

STAND. COM. REP. NO. **1360**

Honolulu, Hawaii

APR 08 2015

RE: H.B. No. 500
H.D. 1
S.D. 1

Honorable Donna Mercado Kim
President of the Senate
Twenty-Eighth State Legislature
Regular Session of 2015
State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred H.B. No. 500, H.D. 1, entitled:

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

begs leave to report as follows:

The purpose and intent of this measure is to appropriate funds for the operating and capital improvement budget of the executive branch for the 2015-2017 fiscal biennium.

Your Committee received testimony in support of this measure from the Office of the Lieutenant Governor; Department of Accounting and General Services; Department of Commerce and Consumer Affairs; Department of Defense; Department of Education; Department of Human Resources Development; Department of Human Services; Department of Land and Natural Resources; Department of Taxation; University of Hawaii; Hawaii Health Systems Corporation; East Hawaii Region of Hawaii Health Systems Corporation; Hawaii Housing Finance and Development Corporation; Hawaii Public Housing Authority; Kaho'olawe Island Reserve Commission; Natural Energy Laboratory of Hawaii Authority; Public Utilities Commission; Office of Information Practices; Office of the Prosecuting Attorney, County of Hawaii; BIA Hawaii; Good Beginnings Alliance; PHOCUSED; Sex Abuse Treatment Center; Project Pono; East Maui Irrigation Co., Ltd.; Community Alliance Partners of Hawaii Island; Maui Invasive Species Committee; Keaukaha Community Association; Dole Food Company Hawaii; Kailapa Community Association; and twenty-two individuals.

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Your Committee received testimony in opposition to this measure from the Hawaii State Public Library System and one individual.

Your Committee received comments on this measure from the Department of Agriculture; Department of the Attorney General; Department of Budget and Finance; Department of Business, Economic Development, and Tourism; Department of Hawaiian Home Lands; Department of Health; Department of Public Safety; Department of Transportation; Hawaii Invasive Species Council; Hawaii Tourism Authority; State Council on Developmental Disabilities; Hawaii Community Development Authority; Hawaii Strategic Development Corporation; State Foundation on Culture and the Arts; State Public Charter School Commission; Mayor of the County of Maui; County of Kauai, Office of the Prosecuting Attorney; County of Maui, Department of Planning; Department of the Prosecuting Attorney, County of Maui; Early Learning Advisory Board; Maui County Early Childhood Resource Center; Catholic Diocese of Honolulu Office for Social Ministry; Child & Family Service; Coordinating Group on Alien Pest Species; Hawaii Appleseed Center for Law and Economic Justice; Hawaii Green Growth; Hui for Excellence in Education; High Technology Development Corporation; La'i'Opua 2020; Oahu Invasive Species Committee; Pana'ewa Hawaiian Home Lands Community Association; Partners in Care; Wai'anae Coast Early Childhood Services; YWCA of Hawaii Island; YWCA of Kauai; Conservation Council for Hawaii; Hawaii Forest Industry Association; AARP Hawaii; Big Island Invasive Species Committee; Princeville Utilities Company, Inc.; The Nature Conservancy; The Trust for Public Land; University of Hawaii at Manoa Graduate Student Organization; West Maui Mountains Watershed Partnership; and twenty-four individuals.

PART I. OVERVIEW

Your Committee has formulated an executive budget that is fiscally responsible and financially prudent and that:

- (1) Identifies and funds legislative priorities;
- (2) Reflects decisions based on sound justification;
- (3) Excludes placeholders for later deliberation;



- (4) Provides for the constitutional mandate for a tax refund or a budget reserve deposit for excess general fund revenues; and
- (5) Achieves a positive budgetary target faster than originally planned.

Your Committee finds that this budget balances the need to support important and essential public priorities with the desire to avoid overtaxing Hawaii's residents and businesses. Your Committee took a very disciplined approach and made difficult decisions on funding priorities to present a budget that is suitable for immediate passage.

Your Committee has approved a Senate Draft of the executive budget that reduces the operating budget request submitted by the Administration that took office in December 2014. The Senate Draft appropriates \$12,908,263,571 in all funds, inclusive of \$6,592,275,846 in general funds, for fiscal year 2015-2016 and \$13,408,223,702 in all funds, inclusive of \$6,909,376,812 in general funds, for fiscal year 2016-2017. The following table displays the results of your Committee's actions.

