) |
| Other Funds | 99 | 102 | 102 | 3 | 0 | 3 | 102 | 102 | 3 | 0 | 3 |
| Total Positions | 44,811 | 45,292 | 45,310 | 481 | 18 | 499 | 43,759 | 43,584 | (1,052) | (175) | (1,227) |

| Department | Existing Operating Budget | The Governor's Budget | | | | | The Senate Minority Alternative Budget | | | | |
|--------------------------------|---------------------------|-----------------------|---------------|---|------------------------------------|-----------------|--|---|--|--------------|-----------------|
| | | Total Positions | | Total Position Added (Eliminated) - Above the EOB | Total Positions Added (Eliminated) | Total Positions | | Total Position Added (Eliminated) - Above the EOB | Total Positions Added (Eliminated) Above the EOB | | |
| | | 14 | 15 | 14 | 15 | Biennium | 14 | 15 | 14 | 15 | Biennium |
| FY | 13 | 14 | 15 | 14 | 15 | Biennium | 14 | 15 | 14 | 15 | Biennium |
| Accounting & General Services | 689 | 724 | 724 | 35 | 0 | 35 | 717 | 720 | 28 | 3 | 31 |
| Agriculture | 309 | 348 | 348 | 39 | 0 | 39 | 225 | 225 | (84) | 0 | (84) |
| Attorney General | 615 | 612 | 612 | (3) | 0 | (3) | 674 | 612 | 59 | (62) | (3) |
| Business, Econ. Dev & Tourism | 144 | 148 | 148 | 4 | 0 | 4 | 114 | 113 | (30) | (1) | (31) |
| Budget and Finance | 353 | 364 | 364 | 11 | 0 | 11 | 364 | 364 | 11 | 0 | 11 |
| Commerce & Consumer Affairs | 404 | 411 | 411 | 7 | 0 | 7 | 294 | 294 | (110) | 0 | (110) |
| Defense | 239 | 251 | 251 | 12 | 0 | 12 | 246 | 246 | 7 | 0 | 7 |
| Education | 20,474 | 20,615 | 20,629 | 141 | 14 | 155 | 19,968 | 19,968 | (506) | 0 | (506) |
| Governor & Lieutenant Governor | 30 | 30 | 30 | 0 | 0 | 0 | 30 | 30 | 0 | 0 | 0 |
| Hawaiian Home Lands | 200 | 200 | 200 | 0 | 0 | 0 | 200 | 200 | 0 | 0 | 0 |
| Health | 5,445 | 5,494 | 5,498 | 49 | 4 | 53 | 5,153 | 5,038 | (292) | (115) | (406) |
| Human Resources Development | 92 | 98 | 98 | 6 | 0 | 6 | 81 | 81 | (11) | 0 | (11) |
| Human Services | 2,205 | 2,251 | 2,251 | 47 | 0 | 47 | 2,222 | 2,222 | 18 | 0 | 18 |
| Labor and Industrial Relations | 657 | 673 | 673 | 16 | 0 | 16 | 580 | 580 | (77) | 0 | (77) |
| Land and Natural Resources | 757 | 784 | 784 | 27 | 0 | 27 | 751 | 752 | (6) | 1 | (5) |
| Public Safety | 2,579 | 2,616 | 2,616 | 37 | 0 | 37 | 2,560 | 2,584 | (19) | 24 | 5 |
| Taxation | 383 | 393 | 393 | 10 | 0 | 10 | 388 | 388 | 5 | 0 | 5 |
| Transportation | 1,989 | 2,033 | 2,033 | 44 | 0 | 44 | 1,957 | 1,932 | (32) | (25) | (57) |
| University of Hawaii | 7,248 | 7,248 | 7,248 | 0 | 0 | 0 | 7,235 | 7,235 | (13) | 0 | (13) |
| Total Positions | 44,811 | 45,292 | 45,310 | 481 | 18 | 499 | 43,759 | 43,584 | (1,052) | (175) | (1,227) |

5. Graphical Representation (General Fund)



- The general fund appropriations of the Senate Minority Alternative Budget remain below the proposed inflation general fund ceiling.
- The increase from the base budget represents the increase in non-discretionary expenditures, which refer to expenditures that are restricted and not fully controllable by the legislature.

