

DAVID Y. IGE  
GOVERNOR OF  
HAWAII



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621  
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**Testimony of  
SUZANNE D. CASE  
Chairperson**

**Before the Senate Committee on  
LABOR, CULTURE AND THE ARTS**

**Monday, March 22, 2021  
3:05 PM**

**State Capitol, Via Videoconference, Conference Room 225  
In consideration of  
HOUSE BILL 777, HOUSE DRAFT 1  
RELATING TO WORKS OF ART SPECIAL FUND**

House Bill 777, House Draft 1 proposes to authorize funds from the Works of Art Special Fund to be used for Bishop Museum and Iolani Palace and sunsets on June 30, 2022. **The Department of Land and Natural Resources (Department) offers the following comments.**

The Department appreciates the intent of the Legislature to support the State of Hawai'i Museum of Monarchy better known at 'Iolani Palace.

The Department executed a 25-year general lease with the Friends of 'Iolani Palace (Friends) to manage and operate 'Iolani Palace, 'Iolani Palace Barracks (Hale Koa) and the Coronation Pavilion. The Department's Division of State Parks (State Parks) regulates and manages the various public special use activities and events of the adjacent four quadrants that comprise the grounds surrounding the buildings and authorizes events that are managed by the Friends that are a primary source of operating revenue.

State Parks also administers and executes capital improvement projects for the buildings and appurtenant structures. The Department of Accounting and General Services performs all the grounds and tree maintenance functions and manages the parking areas surrounding the Palace and oversee the Archives Building.

The Friends have funded its operations entirely from earned revenues, donations, and grants (both private and government) for such items as salaries & benefits, repair and maintenance, and regular expenses of the Palace such as electricity, heating ventilation, and air conditioning (HVAC) maintenance, water for chillers and a security camera contract. During the pandemic, with the Palace being closed and now visitation by appointment, the earned revenue from visitors

**SUZANNE D. CASE**  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

**ROBERT K. MASUDA**  
FIRST DEPUTY

**M. KALEO MANUEL**  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
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HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

and events has almost expired and the Friends have been losing about \$100,000 a month to maintain basic services.

The measure was amended to authorize the funding of the State of Hawai'i Museum of Monarchy as a permissible use of the Works of Art Special Fund. There are limitations to the use of funds due to the GO Bond restrictions.

The Department feels that State support of 'Iolani Palace is essential due to its significant value to the people of Hawaii.

The Bishop Museum has a line item that provides an annual allocation of state funds, and 'Iolani Palace should also receive the same funding support. A dedicated appropriation would help to offset basic operating costs such as minor repair and maintenance and fixed cost such as electricity, which is about \$10,000 per month. Another critical cost is HVAC maintenance and water for chillers. Regulating the temperature of the Palace is critical to protect the artifacts and antiquities within the Palace.

The Department also supports Senate Bill 1023 which would allocate \$750,000 in transient accommodations tax funding to 'Iolani Palace which could be used for basic operating costs.

Thank you for the opportunity to comment on this measure.

# TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Authorize Works of Art Special Fund to be used for Bishop Museum and Iolani Palace

BILL NUMBER: HB 777, HD1

INTRODUCED BY: YAMASHITA

EXECUTIVE SUMMARY: Authorizes funds from the works of art special fund to be used for Bishop Museum and Iolani Palace. Sunsets 6/30/2022.

SYNOPSIS: Amends section 103-8.5, HRS, to add as permissible uses for the works of art special fund: “Funding for the State of Hawaii Museum of Natural and Cultural History and State of Hawaii Museum of Monarchy.”

EFFECTIVE DATE: 7/1/2065. Repeals on 6/30/2022.

STAFF COMMENTS: Section 103-8.5, HRS, establishes the works of art special fund. That section also provides that 1% of all appropriations for construction or renovation of state buildings are automatically transferred into this fund. This law, enacted in 1967, was the first statewide “Percent for Art Law” in the United States.

Ordinarily, we would be concerned about setting a precedent with this measure. The worry would be that all other nonprofits would be clamoring for a piece of this or any other special fund now on the books. Bishop Museum and Iolani Palace, however, have special designations that other nonprofits lack. Bishop Museum is designated the State of Hawaii Museum of Natural and Cultural History in section 6E-40, HRS, and Iolani Palace is designated the State of Hawaii Museum of Monarchy History in section 6E-35, HRS.

If this measure is to move forward, we recommend adding the word “History” after “Monarchy” in proposed section 103-8.5(b)(5), HRS, to track the official designation in section 6E-35, HRS.

Digested 2/20/2021



**HAWAII**

STATE FOUNDATION on  
CULTURE and the ARTS

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**TESTIMONY OF THE STATE FOUNDATION ON CULTURE AND THE ARTS  
TO THE SENATE COMMITTEE ON LABOR, CULTURE AND THE ARTS  
Monday, March 22, 2021 at 3:05 p.m. CR 225 via Videoconference  
H.B. 777 H.D. 1  
RELATING TO WORKS OF ART SPECIAL FUND**

Chair Brian T. Taniguchi and members of the Committee, the State Foundation on Culture and the Arts (SFCA), **OPPOSES** H.B. 777 H.D. 1.

**Purpose of the Works of Art Special Fund:** The Works of Art Special Fund is not the correct vehicle for funding 'Iolani Palace and Bishop Museum as these funds cannot be used for operating due to their source as GO bonds. Expenditures for the Works of Art Special Fund are restricted to the acquisition, interpretation, conservation and transportation of works of art. The SFCA [Annual Report](#) offers a transparent look at how the fund efficiently and effectively provides public benefit.

