

Honolulu, Hawaii

April 23, 2010

RE: H.B. No. 2200
H.D. 1
S.D. 2
C.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Sir and Madam:

Your Committee on Conference on the disagreeing vote of the House of Representatives to the amendments proposed by the Senate in H.B. No. 2200, H.D. 1, S.D. 2, entitled:

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

having met, and after full and free discussion, has agreed to recommend and does recommend to the respective Houses the final passage of this bill in an amended form.

I. INTRODUCTION

The 2009 Legislature was faced with an unprecedented budget challenge - a three-year shortfall of approximately \$2.1 billion. Although a balanced budget and financial plan were adopted by the Legislature at the end of the 2009 session, revenues continued to slide, and by January 2010 the State was faced with another daunting budget shortfall of approximately \$1.2 billion over a two-year period.

On September 4, 2009, in a statewide address, the Governor stated that she was planning "a reshaping and right-sizing of



government." In her January 25, 2010, state of the state address, the Governor stated that "we must do what it takes to create a future that does not financially burden our children and grandchildren simply because we weren't willing to make those difficult, sometimes gut-wrenching decisions, when destiny called on us to do so." Your Committee on Conference appreciates the sentiments, but its examination of the budget and other fiscal measures presented reveals that the Governor's actions clearly contradict these statements.

Rather than "reshaping and right-sizing government," a serious exercise that would require considerable planning, thought, and use of the right tools, it is as if the Governor just took a mallet and hammered every state agency down to achieve her desired level of savings. The approach taken was no more complex than simply requiring that each department reduce general fund expenditures by the same proportion.

Similarly, the Governor's budget and financial plan consists of one-time solutions and quick fixes, many that pass off financial burdens to future years or simply ignore them altogether. These costs include, among others, deferred payments, delayed tax rebates, and not addressing rising Medicaid costs, restructuring debt, and employee retirement system contributions.

This is the context from which your Committee on Conference reviewed the Governor's supplemental budget request. The lack of serious proposals providing structural solutions to the current fiscal crisis and budgetary actions already imposed by the Governor has made it difficult to thoroughly assess all options.

Nevertheless, your Committee developed a budget that recognizes the need to reduce expenditures and reprioritize state spending to maintain the most essential services that state government provides: caring for those who are least able to care for themselves, cultivating an environment in which our children can thrive, and protecting our natural resources. Your Committee on Conference greatly appreciates the efforts of those who worked with us to address the issues we faced in the most positive manner possible.

II. ECONOMIC OUTLOOK

National Economic Outlook

According to the Congressional Budget Office, "The deep recession that began two years ago appears to have ended in mid-



2009. Economic activity picked up during the second half of last year, with inflation-adjusted GDP and industrial production both showing gains."

Furthermore, the 2010 Economic Report of the President shows that the rate of average monthly job loss dropped from 690,000 in the first quarter to 69,000 jobs in the fourth quarter of 2009. The report also states that the credit market remains fragile, but that there are signs of hope.

At the end of 2009, the Standard and Poor's index was 65 per cent above its low point nine months earlier. During a similar period, monthly small business loans grew from \$830 million to \$1.3 billion.

The housing market also seems to be improving, posting fourth quarter sales that were 29 per cent higher than first quarter sales in 2009. Your Committee on Conference is hopeful that the national economy has stabilized and is slowly advancing beyond the recession.

The Economic Outlook for Hawaii

According to the University of Hawaii Economic Research Organization (UHERO), "Hawaii's economic recovery has begun" despite the lingering effects of the recent national recession. According to UHERO:

- Visitor arrivals edged up slightly over the course of 2009 and visitor spending stabilized by year end;
- Stabilization of job losses in recent months has set the stage for a resumption of modest job growth in 2010; and
- Statewide unemployment is expected to edge down from 6.9 per cent this year to 6.4 per cent in 2011.

III. GENERAL FUND REVENUE OUTLOOK

By statute, the Council on Revenues reports its latest tax revenue forecast to the Governor and the Legislature on June 1, September 10, January 10, and March 15 of each year. The revenues come primarily from the general excise tax and the state income tax. At seven of the eight Council meetings held since the March 2008 forecast, the Council on Revenues has reduced its prediction of tax revenues for the coming fiscal years. From March 2009 to March



2010, the Council's general fund tax and non-tax revenue projection for the current biennium dropped by \$626.2 million.

The Governor based the administration's original supplemental budget request, intended to close the \$1.2 billion budget gap, on the December 2009 Council on Revenue's projection. On March 11, 2010, the Council on Revenues revised its forecast downward; the projection was adjusted by minus \$34.8 million for the current biennium and minus \$334.4 million over the six year planning period (Fiscal Years 2010-15).

