

STAND. COM. REP. NO.

928

Honolulu, Hawaii

March 11, 2013

RE: H.B. No. 200

H.D. 1

Honorable Joseph M. Souki
Speaker, House of Representatives
Twenty-Seventh State Legislature
Regular Session of 2013
State of Hawaii

Sir:

Your Committee on Finance, to which was referred H.B. No. 200
entitled:

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

begs leave to report as follows:

The purpose of this measure is to appropriate funds for the
operating and capital improvement costs of the Executive Branch
for fiscal year (FY) 2013-2014 and FY2014-2015.

In total, this budget appropriates \$5,974,492,419 in general
funds and \$11,576,450,691 in all means of financing for FY2013-
2014; and \$6,068,183,138 in general funds and \$11,673,961,982 in
all means of financing for FY2014-2015.

The Office of the Governor; Department of the Attorney
General; Department of Accounting and General Services; Department
of Human Services; Department of Commerce and Consumer Affairs;
Department of Human Resources Development; Department of Hawaiian
Home Lands; Department of Transportation; Hawaii Public Housing
Authority; Office of Information Management and Technology;
Department of Land and Natural Resources; Adjutant General;
Department of Agriculture; Department of Public Safety; Department
of Health; Department of Taxation; Public Utilities Commission;
Hawaii Housing Finance and Development Corporation; Executive
Office on Early Learning; Executive Office on Aging; Hawaii Health
Systems Corporation; Office of the Prosecuting Attorney of the
County of Hawaii; Hawaii Public Charter Schools Network; Hawaii

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Open Data; Hawaii Family Support Institute; Sovereign Moku-puni Council o Oahu; Holomua Na Ohana; Waianae Kai Homestead; Nanakuli Homestead; Sovereign Councils of the Hawaiian Homelands Assembly; Catholic Charities Hawaii; Partners In Care: Oahu's Coalition of Homeless Providers; Hawai'i Appleseed Center for Law and Economic Justice; Family Life Center; The Nature Conservancy of Hawai'i; Child and Family Service; Hawai'i Community Foundation; Kaua'i Community Alliance; Harold K. L. Castle Foundation; Hawai'i Invasive Species Council; Kaiser Permanente Hawaii; and numerous concerned individuals testified in support of this measure. The Judiciary; Department of Education; Department of Business, Economic Development, and Tourism; SEEQS: The School for Examining Essential Questions Of Sustainability; and a concerned individual provided comments.

RESTRUCTURING AND REPRIORITIZING

The need for many programs that serve the public has grown over four years of austerity. Expectations for restoring funding are high, as demonstrated in the Administration's budget submittal. On June 30, 2012, the State of Hawaii collected \$5,660,600,000 in total revenue and ended FY2011-2012 with a balance of \$275,300,000.

Revenue collections for the State have finally reached and exceeded the amount of revenues collected in FY2007-2008, prior to the Great Recession, with positive ending balances increasing over the last two years. The projected ending balance for FY2012-2013 of \$392,100,000 could further strengthen the State's financial condition.

The Governor submitted a budget proposal that appropriates:

- (1) \$6,101,300,000 for FY2013-2014; and
- (2) \$6,288,400,000 for FY2014-2015.

When combined with the budgets of the other branches of government in the State, proposed expenditures exceeded the Council on Revenues' September 10, 2012, tax and non-tax revenue projections of:



- (1) \$5,973,700,000 for FY2013-2014; and
- (2) \$6,245,600,000 for FY2014-2015.

Although on January 3, 2013, the COR revised its revenue projections upward:

	<u>09/15/13</u>	<u>01/07/13</u>
FY2013-2014	3.9%	6.8%
FY2014-2015	5.0%	6.2%

proposed total expenditures continued to exceed total revenues in FY2013-2014. Your Committee notes that although projected revenues exceed proposed expenditures in FY2014-2015, the margin is very slim:

	<u>Revenues</u>	<u>Expenditures</u>
FY2013-2014	\$6,140,200,000	\$6,280,900,000
FY2014-2015	\$6,492,900,000	\$6,469,400,000

Indicators from various economic forecasts illustrate an uncertain fiscal trend in the future. For example:

- At its meeting on January 3, 2013, the COR increased revenue projections for the upcoming fiscal biennium by \$403,300,000, citing the increasingly robust visitor industry and overall expansion in the rest of the economy. Yet, in the same report the COR remained uncertain about the impact on tax collections of:
 - o Future claims for the renewable energy tax credit, the cost of which has grown from \$3,100,000 in 2004 to \$30,900,000 in 2010 and may reach \$173,800,000 in 2012; and
 - o The net effect of various changes made to the tax law during the last three years that may affect how taxpayers respond and conduct their business.
- The University of Hawaii Economic Research Organization (UHERO), in its February 15, 2013, State forecast update, "Expansion Shifts Into High Gear" noted that, "By now we all know that 2012 was a banner year for Hawaii tourism. By some



measures, it was also the most positive year for the broader economy since the mid-2000s." However, in the same report, UHERO warned that economic growth will "ease somewhat over the next two years, as a tapering off of visitor industry gains offsets expansion in construction and continued recovery in public sector employment."

- The Department of Business, Economic Development, and Tourism's (DBEDT) quarterly report issued on February 22, 2013 confirmed that Hawaii's major economic indicators are trending upward, and that due to "the performance of Hawaii's tourism industry, the labor market conditions in the State, and growth of personal income and tax revenues, Hawaii's economy is expected to continue positive growth in 2013 and 2014." However, in the same report, DBEDT's job-growth projections for 2015 and 2016 are 1.7 percent and 1.5 percent, respectively, indicating a slight deceleration in the rate of growth.

Your Committee is cognizant of the fact that the Administration's financial plan depended on revenue enhancements which allowed the Executive Branch to submit a budget that exceeded the COR's projected revenue collections. However, the Legislature may not adopt the same approach of relying on such uncertain revenue proposals. With questions surrounding federal sequestration and its impact on the State's economy, the COR's March 13, 2013, speculative future revenue forecast could bring even more uncertainty to the future economic stability of the State. Furthermore, future collective bargaining costs remain unknown at this time.

Therefore, your Committee has approached this budget not with the goal of simply restoring funds for programs impacted in the past, but instead undertook a cautious approach and accepted the challenge to develop the budget as an opportunity to:

- (1) Provide structural stability to the State's financial plan;
- (2) Increase transparency, efficiency, and accountability in government;
- (3) Restructure and reprioritize government services; and
- (4) Create an evolving, sustainable, robust economy.



DEPARTMENT SUMMARIES

Your Committee acknowledges the efforts of the Department of Budget and Finance, as detailed in Finance Memorandum 12-12, to construct a budget with limited resources. After four years of severe budget cuts, the method set forth in making internal transfers may be the only way to restore previously cut programs. However, your Committee believes that the transfers initiated revealed opportunities to explore alternative approaches to budgeting that can be implemented to transform services and programs that serve the public. The trade-offs and transfers replete in the budget provide the legislative and executive branches a rare opportunity to restructure and reprioritize programs and services in a collaborative manner.

In general, your Committee is concerned with an approach to budgeting which asserts that departments should be entitled to their base funding levels, rather than allowing those excess appropriations to be made available to support higher-priority programs and services on a statewide basis. Budgetary accountability and transparency for the public regarding how and where state funds are expended is critical to your Committee. An integral step in the budgeting process is the communication of these expenditures to the Legislature. Total vacancies across all state departments currently represent \$168,000,000 in all sources of funds, funds which remain with the departments for their use. Your Committee pursued a more transparent accounting of these savings obtained from vacancies. In an effort to track this funding, your Committee has removed all general funded positions that have been vacant prior to December 31, 2011. Let it be understood that positions and funds for positions that have been vacant for fewer than 12 months, beginning on January 1, 2012, remain with the departments, and represent over \$50,000,000 in general funds alone. We thank the departments for supplying this information on vacant positions to your Committee and are hopeful that this effort to transform budgeting, however incrementally, will help create a more efficient government that is able to fully deliver services to the public.

Office of Information Management and Technology

The new state Office of Information Management and Technology (OIMT) unveiled its statewide Business Information Technology/Information Resource Management Transformation Plan to revolutionize all state department programs and functions over the



next 12 years. The Department's plan is to consolidate the State's existing information-technology infrastructure, enhance security and privacy, and develop shared services functions across individual state departments.