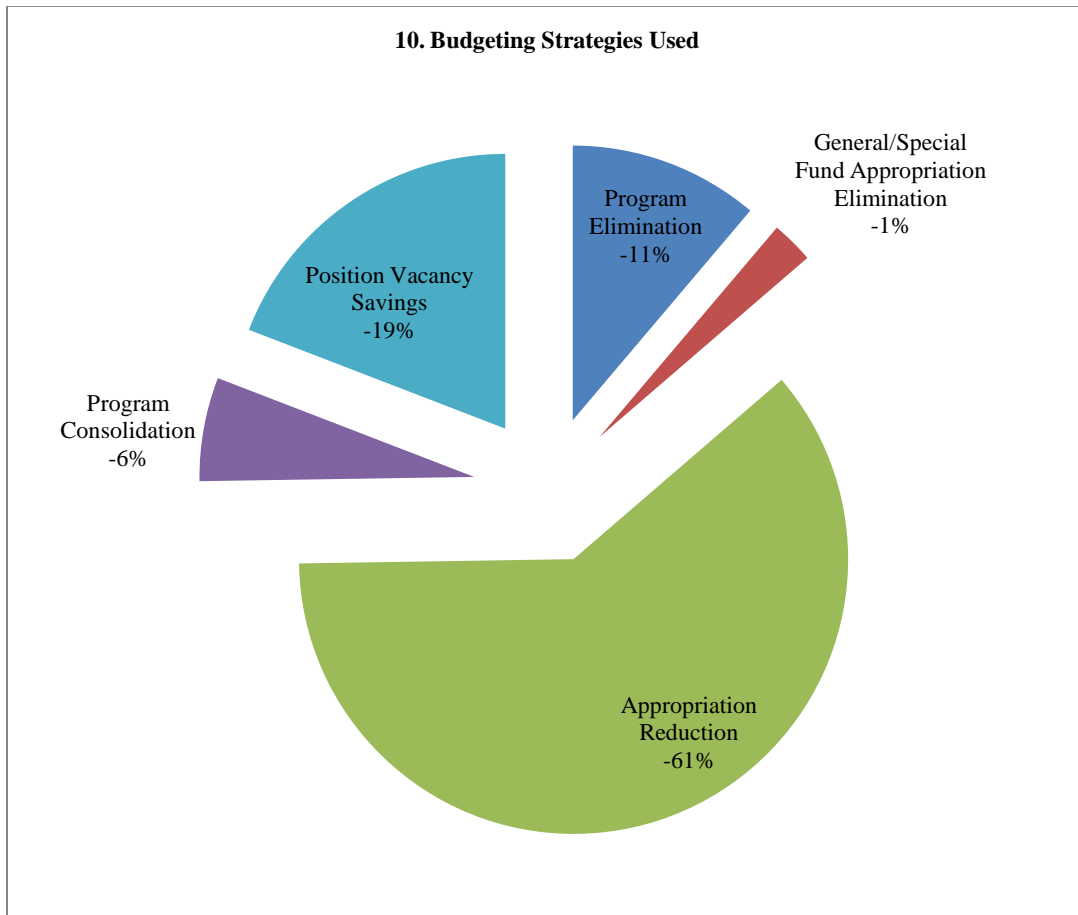


- The Senate Minority Alternative Budget proposes to cut discretionary general fund spending with \$300 million and provides a blueprint to a smaller and more efficient government.

6. Summary of Budget Cuts

The proposed budget cuts of the Senate Minority Alternative Budget are based on the following cost-cutting strategies:

- *Appropriation Reduction*: Recommends reducing the appropriations for programs that are performing poorly and/or have a relatively low impact on the community.
- *Program Consolidation*: Recommends consolidating programs in order to achieve operating efficiencies.
- *Program Elimination*: Recommends eliminating programs that are performing poorly and have a relatively low impact on the community.
- *General/Special Fund Appropriation Elimination*: Recommends eliminating the general and/or special funds appropriations for programs that primarily operate on revolving and/or federal funds.
- *Position Vacancy Savings*: Recommends cutting budgeted vacant positions that are funded by general and special funds and that have been vacant prior to Dec 31st, 2011.