Despite the slight downward adjustment in the March 2010 forecast, the Council maintained its projection for six per cent growth in revenues during fiscal years 2011-2014. The Council Chair's letter to the Governor, officially delivering the forecast and explaining the basis for the projection, referenced several positive indicators and contained optimistic statements including:

- *Hawaii tourism volumes have been in a stable pattern for almost a year and a half;*
- *Inflation-adjusted value of tourism receipts show signs of recovery in just the last six months;*
- *Housing markets and valuations have also stabilized, with some upward movement on Oahu;*
- *Job loss in Hawaii remains persistent, but in smaller monthly increments than was the case during the last two years;*
- *Broadly, these and other indicators are consistent with gradual economic recovery in the current and coming years; and*
- *All of these elements seem likely to underscore forthcoming economic improvement in the islands.*

In its March 2010 report, the Council on Revenues reported that "the shift in expectations for future Hawaii economic performance from negative to positive is palpable" and that indicators "are consistent with gradual economic recovery in the current and coming fiscal years."



Despite the Council's recent track record of lagging the decline in revenues, your Committee on Conference has cautiously accepted the projection and notes the significant risk that exists for revenue growth assumptions for the next two biennium.

These statements and economic indicators have allowed your Committee on Conference to address significant challenges posed by the State's current fiscal climate with cautious optimism.

IV. BUDGET OVERVIEW

Personnel expenses comprise the greatest cost contained in the State's budget. The Governor originally planned to impose a statewide three day per month furlough which would have saved 13.85 per cent of payroll costs. However, the courts ruled that the Governor could not unilaterally impose a furlough and could employ furloughs only through the collective bargaining process. Though not able to achieve the Governor's planned savings through the collective bargaining process, the original three day per month furlough savings estimates were used as the target reduction amounts in the development of the fiscal year 2011 supplemental budget request.

Furlough savings are now projected at close to \$200 million. In addition, a statewide hiring freeze has left numerous positions vacant. The Governor reduced many of these budgeted positions and salaries, amounting to savings of \$11.7 million. The last piece of the Governor's plan to save on labor costs was the reduction in force (RIF) implemented late last year. The reduction of the nearly 1,000 positions and salaries of persons initially subjected to the RIF results in \$43 million in savings.

In addition to vacancy reductions, RIF, and furloughs, departments were expected to make other adjustments as necessary to meet their target reduction amounts. In essence, departments have already been operating within these reduced budget ceilings due to the Governor's budget restrictions for fiscal year 2010.

As adjusted by Governor's message items, the Governor's supplemental budget request adds \$390 thousand for fiscal year 2010 and reduces 1,291 permanent positions and \$324 million for fiscal year 2011 in general funds.

Your Committee on Conference accepted several of the Governor's requested budget adjustments, since they reflect savings that state agencies are already forced to realize through the furloughs,



statewide hiring freeze, RIF, and other budget restrictions imposed by the Governor for fiscal year 2010.

With regard to the RIF, it is apparent that its execution involved minimal deliberation with the affected parties. Departments have reported being given numbers of positions to target, without regard to the amount of savings or whether the action was even necessary. However, at this point, the RIF has been implemented; people have already lost their jobs, and many others have been affected by the bumping process.

To properly account for projected expenditures, your Committee on Conference reflected much of the savings resulting from the Governor's sweeping actions. However, your Committee on Conference identified areas of importance that, to some extent, should be protected from the Governor's budget reductions. This includes the restoration of vital positions in: 1) the Department of Agriculture in order to protect our islands from invasive species; 2) the Department of Public Safety to help secure the Hawaii State Hospital; and 3) the Department of Human Services to ensure the provision of essential services to those in need.

Your Committee on Conference responded to the needs of Hawaii's public education by increasing funds to strengthen the weighted student formula. Furthermore, your Committee on Conference also recognized the importance of libraries and has provided an additional \$3 million to support their services to the public. This was accomplished within the Governor's proposed general fund budget ceiling through the careful reallocation of resources.

Your Committee on Conference developed this budget without reliance on adjustments to the general excise tax to enhance general fund revenue. The increase of a broad-based tax such as the general excise tax could jeopardize the course of Hawaii's economic recovery. Your Committee on Conference utilized alternative methods of increasing revenue to close the budget deficit.

V. DEPARTMENT HIGHLIGHTS

Education

School furlough days are a direct result of negotiations between the Governor, Board of Education, Superintendent, and the Hawaii State Teachers Association and were intended to help meet the budget restrictions imposed by the Governor. Your Committee's priority for education has been to eliminate school furlough days



and return Hawaii's students to a level of instruction previously provided. Despite having by law (section 89-6, Hawaii Revised Statutes) three of the six employer votes required to enter into the agreement to impose furlough days, the Governor has stated repeatedly that the administration, "remains committed to getting the kids back in the classroom." At odds with this claim is the fact that the Governor's budget request before the Legislature for the Department of Education continues to be built on savings generated by maintaining school furlough days.

Unfortunately, the furlough issue remains unresolved despite countless proposals put forth by all sides. Since the Legislature cannot depend on the Governor to release the needed funds to get our children back in the classroom, your Committee on Conference allocated \$22.7 million to the weighted student formula to support the core functions of the department.

The weighted student formula is a form of student-based budgeting meant to transparently distribute funds to schools based upon recognized student educational need and characteristics to promote equity for educational opportunities across our public school system. By reallocating school dollars identified by the Board of Education from lower priority programs to the weighted student formula, the Legislature reaffirms its desire to provide each school community with flexibility in determining how best to meet student needs.