Your Committee has recognized the importance of modernizing antiquated systems in our dynamic, information-centric world, and the critical nature of providing continued support for the OIMT as it enters the implementation phase. However, your Committee also recognizes that it would be irresponsible to begin development on all technology initiatives simultaneously, from both a fiscal and implementation perspective. Therefore your Committee appropriated \$7,900,000 in FY2013-2014 for a reasonable rollout of information-technology systems. Though a less aggressive approach than that proposed by OIMT, your Committee believes this funding reflects a more reasonable timeframe and builds on successful implementations as they are executed while focusing on the most urgently needed initiatives. Your Committee is also concerned with the framework of costs proposed by OIMT, which reflects a private-sector budgeting approach, specifically using federal and market salary rates rather than the State's salary structure for positions. Salary appropriations up to 50 percent over current civil-service pay scales were requested. Accepting the limits of the State's public-service system and the present fiscal condition is imperative in planning this new state agency, and your Committee's finely scrutinized appropriation aims to ensure a successful IT transformation. As a result, all positions and salaries requested by OIMT were adjusted to state civil-service levels.

Department of Accounting and General Services

Your Committee understands that until the new information-technology systems are fully implemented, Hawaii will continue using existing systems that keep government functioning. Your Committee provided \$199,968 in FY2013-2014 and \$167,936 in FY2014-2015 to maintain the vital mainframes of various core governmental systems.

Recognizing the importance of preserving historical documents and materials, \$162,500 was appropriated in FY2013-2014 for the digital archives project at the Hawaii State Archives. Additional personnel and funding of \$96,724 in FY2013-2014 and \$49,048 for FY2014-2015 were also appropriated for the comprehensive annual financial report in order to assure timely completion.



To ensure adequate insurance coverage for major disasters, your Committee has provided \$3,000,000 in FY2013-2014 for risk management. Your Committee also recognizes the Department's need to replace its aging vehicles on the Neighbor Islands, and has thereby provided \$300,000.

Department of Agriculture

The Department of Agriculture plays a vital role in Hawaii's economy. For this biennium, the Department continues to focus on restoring services cut during the 2009 reduction in force and strengthening programs related to local-food sustainability. Your Committee funded 19 critical specialist and inspector positions to help control the spread of invasive species throughout the State. An additional four inspector positions and funds were approved to revive the detector dog program on Oahu. Additional funding for personnel that provide specialized testing for livestock was approved for the Veterinary Laboratory.

To manage increases in capital improvement projects for irrigation systems and agricultural parks, your Committee approved funding for five engineers to focus on improvements to pastures and the expansion of the Kunia irrigation system.

Recognizing that food security is a growing concern in Hawaii, your Committee addressed the need to strengthen local agricultural production. Funding was approved for programs such as the New Farmer Loan Program, Good Agricultural Practices Task Force, and the Agricultural Innovation Initiative. These programs will spur the development of new farming technology and methods.

Department of the Attorney General

The Department of the Attorney General provides vital services as the State's primary legal counsel, including the maintenance of different criminal-justice data systems that assist the Department and other law-enforcement agencies in the effective performance of their duties. In order to maintain the integrity of these systems and to ensure that timely information is made available to law enforcement, your Committee has approved funding requests of \$152,000 in FY2013-2014 and \$225,000 in FY2014-2015 for the Juvenile Justice Information System (JJIS), Automated Fingerprint Identification System (AFIS), and Facial Recognition System (FRS). The JJIS contains all information on juvenile records and runaway or missing children. The AFIS and FRS are



used on-site by law-enforcement agents to conduct criminal background checks using both fingerprints and photo identification.

Department of Business, Economic Development and Tourism

The Department of Business, Economic Development, and Tourism unveiled plans to support the Hawaii Clean Energy Initiative. Each project will support the Department's mission of improving the economic well-being and efficiency of the state. Your Committee recognizes the importance of energy conservation and supporting sustainability statewide by providing a biennium total of \$1,959,007 toward Energy Efficiency Strategic Plan programs and funding 24 positions previously American Recovery and Reinvestment Act (ARRA) funded to help reach the Department's goal of using 70 percent clean energy by the year 2030.

Funding is also provided to resume data collection and economic reporting. Many state departments and agencies rely on information generated from these reports, and the collection of current data will provide these entities with more accurate measures of economic performance.