Overview of Budget Cuts:

| Program ID | Description | Program Elimination | General/Special Fund Appropriation Elimination | Appropriation Reduction | Program Consolidation | Total Biennium |
|---|--|---------------------|--|-------------------------|-----------------------|---------------------|
| AGR 101 | Financial Assistance for Agriculture | (12,129,934) | | | | |
| AGR 141 | Agricultural Resource Management | | (178,798) | | | |
| AGR 153 | Aquaculture Development Program | | | | (727,810) | |
| AGR 161 | Agribusiness Development and Research | | (1,101,202) | | | |
| AGR 172 | Agricultural Development and Marketing | | | (1,585,366) | | |
| AGR 812 | General Administration for Agriculture | (2,558,670) | | | | |
| AGR 846 | Pesticides | | (966,620) | | | |
| Department of Agriculture: | | (14,688,604) | (2,246,620) | (1,585,366) | (727,810) | (19,248,400) |
| AGS 223 | Office Leasing | (31,609,404) | | | | |
| AGS 881 | State Foundation on Culture and the Arts | | (1,872,664) | | | |
| Department of Acct & Gen. Svcs. | | (31,609,404) | (1,872,664) | | | (33,482,068) |
| BED 103 | Land Use Commission | (954,600) | | | | |
| BED 105 | Creative Industries Division | (1,958,690) | | | | |
| BED 120 | Environmental & Energy Development | | | (3,822,842) | | |
| BED 128 | Office of Aerospace | (315,694) | | | | |
| BED 142 | Departmental Administration | | | | (3,189,708) | |
| BED 145 | Hawaii Strategic Development Corporation | (13,786,376) | | | | |
| Department of Business, Econ. Dev. | | (17,015,360) | | (3,822,842) | (3,189,708) | (24,027,910) |
| CCA 112 | Regulated Industries Complaints Office | (10,811,156) | | | | |
| CCA 191 | General Support | (13,064,598) | | | | |
| Department of Commerce & Consumer Protection | | (23,875,754) | | | | (23,875,754) |
| EDN 150 | Special Education & Related Services | | | (8,276,898) | | |

| Program ID | Description | Program Elimination | General/Special Fund Appropriation Elimination | Appropriation Reduction | Program Consolidation | Total Biennium |
|---|---|---------------------|--|-------------------------|-----------------------|----------------------|
| EDN 200 | Instructional Support | | | (34,121,270) | | |
| EDN 300 | State Administration | | | (61,702,400) | | |
| EDN 400 | School Support | | | (149,881,650) | | |
| EDN 500 | School Community Services | | (5,000,000) | | | |
| Department of Education | | | (5,000,000) | (253,982,218) | | (258,982,218) |
| HMS 501 | In-Community Youth Programs | | | (6,981,308) | | |
| HMS 601 | Adult and Community Care Services | | | (5,353,096) | | |
| HMS 888 | Commission on the Status of Women | | | | | |
| Department of Human services | | | (8,603,112) | (12,334,404) | | (20,937,516) |
| HRD 191 | Supporting Services - Human Resources Development | (2,850,772) | | | | |
| Department of Human Resource Development | | (2,850,772) | | | | (2,850,772) |
| HTH 141 | Gen Med & Preventive Svcs | | | | (7,379,430) | |
| HTH 213 | Alii Community Care | (3,000,000) | | | | |
| HTH 420 | Adult Mental Hth - Outpatient | | | (34,976,700) | | |
| HTH 430 | Adult Mental Hth - Inpatient | | | (24,748,306) | | |
| HTH 440 | Alcohol & Drug Abuse | | | (7,591,861) | | |
| HTH 460 | Child & Adolescent Mental Hth | | | (24,007,639) | | |
| HTH 495 | Behavioral Hth Admin | | | (5,279,778) | | |
| HTH 520 | Disability & Comm Access Bd | | | (479,768) | | |
| HTH 850 | Off of Environmental Quality Control | | | | (454,380) | |
| HTH 905 | Developmental Disabilities Council | | (429,444) | | | |
| Department of Health | | (3,000,000) | (429,444) | (97,084,052) | (7,833,810) | (108,347,306) |
| LBR 135 | Workforce Development Council | (22,606) | | | | |
| LBR 152 | Wage Standards | (2,036,112) | | | | |
| LBR 153 | HI Civil Rights Commission | | | (1,077,431) | | |