Your Committee on Conference accepted the proposal made by the Board of Education that identifies funding reductions for categorical programs. While many of these programs have merit, they use funds that could support the department's core function: student learning in the areas of math, science, and English. Your Committee on Conference understands that people value the programs identified by the Board of Education and that these programs can continue to exist if they are valued by school communities and funded through the weighted student formula, as intended by Act 51, Session Laws of Hawaii 2004.

In addition to the proposals made by the Board of Education, your Committee on Conference has eliminated the general fund subsidy to the Afterschool (A+) Program, representing a \$2 million savings. This reduction comes with the recognition that all government services cannot be subsidized at previous levels. However, afterschool care for students currently receiving free or reduced lunch status will continue to be subsidized via Temporary Assistance to Needy Families (TANF) funds. The funds saved through this



adjustment will also stay within the Department of Education and are allocated for the weighted student formula.

Charter Schools

Your Committee on Conference sought to address charter school funding issues that repeatedly surface. There has been a lackadaisical attitude toward legislative requests to provide current and complete financial and operational information. Despite hurdles in obtaining relevant information, your Committee on Conference focused on establishing a platform upon which per pupil funding comparisons among all students will be transparent and equitable.

The Governor's proposed budget does not attempt to provide a similar per pupil amount for charter schools based upon the Department of Education's appropriation and the charter schools projected enrollment. Your Committee on Conference recognizes that additional funds are needed to make the per pupil funding amount provided to charter school students comparable to the per pupil funding amount provided to Department of Education students. This addition is largely due to a substantial enrollment increase projected by charter schools. Actual enrollment for charter schools for the 2009-2010 school year has been reported as 8,098 students. Projected enrollment for the 2010-2011 school year is 9,668 students, representing a projected 19.4 per cent increase in charter school enrollment.

To meet this need and provide comparable funding for charter school students, your Committee on Conference added a total of \$5.3 million in general funds for the new per pupil funding calculation and facility costs, using updated projected enrollment and the appropriation amounts for the Department of Education. However, over-projection of student enrollment has been a problem with charter schools, and receipt of these funds is contingent upon actual enrollment increases.

Libraries

Your Committee on Conference also recognizes the importance of Hawaii's public libraries in nurturing the love of reading and the habit of life-long learning. Public libraries remain a tremendously appreciated component of our communities, providing valuable services to all social strata.



The non-profit group, Friends of the Library of Hawaii, has proven itself to be an indispensable contributor to help offset some of the restrictions imposed by the Governor on libraries. Your Committee on Conference recognizes the need to sustain this invaluable service and has restored all \$3 million in general funds to the department's budget. The restoration of these funds will eliminate library furlough days, increase service hours, and prevent closure of branches.

Higher Education

Your Committee on Conference acknowledges the University of Hawaii as the State's premier institution for higher learning; a nationally recognized research institution; and a major contributor to our local economy.

Your Committee on Conference is aware of the fact that the University of Hawaii has the ability to generate its own funds through tuition and fees. As a result, your Committee believes that the University can use these generated funds to offset a \$7.5 million dollar general fund reduction.

Your Committee on Conference recognizes the importance of preserving the historic resources of Mauna Kea. Mauna Kea has the potential to generate over \$1.2 billion in investment to the State in coming years. Your Committee on Conference added \$1.98 million in revolving funds and \$200,000 in general funds to support the Mauna Kea Management program.

Your Committee on Conference is concerned with the University's faculty payroll increase for fiscal years 2013-2015, agreed upon through the collective bargaining process with the University of Hawaii Professional Assembly (UHPA). The agreement increases total state payroll costs by \$45.6 million over fiscal years 2013-2015. It should be noted that your Committee on Conference believes the University should be fully responsible for funding these pay increases without the use of general funds, especially in this time of great economic stress.

Human Services

Your Committee on Conference understands the importance of supporting the Department of Human Services (DHS) in its effort to provide for the growing numbers who need government services. A convergence of job loss, rising medical costs, and limited housing



options has resulted in a devastating perfect storm, leaving many to seek assistance.

Your Committee on Conference recognizes the challenge of providing social services to Hawaii's most vulnerable under the State's fiscal constraints. Accordingly, S.B. No. 2469, S.D. 2, H.D. 2, C.D. 1 appropriates special funds from the Emergency and Budget Reserve fund to support various programs such as kupuna care, adult dental services, respite services, health aging partnership, domestic violence shelters, outreach services, and housing placement services.

Your Committee on Conference accepted the Governor's proposal to save \$13.1 million in state general funds by utilizing Temporary Assistance for Needy Families (TANF) funds to pay for the Afterschool (A+) Program and cash assistance for two-parent households receiving welfare. This is part of a larger plan to increase our expenditure of TANF funds in order to earn an additional \$49 million in Emergency Contingency Funds.

However, serious concerns were raised by the House of Representatives with regard to TANF. On February 16, 2010, DHS submitted its financial plan for the State's TANF program. A review of this plan caused the House of Representatives Committee on Finance to adjust budget provisos to conform expenditures to those stated in the department's plan.