Department of Budget and Finance

Your Committee continues to address the issues that encompass the state's growing unfunded liability for Other Post Employment Benefits (OPEB). The June 30, 2012, OPEB actuarial valuation of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) calculates the State portion of the unfunded actuarially accrued liability as \$13,566,836,000. To transition from the current pay-as-you go funding plan, and begin pre-funding the State's OPEB liability, \$100,000,000 is provided for FY2013-2014 and \$105,500,000 for FY2014-2015. Pre-funding will allow for increased flexibility in the allocation of budgeted resources to other state projects and provide potential cost savings during fiscal years that produce less revenue. Pre-funding may also prevent reductions in the State's credit rating.



To create more efficient government functions, funding for the state's Enterprise Resource Planning (ERP) project has necessitated the imposition of additional security and transparency measures for investment plans and plan-related functions. Seven positions are being provided to supplement several departments, in which personnel will be deployed to work on various ERP tasks. A total of \$12,200,000 over the biennium for additional staff support and contracts is provided for risk assurance and assessments for OPEB and ERP implementation.

In addition, the Public Utilities Commission (PUC) is being provided with \$2,298,000 in the first year of the biennium for office renovation and expansion. This upgrade will provide enough space to accommodate upcoming PUC re-organization plans aimed at helping the PUC meet its operational commitments.

Department of Commerce and Consumer Affairs

Continuing with its mission to provide fair oversight and regulation of businesses and to provide consumer protection and dispute-resolution services, the Department has made modest requests this biennium. The Department is known to be frugal with expenditures.

Your Committee does recognize the potential returns in the captive-insurance industry, and thus provided extra support to regulate and promote more captive-insurance companies statewide. Continuation of the Mortgage Foreclosure Dispute Resolution Program is being supported with an appropriation of \$306,461, reflecting the increase in mortgage fraud and other disputes between lenders and owners.

Department of Defense

Your Committee recognizes the urgent need to support our veterans and has appropriated monies to the Office of Veterans Services to fund counselors and other increased resources and services for veterans statewide.

The importance of Hawaii as a strategic military location at the center of the Pacific is well-established. Therefore, \$281,544 in general funds to match \$844,661 in federal funds were approved for each fiscal year to house and maintain F-22 fighter jets and train its pilots.



Recent problems with tsunami warning sirens have alerted the public to Hawaii's aging siren-warning system. The importance of maintaining and upgrading sirens to alert residents and visitors of incoming natural threats led your Committee to appropriate \$100,000 in general funds and \$225,000 in special funds in each fiscal year to upgrade the statewide siren-warning system.

The Legislature restored the Tuition Assistance Program last year. Your Committee recognized the critical incentive this represents and has appropriated \$150,000 in both fiscal years to reinstate cuts and to return the program to its 2008 funding levels.

Department of Education

Tasked with providing an affordable, fair, and nationally competitive education to the children of Hawaii, the Department of Education currently has the largest general fund budget of any state department at \$1,385,828,619.

Your Committee has appropriated additional funding for three areas. The largest addition of \$12,857,918 is for the Weighted Student Formula (WSF). The funds appropriated to WSF directly serve children in the classroom. Moreover, \$1,000,000 was appropriated for the development of a Common Core assessment test in the Hawaiian language meant to serve approximately 340 students enrolled at 14 Hawaiian immersion schools across the State. Hawaiian language is recognized as an official language of the State, and your Committee supports the development of this test and the strengthening of Hawaiian-language education. Finally, \$271,014 was appropriated for assistant coaches' stipends.

During this session, the Department has requested what amounts to an internal re-allocation of roughly \$47,481,150 in FY2013-2014 and \$55,361,601 in FY2014-2015, purportedly to fund high-priority initiatives and reflect existing expenditures. Your Committee finds it troubling, however, that the Department indicated that these re-allocations have been in effect for two years prior to this request for approval of the transfer of funding. Due to the lack of justification for these re-allocations, coupled with an indication that the Department has excess funding, your Committee has elected to accept the reductions listed in the Department's budget request but has denied the additions.



The Department of Education has also requested 197 new positions in FY2013-2014 and 211 positions in FY2014-2015 that are to be internally funded. The salaries for these positions total approximately \$9,500,000 in general funds. Your Committee was surprised to hear that the Department was able to find the necessary funding within its current means to fund these positions. However, due to a lack of justification for many of the new positions requested, only a portion of the request was funded. Your Committee looks forward to continued dialogue with the Department to assist them in transparent accounting, as the goal is truly to benefit the young students of Hawaii.

Libraries

The Hawaii State Public Library System has not received additional general funds for materials such as library books and e-books for the past four years. As such, your Committee is taking the necessary steps to support Hawaii's public libraries by appropriating additional funding for library materials.