	Fiscal Year 2015-2016		Fiscal Year 2016-2017	
	All Funds	Gen. Funds	All Funds	Gen. Funds
Executive Request (Including Governor's Messages #1 & #2)	\$827,028,644	\$406,705,343	\$1,338,143,919	\$731,301,168
Senate Draft Change To Executive Request	(\$66,004,950)	(\$3,633,769)	(\$77,160,094)	(\$11,128,628)
Net Change	\$761,023,694	\$403,071,574	\$1,260,983,825	\$720,172,540

The net change of the Senate Draft results in an executive budget for fiscal biennium 2015-2017 as follows:



	Fiscal Year 2015-2016		Fiscal Year 2016-2017	
	All Funds	Gen. Funds	All Funds	Gen. Funds
Executive Budget Act 134, SLH 2013, As Amended By Act 122, SLH 2014	\$12,147,239,877	\$6,189,204,272	\$12,147,239,877	\$6,189,204,272
Net Change Of Senate Draft	\$761,023,694	\$403,071,574	\$1,260,983,825	\$720,172,540
Total Appropriation	\$12,908,263,571	\$6,592,275,846	\$13,408,223,702	\$6,909,376,812

PART II. ECONOMY

The State of Hawaii is projected to experience continued stable economic growth. Your Committee finds that:

- (1) The University of Hawaii Economic Research Organization (UHERO) projects that the real gross domestic product will grow by 3.8 percent in 2015, 2.6 percent in 2016, and 2.0 percent in 2017. The unemployment rate is projected to be 3.8 percent in 2015, 3.6 percent in 2016, and 3.4 percent in 2017; and
- (2) The Department of Business, Economic Development, and Tourism projects that the real gross domestic product will grow by 3.1 percent in 2015, 3.0 percent in 2016, and 2.9 percent in 2017. The civilian unemployment rate is projected to be 3.9 percent in 2015, 3.6 percent in 2016, and 3.4 percent in 2017.



PART III. GENERAL FUND REVENUES

The improving economy has resulted in increases of tax revenues that include, most importantly, general fund tax revenues, which are the most substantial source of funding for the State.

At its meeting of March 12, 2015, the Council on Revenues increased its forecasts of general fund revenues for fiscal year 2014-2015. The increase was fairly significant. The Council now forecasts that general fund tax revenue growth will reach 5.5 percent in fiscal year 2014-2015, rather than the 4.5 percent forecasted on January 6, 2015. The Council also kept its forecasts for the fiscal biennium 2015-2017 at 5.5 percent annually. While the percentage increase seems small, the dollar increase is substantial. The following table displays the result.

COUNCIL ON REVENUES - DIFFERENCE IN GENERAL FUND TAX REVENUES BETWEEN FORECASTS OF MARCH 12 AND JANUARY 6, 2015 (In \$Millions)			
	Fiscal Year 2014-2015	Fiscal Year 2015-2016	Fiscal Year 2016-2017
COR 03/12/15	5.5% \$5,665.6	5.5% \$5,977.2	5.5% \$6,306.0
COR 01/06/15	4.5% \$5,611.9	5.5% \$5,920.6	5.5% \$6,246.2
Difference	\$53.7	\$56.6	\$59.8

PART IV. COMMITTEE'S CONCEPTUAL FRAMEWORK

As a result of the increased revenue forecast, your Committee faced less pressure to reduce general fund appropriation requests than it did before the start of this Regular Session. Nevertheless, your Committee was cautious in its budget-making, refusing to take the convenient route of approving every funding request and, instead, scrutinizing the justification for each request and considering the long-term financial impact each would have. Many of your Committee's members were serving in the Legislature during the years of the Great Recession when general fund shortfalls in the billions of dollars had to be addressed by major cuts to state programs and the layoff and furlough of state employees. Learning from that experience, your Committee is



reluctant to increase state government to a level that cannot be sustained if the economy moderates or contracts in the future.

Your Committee accomplished its budget-making duty in accordance with the following conceptual framework.

Legislative Priorities

Your Committee, in this budget, has exercised one of the basic duties of a legislative body: the appropriation of public funds based on legislative priorities (the other basic duty is the establishment of laws to promote the public health and safety and the general welfare).

Your Committee has chosen to fund various programs and projects that were not proposed by the Administration. This choice reflects your Committee's understanding of priorities of the Senate's members and constituents. Your Committee believes that all programs and projects funded in this manner are worthy.

Perhaps the best example of how your Committee has implemented legislative priorities is the transfer of authority over and funding for information technology and business modernization systems to the Office of the Governor. Your Committee is committed to increasing transparency and efficiency, especially in the procurement and delivery of programs and services. On that note, the significant number of separate requests from various departments and agencies to fund information technology projects and the scale of these requests were of great concern. Commonality of systems and technology, an effort to streamline and find both operational and fiscal efficiencies across executive departments, as well as general oversight and management controls appear to be lacking. Consequently, in order to establish better controls, your Committee has taken the drastic step of placing the authority over new funding requests for information technology and business modernization systems with the Office of the Governor. Your Committee has inserted a proviso into this measure that lists the specific projects identified through this biennium budget, the appropriation for which may be expended by the Governor. Your Committee emphasizes that the Governor has the discretion to determine which of the listed projects to fund or not, and to allocate resources accordingly. To assist the Governor, your Committee has transferred a position and funds from the Office of Information Management and Technology. Your Committee notes that the list also includes two



projects that are legislative initiatives. One is a business optimization system for the Department of Labor and Industrial Relations and the other is a student information system for the Department of Education.