| Program ID | Description | Program Elimination | General/Special Fund Appropriation Elimination | Appropriation Reduction | Program Consolidation | Total Biennium |
|------------|---|---------------------|--|-------------------------|-----------------------|----------------------|
| LBR 183 | Disability Compensation | | | | (13,939,860) | |
| LBR 316 | Office of Language Access | (613,874) | | | | |
| LBR 902 | General Administration | | | (727,585) | | |
| | Department of Labor and Industrial Relations | (2,672,592) | | (1,805,016) | (13,939,860) | (18,417,467) |
| LNR 141 | Water & Land Development | | (393,796) | | | |
| LNR 153 | Commercial Fisheries & Aquaculture | | (1,097,538) | | | |
| LNR 172 | Forestry - Products Development | | (1,069,560) | | | |
| | Department of Land and Natural Resources | | (2,560,894) | | | (2,560,894) |
| PSD 613 | Crime Victim Compensation Commission | | (952,600) | | | |
| PSD 900 | General Administration | | | (5,756,346) | | |
| | Department of Public Safety | | (952,600) | (5,756,346) | | (6,708,946) |
| TRN 595 | Highways Administration | | | | (25,345,697) | |
| TRN 597 | Highway Safety | | | | (2,032,522) | |
| | Department of Transportation | | | | (27,378,219) | (27,378,219) |
| UOH 881 | Aquaria | (1,222,512) | | | | |
| UOH | 20% general fund appropriation reduction | | | (154,637,458) | | |
| | University of Hawaii | (1,222,512) | | (154,637,458) | | (155,859,970) |
| | Total (Biennium) | (96,934,998) | (21,665,334) | (531,007,702) | (53,069,407) | (702,677,441) |

NOTE: The proposed budget cuts represent reductions with respect to the current operating budget (FY13).

Programs that are eliminated:

- The *financial assistance program (AGR101)*, which provides loans to farmers is recommended for elimination. Providing loans to farmers is not a core government function. In a free-market, capital allocation decisions should be determined by the private sector.
- As part of the budget prioritization process, the *measure standards compliance program (AGR 812)* is recommended for elimination. The program has a relatively small target group and low impact on the community.
- The *office leasing program (AGS 223)*, which provides leasing services for all state agencies, is recommended for elimination. The program has adds an unnecessary layer of bureaucracy.
- The *Hawaii Strategic Development Corporation (BED 145)*, which creates a funding mechanism for investments in emerging technology companies, is recommended for elimination. For years the state attempted to develop a high-tech industry in Hawaii with tax incentives. Both the high-tech tax credits and the HSDC have not generated any substantial economic activity, and are therefore a complete failure. Investment decisions should be made by the private sector!
- The *Creative Industries Division (BED 105)* is recommended for elimination. The program is not needed because the state already provides very lucrative tax incentives to the film industry. There is no need for the division, and any vital administrative responsibilities could be absorbed within the Department of Business and Economic Development.
- The *Regulated Industries Complaint (CCA 112)*, which provides consumer education and enforcement of the state's licensing laws, and the *General Support Program (CCA191)* of the Department of Commerce and Consumer Affairs are recommended for elimination as part of the budget prioritization process. The consumer protection responsibilities of the Regulated Industries Complaint Program could be absorbed by the Office of Consumer Protection, and the general administrative duties of the general support program could be redirected to the other divisions within the department.
- The following programs have been eliminated because they provide a service with a relatively low-priority and/or have a small community impact: *Office of Aerospace (BED 128)*, *Alii Community Care (HTH 213)*, *Office of Language Access (LBR 316)*, *Aquaria (UOH881)*, *Wage Standards (LBR152)*, *Workforce Development Council (LBR135)* and *Supporting Services (HTH191)* for the Department of Human Resources Development.

Programs with significant appropriation reductions:

- The administrative programs (*EDN 200, 300, 400, 500, 150*) of the Department of Education (DOE) are recommended for a 30 percent across the board cut. The proposed cuts include the elimination of the general fund subsidy for the school breakfast and lunch program. The proposed cuts only target the overhead expenditures of the DOE and do not impact the quality of the classroom instruction.

- The general fund appropriation for the *University of Hawaii* is recommended for a 20 percent across the board cut. The state not only provides a general fund contribution to the university, but also pays for all the retirement benefit for the university employees, which is a significant fiscal burden for the state. In addition, the budget reserves of the university and the salaries for university personnel are significantly higher in comparison to other state workers.
- As part of the budget prioritization process, the *Child Adolescent Mental Health program (HTH 460)* and *Behavioral Health Administration program (HTH 495)* are recommended for a 30 percent across the board cut. In addition, the appropriations for the *Disability and Communication Access Board (HTH520)* are recommended for a 20 percent cut.
- The general fund appropriations for the Department of Human Services community programs for adults and youth (HMS 501, 601) are recommended for an across the board cut of 50 percent.
- The general administrative appropriations for the Department of Public Safety program are proposed to be reduced to the FY 2012 operating level, which amounts to a cut of \$5.7 million.