In response, DHS expressed grave concerns in correspondence to the Legislature and press releases. These statements attributed the House of Representatives Committee on Finance with preventing the State from receiving all of the \$49 million dollars in federal stimulus funds and eliminating funding for Child Welfare Services POS contracts, Enhanced Healthy Start and UPLINK. However, at an April 12, 2010, informational briefing, DHS admitted to having already received \$25 million of this \$49 million, and DHS administrative personnel appeared surprised to learn that their own plan had eliminated funding for Child Welfare Services POS contracts, Enhanced Healthy Start, and UPLINK.

Your Committee notes that the Emergency Contingency fund extension has yet to pass the United States Congress. Additionally, there is currently no proposal to extend the TANF Emergency Contingency funds past fiscal year 2011. If these emergency TANF funds are not available for states after the next fiscal year, Hawaii may have to reduce a considerable amount of expenditures from



its TANF expenditure plan, resulting in cuts to service providers across the entire spectrum.

Understanding the importance of timely service and personal interaction when providing assistance to those in need, your Committee on Conference restored 440.5 positions and \$5.5 million in general funds to help alleviate mounting demands that are being placed on DHS.

Providing necessary health care to Hawaii's needy residents is an important service delivered by DHS. However, over the course of the Governor's tenure, Medicaid-subsidized health care has expanded far beyond what can be deemed medically necessary.

Hawaii residents eligible for Medicaid can look forward to receiving a premium health care plan, which contain benefits and services that far exceed those found in private plans. With no limits on utilization, no deductible, no co-pay, and no premiums, this program has the potential to overwhelm the ability of the State to manage its finances.

Unfettered Medicaid expansion, coupled with the economic downturn, has created a grim financial situation. DHS has looked into restricting eligibility as another means to control its shortfall. However, as a recipient of ARRA funding, the State is required to leave the current eligibility criteria in place in order to provide for those who have been affected by the recession.

Medical inflation and increasing enrollment created a budget shortfall that must be addressed. When charged with the task of finding solutions to the Medicaid shortfall, DHS chose to delay Medicaid payments, with the intent of paying off these costs with future appropriations. In effect, DHS undertook a plan that the director described as, "robbing Peter to pay Paul." As a result, a shortfall of \$64 million from fiscal year 2009 was carried over into fiscal year 2010, and it is forecasted that \$44 million will be carried over into fiscal year 2011. By fiscal year 2015, the annual Medicaid shortfall is projected to be in excess of \$200 million, an amount that the State cannot afford to put off.

Securing health care for Hawaii's most needy residents is of the utmost importance. In an effort to ensure the delivery of medical services, your Committee on Conference appropriated \$64 million to address the State's Medicaid shortfall.



Health

Your Committee on Conference is dedicated to ensuring that essential health care, safety, and environmental health remain a legislative priority in the face of the State's economic crisis.

For the Department of Health (DOH), the Governor eliminated \$26.8 million and 339.88 positions, representing 24 per cent of the State's total budget cuts for fiscal year 2011. The Governor's severe restrictions, implemented by the DOH in fiscal year 2010, have significantly diminished public health and environmental protections for the people of Hawaii. Your Committee on Conference was unable to control the ability of the Governor to implement reductions in programs such as: mental health services; dental hygiene services for children; and environmental health for vector control and disease management.

Your Committee on Conference recognizes the critical importance of providing efficient statewide waste water and drinking water services to residents, visitors, and businesses in Hawaii. To ensure that Hawaii's counties continue their waste water and drinking water infrastructure improvements, your Committee on Conference has appropriated \$19.8 million in federal stimulus funds.

Your Committee on Conference supports preventative health services for child abuse and for families that have ongoing care responsibilities for developmentally or mentally disabled family members. To meet this need, during the 2009 regular session, the Legislature restored \$4.1 million with special funds to support programs such as Healthy Start, Respite Care, and Partnership in Community Living (PICL). Regrettably, the Governor has refused to use these funds for the services. Although your Committee on Conference disagrees with the Governor's refusal to restore these services, your Committee on Conference has made the hard choice of reducing the \$4.1 million special fund ceiling for Healthy Start, Respite Care, and PICL that would otherwise go unused, so that it may be made available for other programs.

Also, your Committee on Conference is mindful of the State's responsibility to reduce its current course of spending and level of services to accommodate the availability of revenue. To this end, your Committee on Conference has reduced five per cent, or \$5.6 million of general funds budgeted for purchase of services contracts for the department. The reductions taken were in the areas of general dentistry and nursing services, mental health, developmental disabilities, and general family health services.



In this economic downturn, Hawaii's emergency health services and community health centers have seen an unprecedented increase in uninsured and underinsured persons requiring essential primary care, mental health care, and substance abuse care services. Your Committee on Conference recognizes the importance of providing these necessary healthcare services for the people of Hawaii, especially at this difficult time. Your Committee on Conference has appropriated an additional \$4.5 million in general funds for emergency medical services and \$2 million in special funds for community health centers to ensure the people of Hawaii continue to receive essential health services.

Finally, your Committee on Conference supports re-evaluating tobacco settlement special fund and cigarette tax distributions for fiscal year 2012 and beyond.