Another example of how this measure implements a legislative priority is the change of means of financing for thirty-one filled positions in the Environmental Division of the Department of Health. Your Committee worked closely with the Department of Health to change the means of financing from the environmental response revolving fund to the general fund. As has been widely reported, the program supported by the fund is currently sustained by a loan from the treasury, and the Legislature was prompted to pass an emergency appropriation as a result of decreasing barrel tax revenues. Your Committee notes that funding positions and related fringe benefits with general fund moneys instead of environmental response revolving fund moneys provides the most sustainable option to optimally use revolving fund moneys for its intended purposes of responding to environmental emergencies. This strategy also provides the added benefit of increasing budgetary transparency and legislative oversight regarding the environmental programs of the Department of Health.

Your Committee addressed another legislative priority by continuing its commitment to paying the annual required contribution for other post-employment benefit obligations of the State. Act 268, Session Laws of Hawaii 2013, establishes a schedule for the annual required contributions intended to fully amortize the unfunded actuarial accrued liability of the State. The payments are substantial: \$742.8 million in fiscal year 2015-2016 and \$776.9 million in fiscal year 2016-2017. Your Committee has remained adamant that none of the appropriations for the payments be diverted to other public programs.

Reasoned Justification

Your Committee also has exercised its legislative duty to scrutinize funding requests of the Administration. When doing so, your Committee has examined the data objectively and relied upon factors such as program measures, unit costs, or base budget levels. In some cases, your Committee has denied a request for policy reasons, such as the denial of requests for lease rent in fiscal year 2016-2017 for departments that, at this time, plan to remain in the AAFES building on land now owned by the Office of Hawaiian Affairs in Kakaako makai. Your Committee believes that a



search should commence for a more cost-beneficial alternative site for those state offices.

Exclusion of Placeholders

Your Committee has not used placeholders in this budget. Instead, your Committee has made appropriations for programs in amounts deemed necessary for operation. While this approach may result in a less favorable comparison to the reductions in this measure, as received, your Committee finds that it provides both legislative members and the general public with a true and realistic understanding of the costs we face, and makes clear what can and cannot be afforded based upon the existing obligations and commitments of the State. Your Committee also believes that its budget is more transparent and thus will elicit knowledgeable responses from affected departments that will be useful during Conference Committee deliberations.

Tax Refund/Budget Reserve Deposit Capacity

By maintaining appropriations at less than the level proposed by the Administration, your Committee believes that capacity is available for the tax refund or budget reserve deposit mandated in 2015 under Article VII, section 6, of the State Constitution. To comply with the mandate, your Committee has positioned a bill to increase the food/general excise tax credit as in 2007 and another bill to make a deposit into the emergency and budget reserve fund.

Target

Your Committee finds that this budget enhances the chance of achieving a target set by your Committee to reach positive revenues over expenditures by the end of fiscal biennium 2015-2017. General fund expenditures have exceeded revenues since fiscal year 2013-2014 and would have continued to do so through fiscal year 2017-2018 under the Administration's financial plan submitted in January. At that time, your Committee established the modest goal of reaching positive general fund revenues over expenditures by fiscal year 2016-2017, a year earlier. With the benefit of the increased revenue projection of the Council on Revenues in March and the spending restraint reflected in this budget, that target likely will be reached.



PART V. OPERATING BUDGETAccounting and General Services

The Senate Draft of the executive budget adjusts the Department of Accounting and General Services' appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$2,449,784 in general funds and reducing \$9,643,896 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$2,958,006 in general funds and reducing \$5,727,311 in non-general funds.

The Administration's request was to add \$7,250,618 in general funds and reduce \$9,757,559 in non-general funds in fiscal year 2015-2016 and add \$8,464,174 in general funds and reduce \$5,954,636 in non-general funds in fiscal year 2016-2017.

Your Committee notes that there were many individual requests from various departments relating to modernization and information technology. These projects should be vetted through a system that will eliminate redundancy and ensure compatibility and effectiveness, while providing for accountability and oversight at all levels. As such, your Committee approves the transfer of the following to the Office of the Governor for executive branch information and technology and business system improvement and modernization oversight:

- (1) One position for management of executive branch information and technology and business system improvement and modernization to the Office of the Governor;
- (2) Carrier circuit costs for redundant network connectivity for information management and technology services;
- (3) Collocation costs for information management and technology services; and
- (4) Datamart system upgrades for information processing and communication services.



Your Committee recognizes the importance of the State Foundation and Culture of the Arts and that its integral role in promoting and perpetuating culture and the arts is central to the quality of life and people of Hawaii. Therefore, your Committee is providing 4.00 positions and \$113,663 in special funds in fiscal year 2015-2016 and \$227,325 in special funds in fiscal year 2016-2017 to comply with and carry out the recommendations made by the State Auditor in their most recent report.

Agriculture

The Senate Draft of the executive budget adjusts the Department of Agriculture's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$2,163,971 in general funds and \$1,856,930 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$554,493 in general funds and \$1,753,866 in non-general funds.

The Administration's request was to add \$148,638 in general funds and \$1,556,930 in non-general funds in fiscal year 2015-2016 and \$471,444 in general funds and \$1,803,866 in non-general funds in fiscal year 2016-2017.