Programs that have been consolidated:

- The *Disability Compensation program (LBR 183)* is recommended to be transferred from the Department of Labor and Industrial Relations to the Department of Human Services. The program could operate more efficiently if consolidated with the *Vocational Rehabilitation (HMS802)* and *Disability Determination Program (HMS238)*. Since the programs provide duplicate services, the general fund appropriation is recommended to be reduced by 50 percent.
- The Departments of Transportation highway safety and administration divisions are recommended for consolidation in order to achieve operating efficiencies. The combined appropriations for both programs are recommended to be reduced by 30 percent.

Budgeted Vacant Positions Savings:

| Department Name | Budgeted Positions Vacant Longer Than 12 Months | As a % of Departments Base Budget (All MOF) |
|--|---|---|
| Accounting & General Services | 1,332,087 | 0.80% |
| Agriculture | 2,708,784 | 6.43% |
| Attorney General | 3,566,117 | 4.82% |
| Business, Econ. Dev & Tourism | 1,687,955 | 0.70% |
| Budget and Finance | 237,554 | 0.01% |
| Consumer and Commerce Affairs | 1,782,196 | 3.52% |
| Defense | 799,429 | 0.73% |
| Education | 541,761 | 0.29% |
| Governor & Lieutenant Governor | 90,000 | 2.66% |
| Hawaiian Home Lands | | |
| Health | 32,619,995 | 2.16% |
| Human Resources Development | - | |
| Human Services | 386,201 | 0.16% |
| Labor and Industrial Relations | 1,531,688 | 0.31% |
| Land and Natural Resources | 6,086,233 | 5.46% |
| Public Safety | 7,691,226 | 3.28% |
| Taxation | 1,799,192 | 7.90% |
| Transportation | 8,486,104 | 1.00% |
| University of Hawaii | 3,525,678 | 0.35% |
| Total Vacant Positions Savings (Annually) | 83,223,862 | 0.74% |

NOTE: Includes general fund and special funds.

- The Senate Minority Alternative Budget includes an \$83 million annual cut (\$163 million for the biennium) of budgeted positions that have been vacant prior to December 31, 2011.

7. Summary of Budget Additions

| Program ID | Description | FY 14 | FY 15 | Total Biennium |
|--|--|--------------------|--------------------|----------------------|
| BUF721 | Debt Service Payments | 35,166,197 | 37,543,630 | 72,709,827 |
| BUF725 | Debt Service Payments - DOE | 30,325,474 | 32,375,647 | 62,701,121 |
| BUF728 | Debt Service Payments - UH | 11,223,417 | 11,982,183 | 23,205,600 |
| BUF741 | Retirement Benefits Payments | 10,134,342 | 21,110,602 | 31,244,944 |
| BUF745 | Retirement Benefits Payments - DOE | 21,805,778 | 33,281,957 | 55,087,735 |
| BUF748 | Retirement Benefits Payments - UH | 3,864,743 | 15,412,585 | 19,277,328 |
| BUF761 | Health Premium Payments | 108,117,420 | 133,230,416 | 241,347,836 |
| BUF765 | Health Premium Payments - DOE | 6,531,913 | 28,299,877 | 34,831,790 |
| BUF768 | Health Premium Payments - UH | 3,496,655 | 11,313,064 | 14,809,719 |
| HMS 401 | Health Care Payments | 42,967,490 | 36,017,875 | 78,985,365 |
| HHL602 | Planning and Development for Hawaiian Homesteads | 14,688,526 | 14,688,526 | 29,377,052 |
| EDN 100 | School-based Budgeting | 12,724,473 | 12,724,473 | 25,448,946 |
| EDN 6000 | Charter Schools | 7,025,148 | 13,367,479 | 20,392,627 |
| Total Non-Discretionary Additions | | 308,071,576 | 401,348,314 | 709,419,890 |
| PSD | Department Utility Cost Increase | 4,180,196 | 4,433,316 | 8,613,512 |
| AGS 130 | Enterprise Resource Planning | 30,470,359 | 30,470,769 | 60,941,128 |
| TAX 107 | Tax Modernization Program | 2,350,154 | 6,257,660 | 8,607,814 |
| Total Discretionary Additions | | 34,650,555 | 34,904,085 | 69,554,640 |
| Total Additions | | 431,409,016 | 603,732,024 | 1,035,141,040 |

- In addition to the mandatory increases of non-discretionary expenditures, the Senate Minority Alternative Budget includes investments in the Office of Information Management Technology's *Enterprise Resource Planning* and the *Tax Modernization* programs.