Hawaii Health Systems Corporation

Your Committee on Conference affirms its commitment to provide the necessary resources to help the Hawaii Health Systems Corporation (HHSC) maintain safety net acute and long term care health services to Hawaii's most vulnerable citizens and visitors; especially those of the neighbor islands. HHSC continues to face tremendous challenges in the midst of the State's financial crisis with, among other things, rising uncompensated care for the aged and uninsured, rising costs to provide care, and federal and private reimbursement rates failing to keep pace with rising medical costs.

To assist HHSC regional and corporate offices in meeting their immediate payment obligations, your Committee on Conference has restored the majority of special funds for fiscal year 2011 that the Governor reduced. However, your Committee on Conference remains concerned with the management of the HHSC regional hospitals and supports ongoing accountability and transparency for both fiscal and operational matters of the HHSC regional hospitals.

Public Safety

Your Committee on Conference remains supportive of the Department of Public Safety's responsibility for custody of Hawaii's inmates and protection of the State's general population.

However, your Committee on Conference is uncomfortable with the Governor's quick closure of Kulani Correctional Facility and subsequent transfer of the facility to the Department of Defense's



Youth Challenge Academy; the Governor eliminated the Kulani Correctional Facility without any community consultation and despite outspoken legislative concern. The Governor's abrupt action reportedly saves approximately \$5.8 million dollars; however, these savings come at the cost of eradicating one of the top Sex Offender Treatment Programs (SOTP) in the nation, ending a successful re-entry program, and eliminating a significant economic engine for Big Island vendors.

Additionally, your Committee on Conference has difficulty understanding the rationale of subjecting all of the department's security officers to RIF, especially with the recent escapes from the Hawaii State Hospital. The loss of these officers has severely compromised the safety of the surrounding area. Accordingly, your Committee on Conference has restored all security officers assigned to Hawaii State Hospital, in addition to those stationed at Waimano Training School and Hospital and Fort Ruger.

Your Committee on Conference finds that overtime and compensatory time provided by the department remains exorbitant: there is \$8.8 million in overtime and \$2.4 million in compensatory time on the books. The millions of dollars paid out for these costs can artificially inflate the pensions of workers and result in serious financial liabilities for the State. Your Committee on Conference expects the department to better address this issue. In light of this significant problem, your Committee on Conference has reduced the department's overtime budget by \$500,000, which will be applied proportionately throughout the facilities and programs.

Agriculture

Agriculture remains an integral component of Hawaii's future. Your Committee on Conference is dedicated to decreasing Hawaii's dependence on imported food products, increasing our export presence, and protecting our State from invasive species.

Your Committee on Conference is dismayed not just by the Governor's staggering 44 per cent general fund reduction to the department's budget, but also by the department's seeming reluctance to protect its budget from the Governor. Not only would deep reductions to the department severely compromise the State's efforts to prevent the establishment of new invasive species, it would also inevitably jeopardize Hawaii's agricultural industry.

The Governor's proposal to change the means of financing for 22 Plant Quarantine Inspectors provides a temporary remedy. These



inspectors are necessary to keep Neighbor Island ports open; however, the Governor's budget fails to acknowledge that the greatest need for additional Plant Quarantine Inspectors is at the epicenter of the distribution network, Honolulu. As such, your Committee on Conference has restored a total of 25 positions with full funding to Plant Pest and Disease Control to reinstate essential positions both on Oahu the Neighbor Islands.

Your Committee on Conference has also reestablished positions imperative to the following programs: Rabies Quarantine, Quality and Price Assurance, Aquaculture Development, Agricultural Development and Marketing, Measurement Standards, Administration and Pesticides. The restoration of these positions will ensure that Hawaii's agribusiness development, agricultural productivity, and frontline defense from invasive species and harmful diseases are effectively supported.

Business, Economic Development, and Tourism

Your Committee on Conference recognizes the importance of Hawaii's businesses as a driving force behind the State's economic recovery and that proper support must be in place to assist them.

As a premier filming destination, Hawaii has a reputation for being an attractive, film-friendly location that draws industry leaders to our shores. These film projects not only promote the beauty of the State, but also generate between \$150-200 million annually, which will aid in Hawaii's economic recovery. Surprisingly, the Governor chose to substantially reduce the state program that supports this industry, firing four of six Film Industry Branch employees.

Your Committee on Conference rejects the Governor's actions that would inhibit the growth of an industry that significantly affects Hawaii's economy in a positive manner. Your Committee on Conference understands the importance of the Film Industry Branch and restores the positions reduced by the Governor in H.B. No. 2690, which moves the function and funding of the program to the Hawaii Tourism Authority (HTA).

Alignment of the Film Industry Branch with the HTA will support growth of the film industry in Hawaii and also result in the effective marketing of Hawaii. With access to the HTA's resources and marketing expertise, the Film Industry Branch will be better able to draw film projects to Hawaii. Your Committee on Conference supports the important role of the Film Industry Branch, which



serves to support a clean industry that has a significant positive economic impact for Hawaii.

Supporting Hawaii's businesses with funds that are in limited supply has been difficult. Your Committee on Conference understands the need to find creative solutions and has identified positions that can utilize new sources of funding. In particular, your Committee on Conference has saved general funds by utilizing the energy security special fund to support the Energy Program and Hawaii's Clean Energy Initiative.