Your Committee approves \$2,000,000 in fiscal year 2015-2016 in general funds for qualified loans to promote agricultural and aquacultural development within the State. Furthermore, your Committee intends to consider appropriating an additional \$1,000,000 in another bill to provide funds for agricultural loans. These funds will support qualified farmers, create jobs, stimulate the economy, and increase Hawaii's self-reliance by raising the supply of local food.

Your Committee also approves 4.00 positions and \$110,406 in fiscal year 2015-2016 and \$220,812 in fiscal year 2016-2017 in general and revolving funds to address growing concerns relating to pesticide use. Two positions will monitor pesticide use and conduct surveillance activities in the interest of public safety and regulatory compliance. The remaining two positions will focus on administering examinations for certification, providing consultative services to commercial pest control operators and farmers, conducting informational or educational workshops, and determining eligibility standards for accreditation.



Your Committee also approves \$500,000 in fiscal year 2015-2016 in revolving funds for a study to determine the feasibility and implications of a central Oahu land exchange. The study findings will provide guidance on whether a land exchange will:

- (1) Be in the State's best interest;
- (2) Maximize land holdings and enhance the State's ability to leverage those assets to achieve the best possible economic outcome;
- (3) Ensure responsible stewardship of the 'aina; and
- (4) Protect important agricultural lands.

Attorney General

The Senate Draft of the executive budget adjusts the Department of the Attorney General's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$2,161,842 in general funds and reducing \$6,274,091 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$2,747,759 in general funds and reducing \$6,927,792 in non-general funds.

The Administration's request was to add \$5,745,601 in general funds and \$6,934,091 in non-general funds in fiscal year 2015-2016 and \$2,995,759 in general funds and \$6,927,792 in non-general funds in fiscal year 2016-2017.

Your Committee approves \$500,000 in fiscal year 2015-2016 and \$500,000 in fiscal year 2016-2017 in general funds for vacancy savings reductions. This will allow the Department to fill vacancies on a more timely basis, which will result in more responsive service to state agencies and reduced backlog.

Your Committee also approves \$132,000 in fiscal year 2015-2016 and \$132,000 in fiscal year 2016-2017 in general funds for the Hawaii Sexual Assault Response Team. This will allow for the re-establishment of the Hawaii Sexual Assault Response and Training Program, as well as sexual assault victim examination protocols.



Your Committee also approves \$700,000 in fiscal year 2015-2016 and \$700,000 in fiscal year 2016-2017 in revolving funds for the Criminal History Record Improvement Program.

Budget and Finance

The Senate Draft of the executive budget adjusts the Department of Budget and Finance's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$172,843,443 in general funds and reducing \$13,853,279 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$404,359,179 in general funds and reducing \$11,388,326 in non-general funds.

The Administration's request was to add \$171,965,779 in general funds and reduce \$13,853,279 in non-general funds in fiscal year 2015-2016 and add \$406,945,887 in general funds and reduce \$11,388,326 in non-general funds in fiscal year 2016-2017.

Your Committee approves \$2,392,426 in fiscal year 2015-2016 and \$53,891,586 in fiscal year 2016-2017 in general funds for debt service payments.

Your Committee approves \$65,461,245 in fiscal year 2015-2016 and \$99,799,291 in fiscal year 2016-2017 in general funds for pension accumulation and social security or Medicare payments for public employees.

Your Committee approves \$87,423,284 in fiscal year 2015-2016 and \$216,250,075 in fiscal year 2016-2017 in general funds for active employee and retiree health premium payments for public employees.

Your Committee also approves \$18,790,387 in general funds and \$2,134,819 in non-general funds in fiscal year 2015-2016 and \$36,045,294 in general funds and \$3,921,267 in non-general funds in fiscal year 2016-2017 for collective bargaining increases for public employees.



Business, Economic Development, and Tourism

The Senate Draft of the executive budget adjusts the Department of Business, Economic Development, and Tourism's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$227,827 in general funds and \$41,772,980 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$484,988 in general funds and \$41,582,424 in non-general funds.

The Administration's request was to add \$1,195,891 in general funds and \$96,877,317 in non-general funds in fiscal year 2015-2016 and \$904,988 in general funds and \$96,662,436 in non-general funds in fiscal year 2016-2017.

Your Committee approves \$50,000,000 in each fiscal year in trust funds for the Rental Housing Trust Fund to accommodate the issuance of general obligation bonds. This ceiling adjustment will allow the program to disburse funds to qualified developers that set aside a portion of new projects for use by very-low and low-income households. These developments will help mitigate the growing disparity between the supply and demand of affordable rental housing for Hawaii families.

Your Committee also approves 5.00 temporary positions and \$1,000,000 in each fiscal year in special funds for the Hawaii Green Infrastructure Authority, as established by Act 211, Session Laws of Hawaii (SLH) 2013, to administer loans through the Green Energy Market Securitization Program. These loans are targeted to achieve the programmatic goals of providing low-cost financing to those unable to attain loans through other means for the purpose of encouraging clean energy technologies.