The SFCA and its Hawaii State Art Museum (HiSAM) offer arts and culture opportunities to all residents and visitors of Hawaii, free, every day which includes free admission to the art museum, free arts education programming for schools, and free public programming. Diversion of funds from the Works of Art Special Fund to institutions with a pay wall would have dire consequences for the State, halting culture and arts work in communities already suffering from the impact of the pandemic. Access to culture and the arts for the people of Hawaii would be prioritized to those who are able to pay.

**'Iolani Palace and Bernice Pauahi Bishop Museum:** The State Foundation on Culture and the Arts recognizes the value of 'Iolani Palace and Bernice Pauahi Bishop Museum for the State of Hawaii. The State shares the responsibility to fund these institutions correctly and on a consistent basis to ensure ongoing operations. State support of Bishop Museum is to be implemented through an annual appropriation from the general revenues of the State of Hawaii as in H.B. 200 H.D.1. The 'Iolani Palace facility is in the purview of the Department of Land and Natural Resources (DLNR). If the need is to address aging facilities, CIP projects, leaky roofs, HVAC etc., the correct vehicle for 'Iolani Palace is for DLNR to request a CIP project from the legislature and for Bishop Museum, it would be to seek an appropriation from the legislature similarly or by adding Bishop Museum to H.B. 1193 H.D.1.

**Works of Art Special Fund Status:** In 2020, Act 40 disrupted funding with an unintended consequence that prevents the 1% from being allotted to the Special Fund resulting in only \$15,520 revenue to the fund to date. With the revenue stream blocked, the \$9M current unencumbered cash balance will be completely depleted by SFCA in two years. Maintaining a fund balance equal or greater than the legislative appropriation is necessary to ensure solvency as legislative appropriations are from the fund balance.

Works of Art Special Fund S-319	FY 17-18	FY 18-19	FY 19-20	FY 20-21 as of 1-31-21
1% Revenue (actual)	7,584,288.25	3,680,929.93	3,084,544.00	15,520.00
Total Expenses	4,003,645.42	4,329,333.25	4,575,636.76	5,000,000 e.
Appropriation	4,508,223.00	4,508,223.00	5,573,625.00	5,573,625.00

**Impact of H.B. 777 H.D. 1:** In addition to cutting statewide arts education, HiSAM programming and SFCA operations, the table below reflects current and future projects statewide that would be placed on hold or cancelled if funding were diverted to Bishop Museum and 'Iolani Palace. The coinciding State departments would be impacted as well with this proposed diversion of funds, as they contributed to the Special Fund and may have incorporated works of art into their construction or renovation plans. For some departments such as Transportation Airports Division, diversion of funds contributed to the Works of Art Special Fund would compromise their ability to qualify for Federal FAA grants.

Art in Public Places Current and Planned Projects	Location	Project Cost	Fiscal Year
Kahului Airport CONRAC	Kahului (Maui)	\$300,000	2022
Kihei High School	Kihei (Maui)	\$200,000	2022
Wahiawa Civic Center/Judiciary Complex	Wahiawa (Oahu)	\$300,000	2022
Governors Portrait	Honolulu (Oahu)	\$100,000	2022
Noelani Elementary School	Honolulu (Oahu)	\$150,000	2022
UH Cancer Center	Honolulu (Oahu)	\$50,000	2022
Ellison Onizuka Kona International Airport at Keahole administrative building	Kona (Hawaii)	\$200,000	2022
<b>Total (FY2022)</b>		<b>\$1,300,000</b>	

'Iolani Palace and Bishop Museum are eligible for SFCA funding designed to support organization's operating needs. Both Bishop Museum and 'Iolani Palace have provisions to receive State funds and an exemption from qualifying standards and conditions related to Chapter 42F. SFCA welcomes the opportunity to work with both 'Iolani Palace and Bishop Museum to support their needs within our fund parameters.

Thank you for the opportunity to submit written testimony on this matter.



**HB-777-HD-1**

Submitted on: 3/20/2021 11:24:52 PM

Testimony for LCA on 3/22/2021 3:05:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Alan Carpenter	Testifying for DLNR	Comments	No

Comments:

I am available for questions. Please allow me Zoom access. Thank you.

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR

ROBERT YU  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
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ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**  
TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 777, H.D. 1

**February 23, 2021**  
**2:00 p.m.**  
**Via Videoconference**

RELATING TO WORKS OF ART SPECIAL FUND

The Department of Budget and Finance (B&F) offers comments on House Bill (H.B.) No. 777, H.D. 1.

H.B. No. 777, H.D. 1, authorizes the Works of Art Special Fund (WOASF) to be used for funding for the State of Hawai'i Museum of Natural and Cultural History (Bishop Museum) and State of Hawai'i Museum of Monarchy (Iolani Palace).

B&F has serious concerns with the use of the WOASF for operating purposes for funding for the Bishop Museum and Iolani Palace. The WOASF is primarily funded by tax-exempt general obligation bonds. Using such bond proceeds for operating purposes puts the tax-exempt status of the bonds at risk (see Treasury Regulation Sections 1.148-(c)(4)(ii) and 1.148-10(a)(4)). Consequently, tax-exempt bond proceeds should not be used to fund operating expenses.

Thank you for your consideration of our comments.