Charter Schools

As oversight of charter schools transitions from the Charter School Administrative Office (CSAO) to the Public Charter School Commission (PCSC) after the current fiscal year, continuing scrutiny is essential to ensure continued accountability. Enrollment estimates have been larger than actual numbers, prompting your Committee to reassess future allocations to the Charter Schools. As an example, last year the CSAO requested funding for a total of 10,431 students projected to be enrolled in charter schools statewide. However, as indicated by the CSAO's budget testimony, student enrollment for the current school year is only 9,820. As such, your Committee finds the new projections of 11,431 students for FY2013-2014 and 12,222 students for FY2014-2015 unlikely. Given the dearth of information provided by the CSAO, your Committee recommends that charter schools receive per-pupil funding based upon last year's projection of 10,431 students. The correct per pupil enrollment amount is important, since the Charter schools are funded on a proportionate amount which is allotted to the DOE.

Department of Health



Your Committee recognizes and values the great diversity of services performed by the Department of Health, and the services provided by the State Laboratory, and has appropriated \$271,240 in general funds in FY2013-2014 and \$244,040 in FY2014-2015 for eight specialized equipment items. Five of these items will be used by the Environmental Microbiology Shellfish Testing Program to support the local shellfish industry as part of their efforts to become certified by the U.S. Federal Drug Administration to export local shellfish products. Other items include matrix-assisted laser desorption/ionization mass spectrometry to help identify bacterial causes of outbreaks more quickly and less expensively and two gas chromatograph mass spectrometers, which detect and provide a legally defensible confirmation of all classes of compounds for the Environmental Health Analytical Services Branch.

Your Committee recognizes the significant influence of environmental health programs on public health. Eight vector-control workers and \$443,520 will be added to increase surveillance at state ports of entry in Hilo, Kona, Maui and Oahu, and eight new positions and funds will be added to address the high number of food-safety violations on Oahu. With the increased popularity of free-standing food trucks, public confidence in the safety of its food sources is imperative. Your Committee also provided funds for seven environmental-health specialists and engineers and appropriated related funds to administer programs on water quality, water reuse, greenhouse-gas emissions, air pollution, and clean-water regulations. \$150,000 in general funds in FY2013-2014 was approved to continue development of a searchable database for environmental assessments and environmental impact statements.

The Department of Health's requests to transfer positions and funds is a continuing concern for your Committee. Transfer requests were not approved by the Legislature in 2012 due to the lack of critical structural details in the Department's strategic plan, "Foundations for Healthy Generations." The Department's submittal of a five-year financial plan as required by law to the Legislature in January 2013 lacked an explanation of how the Department's movement of funds and positions justifies its extensive, multiple, and prolonged internal reorganization initiatives and any financial plan. Accordingly, this situation led your Committee to adopt a conservative approach, approving only part of their transfer requests for the FY2013-2015 biennium.



The Department requested funds to reinstate programs that were previously cut. However, your Committee hesitates to provide funding for programs that were eliminated due to insufficient oversight, inefficient administration, ineffective outcomes and most importantly duplicative of services already provided by the Department of Human Services. Requests were also made by the Department for general funds to replace federal funds out of threat of sequestration. However, plans are already in place to address sequestration outside of this budget and in coordination with the executive branch. As such, replacing those federal funds with general funds at this time may be speculative and could result in duplicative funding.

Hawaii Health Systems Corporation

Your Committee has approved the addition of \$800,000 in general funds in FY2013-2014 and FY2014-2015 for the Hale Makamae Program at Kula Hospital on Maui. This program serves medically fragile, severely physically disabled, and developmentally disabled patients on the islands of Hawaii, Maui, and Oahu. These patients are bedbound and unable to participate in activities of daily living without trained assistance. The funds will be used to subsidize a recurring operating deficit due to unreimbursed Medicaid losses. Your Committee has also increased the special fund ceiling by \$1,000,000 in FY2013-2014 and FY2014-2015 for Alii Community Care Inc. to subsidize an operating deficit for Maui's assisted-living facility, Roselani Place, and for clinics and physician practices in Kona's Alii Health Center. Roselani Place provides care to elderly individuals who need help with daily tasks but do not need the restrictive and full-time health care services of a nursing home.