Commerce and Consumer Affairs

The Senate Draft of the executive budget adjusts the Department of Commerce and Consumer Affairs' appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$21,323,565 in non-general funds; and



- (2) For fiscal year 2016-2017, by adding \$20,209,561 in non-general funds.

The Administration's request was to add \$22,901,663 in non-general funds in fiscal year 2015-2016 and \$21,044,450 in non-general funds in fiscal year 2016-2017.

In conjunction with the transfer of the Public Utilities Commission, your Committee approves \$3,562,861 in fiscal year 2015-2016 and \$731,721 in fiscal year 2016-2017 in special funds for office expansion and renovation. Your Committee also approves 3.00 positions and \$169,572 in fiscal year 2015-2016 and \$316,495 in fiscal year 2016-2017 in special funds for administrative support. These positions were established in Act 108, SLH 2014, and are pivotal in facilitating efficient regulatory action, particularly in the area of energy regulation, which has become increasingly important in light of the proposed HECO/NextEra merger.

Your Committee also approves 5.00 positions and \$258,211 in fiscal year 2015-2016 and \$516,940 in fiscal year 2016-2017 in special funds for mortgage loan originator and servicer regulation support. These additional resources will allow the Department to more adequately respond to increased workload and regulatory complexity.

Defense

The Senate Draft of the executive budget adjusts the Department of Defense's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$821,339 in general funds and reducing \$167,232 in non-general funds; and
- (2) For fiscal year 2016-2017, by reducing \$1,101,205 in general funds and \$1,292,182 in non-general funds.

The Administration's request was to reduce \$659,561 in general funds and \$160,207 in non-general funds in fiscal year 2015-2016 and \$1,074,642 in general funds and \$1,250,855 in non-general funds in fiscal year 2016-2017.

Your Committee understands the significance of identifying and preparing for potential disasters. In support of the Department of Defense's efforts to avert loss of life and



destruction caused by major disasters, your Committee has provided \$1,500,000 in general funds in fiscal year 2015-2016 to replenish the Major Disaster Fund.

Your Committee also approves adding 5.00 positions and \$219,181 in fiscal year 2015-2016 and \$602,637 in fiscal year 2016-2017 in general funds for the Hawaii Air National Guard Campus. These positions and funds will assist with the repair, maintenance, and daily operations of the recent upgrades and new building built on the campus to house F-22 aircraft.

Your Committee also approves \$778,000 in general funds and \$1,636,720 in other federal funds in fiscal year 2015-2016 to purchase much needed heavy equipment and other services needed to conduct burials and maintain the grounds at the Hawaii State Veterans Cemetery.

Education

The Senate Draft of the executive budget adjusts the Department of Education's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$157,728,934 in general funds and reducing \$10,837,744 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$126,189,088 in general funds and reducing \$7,841,395 in non-general funds.

The Administration's request was to add \$132,767,117 in general funds and reduce \$7,841,395 in non-general funds in fiscal year 2015-2016 and add \$161,476,306 in general funds and reduce \$10,837,744 in non-general funds in fiscal year 2016-2017.

Regular Education

Your Committee also approves \$3,600,000 in each fiscal year in general funds to provide incentives payments for hard-to-fill teaching positions. These funds will be used to pay recruitment and retention incentives for hard-to-staff locations as provided for in the collective bargaining agreement between the State and the exclusive representative for bargaining unit (5).



Your Committee approves \$2,401,808 in fiscal year 2015-2016 and \$8,051,060 in fiscal year 2016-2017 in general funds for the Weighted Student Formula (WSF). These funds are to accommodate anticipated increases in enrollment growth.

Your Committee also approves \$9,000,000 in each fiscal year in general funds to account for the projected shortfall in the Department's utilities budget. Having also heard the call for empowerment and more resources brought down to the school level, with utilities funds specifically being cited, your Committee is taking a different approach to the allocation of these funds in the second year of the biennium. While the need for empowerment is understood, one cannot discount the quiet concerns that have been raised that much of a principal's day is already spent performing operational and administrative functions that may take the focus away from academic and student growth, as well as teacher and staff development. To that end, your Committee is directing the Committee on Weights to devise a distribution formula to provide funds for electricity to individual schools and to create a set of metrics aimed at incentivizing savings.

Your Committee also approved \$5,123,726 in fiscal year 2015-2016 and \$4,690,872 in fiscal year 2016-2017 in general funds to meet the projected shortfall for school food services. It should be noted that this amount is based upon recent Board of Education committee actions to recommend an increase in school lunch prices by \$.25 beginning in the 2015-2016 school year and a concurrent reduction in the Department's request for this sequence for each fiscal year.

Your Committee approves \$7,403,261 in fiscal year 2015-2016 and \$5,000,000 in fiscal year 2016-2017 in general funds for contracts to provide school transportation services to eligible regular education and special education public school students.