In recognition of the State's Aerospace program, your Committee on Conference has established the Energy, Environment, and Aerospace program of the State of Hawaii. The Aerospace program will coexist with other state programs that are able to access substantial amounts of federal and other non-general funds. Receipt of these non-general funds should reduce the need for general fund expenditures. Your Committee on Conference encourages access of the freed general funds by the Aerospace program for expansion of its programs.

Modernizing Hawaii's harbors will play an important role in reviving the struggling economy. Your Committee on Conference finds that Aloha Tower Development Corporation is unable to carry-out its function and effectively lead the Harbors Modernization Plan; consequently, your Committee on Conference assigned the responsibility of improving harbors to the more capable and appropriate Department of Transportation, Harbors Division.

Budget and Finance

Your Committee on Conference recognizes the importance of the Department of Budget and Finance as a provider of vital fiscal and administrative services for the State. However, it notes the combination of the Governor's hiring freeze and budget restrictions have left the department unable to perform its duties efficiently within the Hawaii Employer-Union Health Benefits Trust Fund Division.

In addition, furloughs have caused the division to pay out hundreds of hours in overtime a month just to stay afloat. Most other divisions are not authorized to use overtime and remain severely backlogged and unable to function efficiently. Your Committee on Conference believes that the excessive use of overtime is unacceptable and has ensured that permanent and temporary



positions were added to EUTF to assist with their current and future shortfall.

Accounting and General Services

Programs within the Department of Accounting and General Services were among those severely affected by the RIF imposed by the Governor. The Information Processing and Computer Services Division (ICSD) and Central Services - Custodial Services are two programs that experienced substantial reductions. Though assured the impacts do not significantly affect core services, your Committee on Conference raised concerns over the department's ability to function at an acceptable level and thus restored 29.5 positions that the Governor abolished.

Additionally, your Committee is concerned that a potential \$2 million or more shortfall exists for electricity costs. This is a matter of continual concern since the department has historically been unable to budget appropriate amounts for this expenditure.

Attorney General

Your Committee on Conference understands the importance of legal counsel for the State of Hawaii. Calculative efforts have been made to reduce the department's budget in areas of limited impact. Your Committee on Conference reduced positions amounting to \$308,896 in the Legal Services division of the department. However, your Committee on Conference recognizes that there are areas of need. As such, your Committee on Conference restored vital positions in all three programs as well as funding in the State Criminal Justice Identification and Child Support Enforcement Programs.

Your Committee on Conference recognizes the value of programs such as the Career Criminal and Victim Witness Protection programs; however, the State can no longer subsidize county programs to the extent it once could. As such, the state subsidy to these county programs was reduced by \$317,032.

Defense

Your Committee on Conference recognizes the importance of maximizing the use of federal funds during these times of financial strain. Your Committee on Conference has restored federally funded positions reduced by the Governor and approved an increase of over



\$12 million in federal funds, which will stimulate Hawaii's economy with new jobs and increased spending.

Your Committee on Conference also recognizes the importance of state-supported veteran services and has thus provided funding to establish financial, counseling, and cemetery staff positions.

Human Resources Development

The Department of Human Resources Development is responsible for unemployment payments for most state agencies. Your Committee on Conference provided \$6 million requested by the Governor for unemployment insurance benefits related to the RIF of state employees.

Labor and Industrial Relations

Your Committee on Conference is supportive of the Department of Labor and Industrial Relations' continued involvement in improving job opportunities, providing work placement, and protecting the employment rights of state workers. Your Committee on Conference focused intently on creating savings in areas that could absorb reductions while restoring areas that were in need.

Your Committee on Conference saved \$700,000 in general funds in the Office of Community Services, which will still be able to function and maintain employment service programs of various community organizations. Your Committee on Conference restored positions and \$4.2 million in federal funds for the Workforce Development Program. This program provides a valuable resource to both potential employees and prospective employers. Federal funds for the positions were recently secured in December 2009. Your Committee on Conference also restored 12 positions and funds for the Hawaii Occupational Safety and Health Program to help ensure safe workplaces and to better protect our workers.

Your Committee on Conference also restored positions and funding in the Hawaii Civil Rights Commission Program, the Workforce Development Council, Unemployment Insurance Program, the Employment Security Appeals Referees' Office, Data Gathering, the Disability Compensation Program, and the Office of Language Access.

Land and Natural Resources

Your Committee on Conference recognizes the importance of managing and maintaining Hawaii's unique and limited natural



resources for both residents and visitors. However, it notes the Governor's budget cuts have left the department struggling to perform some of its core duties efficiently in several programs such as the Historic Preservation Division.

The recent economic downturn has especially hurt the department because of its heavy reliance on leasing and geothermal revenues, which are closely tied to the economy. However, your Committee on Conference does see signs of economic recovery on the horizon and thus has restored key positions originally cut by the Governor, which can be funded in better economic times.

Consumer Affairs

Your Committee on Conference provided a \$4 million special fund ceiling increase to support the matching requirement for an ARRA grant that will be awarded to promote Broadband Technology at the University of Hawaii. This project will install fiber optic connectivity for 302 public schools, 51 public libraries, and seven community colleges.