Biennial Financial Plan

1. Biennium Financial Plan (All Means of Financing) – in Millions \$

| | Actual FY 12 | Estimated FY 13 | Projected FY 14 | Projected FY 15 |
|-----------------------------------|-----------------|--------------------|--------------------|--------------------|
| REVENUES | | | | |
| Tax Revenues | 5,690.8 | 5,962.0 | 6,290.0 | 6,714.0 |
| Nontax Revenues | 3,956.9 | 3,940.3 | 3,603.4 | 3,709.3 |
| Federal Funds | 2,819.2 | 2,046.2 | 2,053.9 | 2,144.5 |
| Judicial Revenues | 46.9 | 38.0 | 38.7 | 39.3 |
| Other | | 97.6 | 43.6 | 85.9 |
| TOTAL REVENUE | 12,513.8 | 12,084.1 | 12,029.6 | 12,693.0 |
| EXPENDITURES | | | | |
| Executive Branch | 10,823.9 | 11,194.1 | 11,048.3 | 11,112.1 |
| Legislative Branch | 32.2 | 32.2 | 32.2 | 32.2 |
| * Judiciary | 144.5 | 145.8 | 144.5 | 145.6 |
| * Office of Hawaii Affairs | 8.1 | 8.1 | 10.4 | 10.4 |
| Other | 30.5 | 43.2 | 5.0 | 5.0 |
| (Lapses) | (129.9) | (65.0) | (65.0) | (65.0) |
| Total Expenditures | 10,909.3 | 11,358.4 | 11,175.4 | 11,240.3 |
| REVENUES OVER EXPENDITURES | 1,604.5 | 725.7 | 854.2 | 1,452.7 |
| Special Fund Balances | 2,218.3 | 1,650.9 | 907.5 | 683.1 |
| ** Other Funds | 1,629.9 | 2,560.2 | 2,194.1 | 1,004.8 |
| TOTAL -CARRY OVER BALANCE | | | | |
| Beginning | 3,848.2 | 4,211.1 | 3,101.6 | 1,687.9 |
| Adjustment for CIP Funds | (1,241.6) | (1,835.2) | (2,267.9) | (1,136.9) |
| Ending | 4,211.1 | 3,101.6 | 1,687.9 | 2,003.7 |

(adjusted based on Council on Revenues 3/13/13 projection)

* Appropriations are not based on the Multi-Year Financial Summary listed in the Executive Budget, but rather on the actual appropriations made.

** Represents the total beginning carry-over balance (page 28-31) listed on the multi-year financial summary of the Executive Budget.

NOTES:

Unencumbered Cash Balance derived from "Report on Non-General Fund Information submitted to the 2012 Legislature."
The \$32.2 is directly derived from the Executive Budget Multi-Year Financial Summary (General Fund) and differs from the \$28.5 million that is budgeted as part of the SMO Alternative Budget.