Your Committee is also providing \$1,000,000 in both years of the fiscal biennium, with a requirement for \$500,000 in non-state matching funds in the second fiscal year to support the ongoing collaborative efforts between the Department and the University of Hawaii at Manoa School of Nursing and Dental Hygiene through their Hawaii Keiki Initiative, which has begun to strategically place certified registered nurses or advanced practice registered in schools in an effort to improve the health of students and lay the foundation for school-based community health services. Already in place, the program has had a transformative effect by allowing



nurses to provide their schools with information on the kinds of health and wellness barriers encountered by their students. Discussions are underway with private providers, funders, and the Departments of Human Services and Health regarding the ongoing and future expansion and sustainability of the program, including the ability to increase qualified Medicaid reimbursements for Department of Education students.

Libraries

The Senate Draft of the executive budget adjusts the Hawaii State Libraries' appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$3,588,794 in general funds and reducing \$375,000 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$3,790,509 in general funds and reducing \$375,000 in non-general funds.

The Administration's request was to add \$3,054,586 in general funds and \$375,000 in non-general funds in fiscal year 2015-2016 and \$3,293,211 in general funds and \$375,000 in non-general funds in fiscal year 2016-2017.

Your Committee approves 1.00 position and \$847,000 in fiscal year 2015-2016 and 10.5 positions and \$441,892 in fiscal year 2016-2017 in general funds for the new Nanakuli public library. The new state-of-the-art library is under construction and due to open in 2016. The positions and funds are to staff the library, which has a special focus on community outreach and business development. These funds will also be used for startup costs for furniture, books, and other materials.

Your Committee also approves \$500,000 in each fiscal year in general funds for the repair and maintenance backlog for all libraries statewide. These funds will help fund the backlog of repairs the Department of Accounting and General Services has deemed critical for health and safety.

Charter Schools

The Senate Draft of the executive budget adjusts the appropriation for charter schools as follows:



- (1) For fiscal year 2015-2016, by adding \$9,887,829 in general funds; and
- (2) For fiscal year 2016-2017, by adding \$10,839,592 in general funds.

The Administration's request was to add \$5,693,796 in general funds in fiscal year 2015-2016 and \$6,615,134 in general funds in fiscal year 2016-2017.

Your Committee approves \$5,822,029 in general funds in fiscal year 2015-2016 and \$5,573,899 in general funds in fiscal year 2016-2017 for per pupil funding for charter school students.

Your Committee also approves the creation of a new program ID and funding for the State Charter School Commission in accordance with Act 122, SLH 2014. As such, your Committee approved the transfer of positions and \$2,004,550 in federal funds from charter schools into a new program for the State Charter School Commission. Your Committee also approves \$1,400,000 in general funds in each fiscal year to support the Commission's operations.

Early Learning

The Senate Draft of the executive budget adjusts the Early Learning program appropriation as follows:

- (1) For fiscal year 2015-2016, by reducing \$153,720 in general funds and adding \$125,628 in federal funds; and
- (2) For fiscal year 2016-2017, by reducing \$148,360 in general funds and adding \$125,628 in federal funds.

The Administration's request was to reduce \$153,720 in general funds and add \$125,628 in non-general funds in fiscal year 2015-2016 and reduce \$148,360 in general funds and add \$125,628 in non-general funds in fiscal year 2016-2017.

Your Committee approves 7.00 positions for the Early Learning Prekindergarten Program for resource teachers and an education specialist, reflecting an approval of existing positions and support for the continuation of the program.



Office of the Governor

The Senate Draft of the executive budget adjusts the Office of the Governor's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$10,416,237 in general funds and \$10,077,498 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$10,494,106 in general funds and \$16,757,498 in non-general funds.

The Administration's request was to add \$482,737 in general funds and reduce \$122,502 in federal funds in fiscal year 2015-2016 and add \$602,155 in general funds and reduce \$122,502 in federal funds in fiscal year 2016-2017.

Your Committee approves 1.00 position and \$112,500 in each fiscal year in general funds for executive branch information technology and business system improvement and modernization.

In addition, your Committee approves:

- (1) \$10,000,000 in each fiscal year in general funds;
- (2) \$1,800,000 in fiscal year 2015-2016 and \$1,600,000 in fiscal year 2016-2017 in special funds;
- (3) \$7,700,000 in fiscal year 2015-2016 and \$15,200,000 in fiscal year 2016-2017 in federal funds;
- (4) \$100,000 in fiscal year 2015-2016 and \$80,000 in fiscal year 2016-2017 in revolving funds; and
- (5) \$600,000 in fiscal year 2015-2016 in other federal funds,

for various projects transferred from other executive departments and agencies.

Your Committee also approves the transfer of 1.00 position to the Office of the Governor to assist the Governor in overseeing and implementing statewide technology and system upgrades, thus avoiding redundancies and inefficiencies. This coordinator will work at the direction of the Governor to determine the priority and immediacy of technology-related projects and provide



centralized, holistic guidance in matters of information technology procurement and deployment.

Your Committee also approves the addition of 1.00 position and \$200,000 in each fiscal year in general funds for the establishment of the Office of Military Affairs and Federal Grant Maximization. Your Committee recognizes the important role of the military and federal funding in the State's overall economy and the need to maintain relations and pursue existing and future opportunities in these areas.