Further, your Committee on Conference notes that the department relies on special funds for its operations. However, as the department prides itself on being self-sufficient, your Committee on Conference expects the department, to the extent possible, to fully reimburse state agencies providing the department services through the use of general funds.

Taxation

Your Committee on Conference recognizes the need to prioritize revenue generating positions to aid in the fair and uniform application of taxes in Hawaii. The logic behind the Governor's decision to reduce positions in this department is unclear; therefore, your Committee on Conference restored seven positions that have the potential to collect \$3 million in the first year.

Transportation

Managing the State's public airports, commercial harbors, and highways is of great importance to supporting commerce. Your Committee on Conference is concerned with the Aloha Tower Development Corporation's (ATDC) ability to effectively lead the Harbors Modernization Plan. Accordingly, your Committee on Conference denied the Governor's appropriation to ATDC and welcomes



the participation of the Harbors Division in managing the Harbors Modernization Plan.

Additionally, your Committee on Conference was concerned about the department's ability to effectively function after suffering substantial vacancy reductions. Thus, your Committee on Conference restored most of the positions and funds that the Governor abolished.

VI. CAPITAL IMPROVEMENTS PROGRAM

Your Committee on Conference finds that in a struggling economy, the State must endeavor to practice fiscal responsibility through not only the reduction of expenditures, but also proper investment to avoid escalated costs in the future. At the same time, however, your Committee on Conference believes that capital investments will result in long-term economic efficiency and competitiveness, while contributing to the improvement in our roads, schools, and other state facilities and programs that are relied upon by our residents. In addition, such state-driven development leads to job preservation and creation, which is a prime objective of the Committee.

Your Committee on Conference finds that the Administration's capital improvements program (CIP) supplemental biennium budget, as amended pursuant to Governor's Messages, included reductions of \$30.4 million in fiscal year 2010 as well as an additional \$39.754 million in proposed lapses, resulting in a negative general obligation (G.O.) bond supplemental budget request of \$23.856 million. This budget signifies a retreat from the Administration's more aggressive approach of one year ago, including its five-point plan, CIP Strike Force, consisting of \$1.8 billion in capital improvement projects. Although the Administration's current approach demonstrates a curbing on spending, given decreased revenues, it also frustrates earlier efforts by the federal government, the Legislature, and even the Administration itself to create jobs, increase the disposal income of consumers, and, in turn, stimulate the economy.

While mindful of the burden of increased debt service at a time when revenues are down, your Committee on Conference still believes that it is crucial to continue to undertake projects to help stimulate the economy. Additionally, your Committee on Conference believes that the State should continue to take advantage of available incentives and programs, as well as the favorable market conditions the State has recently experienced in selling bonds to



secure financing for these necessary projects. In February 2010, the State was able to successfully issue a larger than initially anticipated amount of new bonds and refinanced old general obligation bonds utilizing the Build America Bonds (BABs) program. The BABs program was established under the American Recovery and Reinvestment Act of 2009 and is intended to assist state and local governments in financing capital projects at lower borrowing costs, through the provision of a direct federal subsidy for interest costs, and to stimulate the economy and create jobs. This is in line with your Committee on Conference's main objectives. Your Committee on Conference notes that this program is currently available only through the end of calendar year 2010 and, therefore, supports and urges continued consideration of the program's utilization before its expiration.

With the previously stated objectives in mind, your Committee on Conference has carefully crafted a capital improvements program budget that provides for a total of in excess of \$1.149 billion for projects funded by G.O. bonds for the biennium and \$4.221 billion for projects funded by all means of financing. Given the current economic situation and the changing nature of priorities, this budget was designed through the critical examination of all previously appropriated G.O. bond funded projects to determine the propriety of lapsing projects in order to provide funding for more critical or necessary projects. Many projects that the Administration, departments, agencies, and even non-profit organizations have deemed unnecessary or no longer a priority were considered for lapsing. Although your Committee on Conference believes that each previously appropriated project possesses merit on its own, priorities have shifted to make it necessary to lapse and redirect funds to other worthy projects at this time.

As a result, your Committee on Conference has lapsed expiring, lower priority, or unnecessary previously appropriated projects and redirects such funds to higher priority needs as identified by the Administration, the departments, and your Committee on Conference. Through this effort, your Committee on Conference has sought to ensure projects are executed, funds are utilized, and facilities needs are addressed. Lapses include the following types of projects:

- (1) Projects identified by the Administration or departments that have been completed with excess unrequired balances;
- (2) Projects where allotments requests made by departments have been denied, indicating that funds will likely not be



released prior to the upcoming June 30, 2010 lapse date, including projects identified by the Department of Education that will not be pursued, mainly due to the fact that the department has received insufficient allotments from the Administration to complete such projects; and

- (3) Projects that no longer represent current Administration, department, or legislative priorities.

Your Committee on Conference has focused on the following areas in this budget:

- (1) Investment in new construction;
- (2) Reduction of repair and maintenance backlogs for state facilities throughout several departments;
- (3) Addressing critical health, safety, and other code requirements of various departments;
- (4) Creating or saving jobs for our residents; and
- (5) Providing the framework for growth and expansion of essential services, programs, and facilities.