Department of Hawaiian Home Lands

The Department of Hawaiian Home Lands (DHHL) is charged with the responsibility of planning and development of Hawaiian homesteads. Pending in the Hawaii Supreme Court is Nelson v. Young, Civil No. 07-1-1663-08 BIA, which is yet to be remanded to the Circuit Court for determination of the amount that constitutes "sufficient sums" for DHHL's administrative and operating expenses.

The Committee strives to make clear that any funding decision it makes should not be interpreted by any party in the Nelson litigation, or by the Court, as legislative intent to determine



the amount deemed as "sufficient." To the contrary, the Committee awaits the Court's decision to determine the sufficiency of funding to DHHL for administrative and operating expenses. However, while the court decision is pending, the Committee will appropriate a lump sum of \$10,000,000 in each fiscal year for DHHL for administrative and operating expenses.

Department of Human Resource Development

Your Committee has responded to the Department's requests for more staff to coordinate hiring of civil-service positions. Your Committee has agreed to fund four positions and \$295,278 to address the backlog of departmental requests to fill vacant state positions. Your Committee has also appropriated \$457,000 in FY2013-2014 and \$545,000 in FY2014-2015 in general funds to fund the increased cost of state workers' compensation claims.

Department of Human Services

Your Committee acknowledges that the critical programs of the Department of Human Services assist needy individuals and families through social services benefits, health care, and other services. With the largest budget in the state at \$2,400,000,000 in FY2013-2014, administering social services to a growing number of individuals in an increasingly austere fiscal environment is challenging. With the implementation of the federal Affordable Care Act (ACA) scheduled to begin on January 1, 2014, increasing health care costs are inevitable. The ACA is intended to ensure that health coverage is universal, and as such requires increased expenditures by the states. ACA-related requests within the Department exceed \$80,000,000 over the biennium.

The most pressing cost element within the Department is Medicaid, the health plan of 23 percent of Hawaii residents, close to one in four individuals. The Department requested \$207,000,000 in general funds to cover Medicaid increases for the biennium, bringing the total cost of health care payments to \$4,009,721,975 over the biennium, \$1,781,864,231 of which represents general funds. Recent efforts to manage Medicaid costs with benefit-package modifications forecasted to save the state more than \$35,000,000 in general funds over a two-year period were not implemented as planned and approved by the Centers for Medicare and Medicaid Services. Hawaii offers a Medicaid benefits package that is among the nation's most generous. Your Committee finds growth in Medicaid without an accompanying effort in managing



costs to be unsustainable. Therefore, requests for Medicaid increases were funded at the FY2013-2014 level for both fiscal years, an increase of \$97,885,365 in general funds, to allow the legislature an opportunity to address this important issue during the interim. It is important to note that with Medicaid costs continuing to increase, the available funds for other government programs and services statewide will be compromised.

Your Committee provided a total of \$1,929,566 in general funds over the biennium for additional staff and support in the Office of Youth Services, Youth Community Service Centers, Juvenile Justice Program, and Juvenile Parole Program. These additions recognize the importance of investing in youth at a social level by which they can function and transition fluidly into adulthood.

Lastly, to address issues relating to homelessness, your Committee appropriated monies for ten personnel and federal funds for asset management projects by the Hawaii Public Housing Authority. This includes \$500,000 over the biennium for repair and maintenance at state-owned public housing shelters located at Kalaeloa, Oahu.

Department of Labor and Industrial Relations

In an effort to restore support to one of this Department's largest divisions, 14 additional positions and \$732,000 in special funds lost during the reduction in force of FY2009-2011 are being provided to the Disability Compensation Division (DCD) for the biennium. These positions will reduce the current 11-month processing time within the DCD to 6.5 months and will benefit individuals across the state involved in work-related incidents. The DCD, as well as the Workforce Development Division, Unemployment Insurance Division, and Hawaii Occupational Safety and Health Program, are currently at high risk of federal budget cuts due to sequestration. Your Committee recognizes the need to restore reduced positions and allowed for the transfers of positions to support formerly federally funded programs.

Department of Land and Natural Resources

Hawaii's natural land and water resources are the lifeblood of our community. For the biennium, the Department of Land and Natural Resources requests project funding for the Watershed Initiative to maintain and preserve statewide forests, wildlife,



beaches, and water resources and also to detect and remove invasive species. Your Committee recognizes the importance of projects that preserve our natural resources and provided funding for 11 personnel and appropriated \$8,500,000 to the Natural Area Reserve Special Funds.