Hawaiian Home Lands

The Senate Draft of the executive budget adjusts the Department of Hawaiian Home Lands appropriation as follows:

- (1) For fiscal year 2015-2016, by reducing \$5,227,932 in general funds; and
- (2) For fiscal year 2016-2017, by reducing \$5,227,932 in general funds.

The Administration's request was to add \$9,632,000 in general funds, \$486,416 in special funds, and \$281,177 in trust funds in fiscal year 2015-2016 and \$9,632,000 in general funds, \$633,769 in special funds, and \$397,934 in trust funds in fiscal year 2016-2017.

Your Committee approves \$4,404,068 in each fiscal year in general funds for administrative and operating costs. This represents the total salary costs of the Department's employees that were previously paid for with special funds.

Your Committee also approves \$2,290,115 in each fiscal year for fringe benefits for positions paid from general funds. This appropriation is made to the Department of Budget and Finance for distribution between the pertinent fringe benefit program IDs.

Your Committee notes that both of these appropriations are intended to meet the constitutional requirements for sufficient funds by removing personnel costs from the trust fund and allowing the Department to apply those resources to services for beneficiaries.



Health

The Senate Draft of the executive budget adjusts the Department of Health's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$34,994,294 in general funds and reducing \$62,655,349 in non-general funds; and
- (2) For fiscal year 2016-2017, by reducing \$40,513,483 in general funds and \$68,297,890 in non-general funds.

The Administration's request was to add \$33,425,787 in general funds and \$63,211,668 in non-general funds in fiscal year 2015-2016 and \$41,556,898 in general funds and \$68,661,239 in non-general funds in fiscal year 2016-2017.

Your Committee approves \$4,145,695 in general funds in each fiscal year for Kupuna Care. The Department has indicated that more funding is necessary for the program to reach its intended clientele.

Your Committee approves \$2,293,143 in general funds in each fiscal year for the home- and community-based services waiver program administered by the Department's Developmental Disabilities Division. These funds will expand eligibility for waiver services to the developmentally disabled citizens from the Compact of Free Association States and from elsewhere outside the State to meet an immediate public need.

Your Committee approves additional positions and \$1,911,649 in general funds in each fiscal year for the Solid and Hazardous Waste, Safe Drinking Water, and Clean Water Branches, and the Hazard Evaluation and Emergency Response Office. Your Committee finds that the positions would be best served by changing the means of financing to general funds to provide funding security as the revenue sources for the environmental response revolving fund have declined.

The Senate Draft of the executive budget also makes other significant adjustments, including the following:

- (1) Adding \$852,600 in general funds in each fiscal year for Aging and Disability Resource Centers project Coordination for Oahu, Maui, Kauai, and Hawaii Island;



- (2) Adding \$1,750,000 in general funds in each fiscal year for in-unit security guards to deter violence and assaultive behavior, and adding \$2,997,000 in general funds in each fiscal year for the projected deficit at the Hawaii State Hospital; and
- (3) Adding \$545,030 in general funds in each fiscal year for the licensing and case management activities for adult foster family care homes and adult day care facilities.

Hawaii Health Systems Corporation

The Senate Draft of the executive budget accepted the Administration's request to adjust the Hawaii Health Systems Corporation's (HHSC) appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$21,000,000 in general funds; and
- (2) For fiscal year 2016-2017, by adding \$21,000,000 in general funds.

Your Committee recognizes HHSC's role as a principal health care provider to Hawaii's most vulnerable citizens and visitors, especially those on the neighbor islands. HHSC is under increasing pressure as health care costs continue to rise while federal and private reimbursement rates decline. Your Committee finds that the appropriation is necessary to meet an immediate public need.

Human Services

The Senate Draft of the executive budget adjusts the Department of Human Services' appropriation as follows:

- (1) For fiscal year 2015-2016, by reducing \$16,485,380 in general funds and adding \$297,855,088 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$25,417,006 in general funds and \$381,843,332 in non-general funds.

The Administration's request was to reduce \$7,160,050 in general funds and to add \$308,889,132 in non-general funds in



fiscal year 2015-2016 and add \$37,529,998 in general funds and \$401,135,623 in non-general funds in fiscal year 2016-2017.

Your Committee approves \$1,906,000 in general funds to continue the Housing First initiative in each fiscal year. These funds will be used in conjunction with the Substance Abuse and Mental Health Services Administration grant to allow a greater percentage of program resources to go to direct housing costs. This will provide continuous funding for the Housing First initiative and is expected to provide transitional housing support and stability services to chronically homeless individuals throughout the State. Your Committee also added 2.00 positions and \$47,000 in fiscal year 2015-2016 and \$94,000 in fiscal year 2016-2017 in general funds for homeless services to increase the Department's capacity to responsibly manage and carry out its mission.

Your Committee approves \$3,000,000 in each fiscal year in general funds for the Hawaii Public Housing Authority. The funds are necessary to meet an immediate public need. The Department has indicated that funding is necessary for the program to operate and maintain state elderly and family public housing facilities.