2. Biennium Financial Plan (General Fund) – in Millions \$

| | Actual FY 12 | Estimated FY 13 | Projected FY 14 | Projected FY 15 | |
|--|-----------------|--------------------|--------------------|--------------------|---|
| REVENUES | | | | | |
| * Tax Revenues | 4,973 | 5,312 | 5,695 | 6,076 | <i>(adjusted based on the Council of Revenues 3/13/13 projection)</i> |
| Nontax Revenues | 651 | 515 | 512 | 512 | |
| Judicial Revenues | 37 | 38 | 39 | 39 | |
| Other | | 98 | 44 | 86 | |
| TOTAL REVENUE | 5,661 | 5,962 | 6,290 | 6,714 | |
| EXPENDITURES | | | | | |
| Executive Branch | 5443.5 | 5598.8 | 5598.5 | 5691.6 | |
| Legislative Branch | 32.2 | 32.2 | 28.5 | 28.5 | |
| Judiciary | 132.7 | 134.5 | 133.3 | 134.4 | |
| Office of Hawaii Affairs | 2.4 | 2.4 | 3.5 | 3.5 | |
| Other & Specific Appropriations | 30.5 | 53.6 | 30 | 80 | |
| (Lapses) | (130) | (65) | (65) | (65) | |
| Total Expenditures | 5511.4 | 5756.5 | 5728.8 | 5873 | |
| REVENUES OVER EXPENDITURES | 149 | 206 | 561 | 841 | |
| Hurricane Relief Fund | 0 | 0 | 55 | 57.5 | |
| Emergency and Budget Reserve Fund | 0 | 0 | 25 | 75 | |
| TRANSFERS TO NON-GENERAL FUNDS | 0 | 0 | 80 | 132.5 | |
| TOTAL CARRY-OVER BALANCE | | | | | |
| Beginning | 126 | 275.3 | 392.1 | 533 | |
| Gross Ending Balance | 275.3 | 392.1 | 1,033 | 1,241 | |
| Prefund EUTF ¹⁶ | | | 500 | 500 | |
| Net Ending Balance | 275.3 | 392.1 | 533.2 | 741.2 | |
| RESERVES | | | | | |
| Hurricane Relief Fund | 21.5 | 21.9 | 76.9 | 134.4 | |
| Emergency and Budget Reserve Fund | 25.5 | 69.2 | 94.2 | 169.2 | |
| Total Reserves | 47 | 91.1 | 171.1 | 303.6 | |
| <i>As a % of total general fund revenues</i> | <i>0.83%</i> | <i>1.53%</i> | <i>2.72%</i> | <i>4.52%</i> | |
| * (in millions) | | | | | |
| Council on Revenues General Fund Projection | FY13 | FY14 | FY15 | | |
| 9/6/2013 | \$5,223 | \$5,427 | \$5,698 | | <i>Executive Budget</i> |
| 3/13/2013 | \$5,312 | \$5,695 | \$6,076 | | <i>Senate Minority Budget</i> |
| Additional Projected Revenues (Cumulative) | \$89 | \$268 | \$378 | | |

NOTES:

With the exception of the Tax Revenues FY 14 and 15 projections, Executive Branch Expenditures FY 14 and FY 15, as well as OHA Expenditures FY 14 and FY 15, all information is directly copied from the Executive Budget Multi-Year Financial Summary (FY12-19)

Unencumbered Cash Balance derived from "Report on Non-General Fund Information submitted to the 2012 Legislature."
The \$32.2 is directly derived from the Executive Budget Multi-Year Financial Summary (General Fund) and differs from the \$28.5 million that is budgeted as part of the Senate Minority Alternative Budget.

¹⁶ EUTF: Employer Union Trust Fund. The EUTF is the trust fund for post employment health insurance benefits for retired state employees.

3. Discussion

The Senate Minority Alternative Budget leaves the state treasury with a projected general fund surplus of \$741 million in FY 15. The State of Hawaii has reached a proverbial fork in the road, and taxpayers have a clear choice between two distinct paths. On one hand, the House and Governor’s proposed budget relies on future tax increases to sustain the proposed operating expenditures. On the other hand, the proposed Senate Minority Alternative Budget is not based on future tax increases and instead provides a pathway to reduce the tax burden on small businesses and struggling taxpayers.

| Projected Net Ending General Fund Balance ¹⁷ | |
|---|---------------------------------|
| House Budget | \$ -10 million (deficit) |
| Governor’s Budget | \$-309 million (deficit) |
| Senate Minority Alternative Budget | \$ 741 million (surplus) |

The only sustainable path forward!

The projected \$741 million surplus as part of the Senate Minority Alternative Budget could be used for a variety of policy alternatives that could improve our business climate and grow our economy.

| Policy Alternatives | Estimated Costs (in millions) |
|--|----------------------------------|
| Allow Act 105 to sunset | \$74 |
| Eliminate the corporate income tax | \$109 |
| Eliminate the individual income tax for individuals with an income of \$20,000 or less | \$17 |
| Prepare for the “Inouye Cliff” | \$200-400 |

¹⁷ Projected net general fund balances refer to the accrual based general fund balance and account for the \$500 million annual required contribution for the EUTF. The projected balance does not account for the labor costs increases due to collective bargaining agreements.

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