In addition, \$50,000 and \$250,000 each year is being provided to compensate for decreased levels of federal funding and to continue restoration efforts to the Papahānaumokuākea Marine National Monument and Kure Atoll Wildlife Sanctuary, respectively. General funds are also being provided in the sum of \$150,000 per year to the Recreational Fisheries branch to support the rearing of rainbow trout for the Kokee public fishing area on Kauai, maintenance of artificial reefs, tag and release of marine species, and for Maui-Oahu marine resource assessments. Two positions were approved to support the increase to Kauai state park usage of camp grounds and to provide for partial restoration of labor reductions suffered by the division over the past decade.

Your Committee agrees with the consolidation of several of the Department's branches to allow for greater efficiency. The Anuenue Fisheries Research Center and the Fisheries divisions will consolidate, as will the Aquatic Resources Information and Education Branch and Fisheries Branch into Administrative Fisheries. This restructuring is intended to increase organizational productivity and reduce the duplication of services, though no physical changes or relocations are anticipated as a result of these consolidations.

Office of the Lieutenant Governor

The Office of the Lieutenant Governor is in a unique budget situation as the currently appointed Lieutenant Governor has primary residence on the island of Maui. In order to foster the establishment of a satellite office for the Lieutenant Governor on his home island, the Committee has appropriated \$272,380 in general funds for additional operating expenses.

Department of Public Safety

Your Committee continues to support the Justice Reinvestment Initiative (JRI) that brings Hawaii's inmates home from out-of-state facilities and has approved the transfer of funds currently budgeted for out-of-state correctional facilities to increase bed capacity, security, and services for returning inmates and to



streamline the correctional process. Accordingly, your Committee has authorized nine positions to provide adequate security and intake services for the projected increase in inmates returning from out-of-state facilities.

In previous years, resources committed to the State's prisons were frozen to their great detriment. Recognizing that rising utility costs have not been funded since 2007, your Committee has provided \$3,312,305 in FY2013-2014 and \$3,491,253 in FY2014-2015 for these essential expenses. As with utility costs, transportation and food budgets also have not seen increases for many years. In response your Committee recognized the need to meet basic requirements of the Department by funding requests for four new vehicles and \$910,338 in FY2013-2014 and \$946,751 in FY2014-2015 for the projected increase in the cost of food.

Your Committee is also aware that the State's decades-old correctional facilities are in dire need of repair and maintenance and looks forward to the results from a study currently in process that reviews the facilities' needs.

Department of Taxation

The Department of Taxation is seeking to upgrade its current tax system with the Tax System Modernization project, a five-year program that will result in increased efficiency of electronically filed taxes and tax processing while also reducing operating costs. Twelve positions and \$1,308,404 in FY2013-2014 and \$2,529,476 in FY2014-2015 were approved to support the tax modernization project.

Department of Transportation

Your Committee recognizes the daily significance of a well-maintained transportation infrastructure for the benefit of the State. Therefore, all special maintenance and regular maintenance requests were approved. Since safe passage on the highways and in the harbors is a daily concern of the State, requests for street sweepers, bridge cleaning and repair equipment, and motor vehicles to support maintenance of these conduits of public transit were approved. Understanding that airports are the first and last places visitors experience in Hawaii, your Committee has also agreed to the addition of 32 janitor positions for Honolulu International Airport, a janitor supervisor for Kona International Airport, and an airports-administrator to provide continuity and



professional expertise to the appointed deputy director of airports. Because the Airports Division also leases space to revenue-producing ventures, your Committee has approved special funds to support property-manager responsibilities to meet an increasing need for these functions. The Aloha Tower Development Corporation has been a complicated issue for your Committee in the past. As the partnership with Hawaii Pacific University continues to develop, your Committee supports this long-awaited movement toward committed investment in Aloha Tower by adding an administrative professional to manage the project. Your Committee has also approved special funds for a consulting contract for a Highways State Safety Oversight Agency that will work with the new rail-safety oversight officer at the Honolulu Authority for Rapid Transit on the Honolulu Rail Transit project.