Given the massive destruction and suffering resulting from recent earthquakes in Haiti and Chile, as well as the potentially damaging results from the recent tsunami warning experienced in our State, your Committee on Conference believes that this supplemental budget also reflects an appreciation for the need to invest in preventative measures to improve emergency efforts and thwart possible damage and destruction in the State.

As previously mentioned, many prior appropriated projects that are scheduled to lapse on June 30, 2010, which the Department of Education has indicated it will not be pursuing, are lapsed early under this budget. However, your Committee on Conference remains steadfastly committed to improving and maintaining our public school facilities, and, as a result, has redirected those lapsed funds back to the Department of Education to invest in necessary infrastructure for our schools. Your Committee on Conference believes that crucial and critical repairs must be made to ensure safe and adequate facilities are provided to our students and to ensure against state liability. The inclusion of \$30 million for repair and maintenance projects for fiscal year 2011 and \$15 million for electrical upgrades at schools statewide, as well as a total of \$144.07 million



for all fiscal year 2011 projects for the department, demonstrates an important investment in our schools and our students. Your Committee on Conference believes that the continued investment in reducing the repair and maintenance backlog will assist the department in reaching a point of maintenance within approximately the next four years. This accomplishment will further enable the department to look forward to constructing necessary new school facilities and concentrate on other capital priorities as well.

Similarly, your Committee on Conference maintains its commitment to reducing and eventually eliminating the backlog of repair and maintenance needs within the University of Hawaii system. Crucial repairs must be addressed to ensure the safety of our University students, faculty, and visitors, as well as to allow the University to move forward with new construction initiatives and upgrades for facilities throughout the system. After close examination of the current capital renewal and deferred maintenance (CRDM) backlog, your Committee on Conference has provided the following:

- (1) \$64.285 million for capital renewal and deferred maintenance projects throughout the University of Hawaii System, which includes \$2 million for CIP projects at community college campuses;
- (2) \$20 million for the University's Renovate to Innovate initiative, which not only addresses some of the current CRDM backlog, but also focuses on research facilities to help ensure increased funds from federal grants and other related funding; and
- (3) \$18.625 million for health, safety and code requirements to provide for safe and compliant facilities for students, faculty and staff, and visitors.

Your Committee on Conference has also provided necessary funding for campus development at the University of Hawaii at West Oahu (\$48 million) and for the construction of a new College of Hawaiian Language building at the University of Hawaii at Hilo (\$28 million). Such funding will assist the University system in expanding and continuing to flourish as a premier academic institution.

Additionally, your Committee has provided critical funding for the following:



- (1) An additional \$3 million in fiscal year 2011 to ensure completion of roof repairs at Aloha Stadium, as well as \$2 million in fiscal year 2011 for turf replacement at Aloha Stadium to help provide safe conditions for spectators, players, participants, and workers and to allow the facility to maintain and attract sports and other entertainment events, including the NFL Pro Bowl;
- (2) \$5 million in fiscal year 2011 for repair and maintenance needs for Hawaii Health Systems Corporation facilities, in addition to funding for critical hospital-specific projects;
- (3) \$5.4 million in fiscal year 2011 for repairs, upgrades, and expansion of critical communications backbone systems to help establish and maintain uninterrupted communication lines, particularly for emergency first responders;
- (4) \$500,000 in fiscal year 2011 for health, safety, and code requirements for Department of Agriculture facilities throughout the State;
- (5) Additional funds for various new projects of the Department of Transportation to ensure the provision of safe and adequate roads and airport and harbor facilities; and
- (6) Additional funds for current projects within the Department of Transportation, Department of Defense, and Department of Health to ensure that matching federal fund contributions are maximized and not lost or forfeited.

Accordingly, your Committee on Conference believes that this supplemental capital improvements program budget addresses the highest priorities of the State, while also reflecting an important balance between increased investment and fiscal responsibility.

VII. Conclusion

All indications are that the long awaited economic recovery is underway. This is fortunate, since the Governor's budget relies heavily upon a number of temporary measures to address the current fiscal crisis. Although your Committee on Conference reflected much of the savings that result from the Governor's actions, it prioritized those functions of government most needed by Hawaii's residents.



While the House of Representatives and the Senate approached important budgetary issues from perspectives that differ significantly from each other and that of the Governor, a collaborative effort has resulted in the development of a budget that will move the State through this difficult time. Your Committee on Conference believes it has found reasonable solutions to the problems that confront us.

In total, this measure appropriates \$4,943,348,231 in general funds and \$10,241,967,263 in all means of financing for the fiscal year 2011 operating budget. These figures represent reductions to Act 162, Session Laws of Hawaii 2009, appropriations of \$324,300,460 in general funds and \$225,362,710 in all means of financing for fiscal year 2011.

As affirmed by the record of votes of the managers of your Committee on Conference that is attached to this report, your Committee on Conference is in accord with the intent and purpose of H.B. No. 2200, H.D. 1, S.D. 2, as amended herein, and recommends that it pass Final Reading in the form attached hereto as H.B. No. 2200, H.D. 1, S.D. 2, C.D. 1.

Respectfully submitted on behalf
of the managers:

ON THE PART OF THE SENATE

ON THE PART OF THE HOUSE


DONNA MERCADO KIM, Chair


MARCUS R. OSHIRO, Chair