University of Hawaii

Acknowledging a changing learning model that encourages virtual learning environments, your Committee provided \$780,000 in FY2013-2014 for an assessment on improving distance-learning courses. In addition, \$850,000 was provided to the Native Hawaiian Center of Excellence at the John A. Burns School of Medicine for each year, which has recently lost federal funding. This appropriation reinforces your Committee's commitment to diversity and equal opportunity at the State's only medical school. Committed to the mission of the University of Hawaii at West Oahu to serve the students of leeward Oahu, your Committee provided \$1,000,000 in each fiscal year for operating costs for the newly opened campus. The sum of \$2,000,000 was appropriated for the community colleges in each fiscal year, which represent an important gateway to four-year degrees and which have experienced significant growth in enrollment as the economy continues to recover. Recognizing the importance of preserving diversity in services, one position and related funds were approved for a librarian specializing in Okinawan materials for the University of Hawaii at Manoa campus.

CAPITAL IMPROVEMENT PROGRAM

Despite the increase in revenue collections and strengthening FY ending balances, your Committee acknowledges that construction and service industries have not yet returned to FY2007-2008 levels. Accordingly, your Committee has provided \$798,530,000 in general obligation bonds and \$1,707,274,000 in all means of



financing for FY2013-2014; and \$514,030,000 in general obligation bonds and \$912,851,000 in all means of financing in FY2014-2015.

While developing the capital improvement project budget, your Committee recognized the need to address the repair and maintenance and health and safety project backlogs that continue to plague the State's agencies and departments. Your Committee also sought to fund "shovel ready" projects, while deferring the construction funding for projects in which the plans and design have not yet been completed. Accordingly, your Committee believes that this capital improvement project budget addresses the most basic necessities of many state facilities while remaining cautiously optimistic about the future growth and technological advancement of state operations.

Highlights of the capital improvement project budget for the biennium include over \$113,750,000 in lump sum appropriations for the Department of Education to address school improvements and renovations and over \$42,000,000 in lump sum appropriations for health and safety, Americans with Disabilities Act compliance, Title IX compliance, special education, and electrical upgrade projects in schools throughout the state.

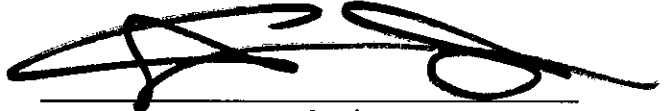
To help the University of Hawaii address the needs of campus facilities statewide, your Committee has approved over \$100,000,000 for repair and maintenance. Of those funds, \$25,000,000 has been designated for the community college system to help the schools address current and deferred repair and maintenance projects.

Your Committee believes that the capital improvement projects within this budget will help the State to maintain the long-term viability of its current facilities, while also laying the foundation for the State to improve its operating efficiency through technological infrastructure development and modernization.

As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 200, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 200, H.D. 1, and be placed on the calendar for Third Reading.




Respectfully submitted on
behalf of the members of the
Committee on Finance,

A handwritten signature in black ink, appearing to read 'Sylvia Luke', written over a horizontal line.

SYLVIA LUKE, Chair



Record of Votes of the Committee on Finance

Bill/Resolution No.: HB200	Committee Referral: FIN	Date: 03/08/13		
<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.				
The recommendation is to: <input type="checkbox"/> Pass, unamended (as is) <input checked="" type="checkbox"/> Pass, with amendments (HD) <input type="checkbox"/> Hold <input type="checkbox"/> Pass short form bill with HD to recommit for future public hearing (recommit)				
FIN Members	Ayes	Ayes (WR)	Nays	Excused
1. LUKE, Sylvia (C)	/			
2. NISHIMOTO, Scott Y. (VC)	/			
3. JOHANSON, Aaron Ling (VC)	/			
4. CULLEN, Ty J.K.	/			
5. HASHEM, Mark J.	/			
6. ING, Kaniela	/			
7. JORDAN, Jo	/			
8. KOBAYASHI, Bertrand	/			
9. LOWEN, Nicole E.	/			
10. MORIKAWA, Dee				/
11. ONISHI, Richard H.K.	/			
12. TAKAYAMA, Gregg	/			
13. TOKIOKA, James Kunane				/
14. WOODSON, Justin H.	/			
15. YAMASHITA, Kyle T.	/			
16. FUKUMOTO, Beth	/			
17. WARD, Gene	/			
TOTAL (17)	15			2
The recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted If joint referral, _____ did not support recommendation. committee acronym(s)				
Vice Chair's or designee's signature: 				
Distribution: Original (White) – Committee Duplicate (Yellow) – Chief Clerk's Office Duplicate (Pink) – HMSO				