Your Committee also approves \$4,141,800 in fiscal year 2015-2016 and \$4,858,200 in fiscal year 2016-2017 in general funds for Medicaid recipients through age six with Autism Spectrum Disorder. The Department has indicated that funding is necessary for the program to reach its intended clientele.

The Senate Draft of the executive budget also makes other significant adjustments, including the following:

- (1) Adding \$2,600,000 in each fiscal year in general funds for general assistance payments;
- (2) Adding \$11,505,000 in fiscal year 2015-2016 and \$13,495,000 in fiscal year 2016-2017 in general funds for Medicaid patients with chronic Hepatitis C virus infections; and
- (3) Adding \$1,293,800 in general funds and \$185,000 in federal funds in fiscal year 2015-2016 and \$342,000 in general funds and \$155,000 in federal funds in fiscal year 2016-2017 for the Temporary Assistance for Needy



Families work program and contracted services for eligible families.

Labor and Industrial Relations

The Senate Draft of the executive budget adjusts the Department of Labor and Industrial Relations' appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$26,891 in general funds and \$2,572,992 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$443,463 in general funds and \$3,515,962 in non-general funds.

The Administration's request was to add \$363,126 in general funds and \$2,617,992 in non-general funds in fiscal year 2015-2016 and \$817,200 in general funds and \$3,565,962 in non-general funds in fiscal year 2016-2017.

Your Committee approves 2.00 positions, \$16,496 in general funds, and \$44,065 in other federal funds in fiscal year 2015-2016 and \$34,036 in general funds and \$89,716 in other federal funds in fiscal year 2016-2017 for the Hawaii Occupational Safety and Health Program (HIOSH) to improve staff levels and inspection quotas of federally required benchmarks. This appropriation will provide the staffing and operational capacity required for HIOSH to remain in compliance with federal requirements.

Your Committee approves 3.00 positions and \$76,707 in fiscal year 2015-2016 and \$129,795 in fiscal year 2016-2017 in general funds for the Disability Compensation Division to accommodate persistent staffing challenges associated with providing employees with medical and economic protection afforded by the Prepaid Health Care and Temporary Disability Insurance laws. This appropriation will help address a three-month backlog in the review of plans and restore critical support to the program.

Your Committee also approves \$200,000 in each fiscal year in general funds for the premium supplementation fund. The Department has indicated that more funding is necessary for the program to reach its intended clientele.



Land and Natural Resources

The Senate Draft of the executive budget adjusts the Department of Land and Natural Resources' appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$6,107,642 in general funds and \$3,707,866 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$5,898,711 in general funds and reducing \$3,570,963 in non-general funds.

The Administration's request was to add \$6,974,346 in general funds and \$6,206,976 in non-general funds in fiscal year 2015-2016 and add \$6,765,415 in general funds and reduce \$1,051,853 in non-general funds in fiscal year 2016-2017.

Your Committee has provided \$4,000,000 in general funds to the Hawaii Invasive Species Council. These funds will be used as part of a competitive funding grant process for invasive species prevention, control, and outreach. In addition, your Committee is conscious of the growing invasive albizia problem and the threats it poses to our communities and vital infrastructure. As such, your Committee has provided \$3,000,000 in special funds to address albizia eradication and control along public highways.

Your Committee has also provided \$1,000,000 in fiscal year 2015-2016 and \$1,000,000 in fiscal year 2016-2017 in special funds for the Division of State Parks to utilize its revenues from state park fee increases for rising utility and operational costs. Your Committee is mindful of the Department's efforts to accommodate the increase in visitors to Hawaii's state parks, despite limited funding.

Your Committee has provided 8.00 positions and \$138,515 in general funds and \$217,033 in special funds in fiscal year 2015-2016 and \$226,830 in general funds and \$270,747 in special funds in fiscal year 2016-2017 to better identify and protect and properly maintain historic properties, as well as strengthen the infrastructure for historic preservation in Hawaii.



Public Safety

The Senate Draft of the executive budget adjusts the Department of Public Safety's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$20,522,097 in general funds and \$2,317,761 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$24,805,344 in general funds and \$2,365,344 in non-general funds.

The Administration's request was to add \$20,572,097 in general funds and \$2,386,184 in non-general funds in fiscal year 2015-2016 and \$26,214,624 in general funds and \$2,433,767 in non-general funds in fiscal year 2016-2017.

Your Committee approves \$3,164,155 in fiscal year 2015-2016 and \$2,741,454 in fiscal year 2016-2017 in general funds for costs associated with the relocation and housing of inmates at Halawa Correctional Facility while essential repairs and upgrades are completed. Your Committee recognizes that this improvement project is crucial to the health and safety of inmates and to the security of the general public.

Your Committee also approves \$1,969,338 in fiscal year 2015-2016 and \$2,133,699 in fiscal year 2016-2017 in general funds for increased food supply costs and religious food requests. The Department has been struggling to keep up with rising food costs across multiple categories, and these funds will provide the necessary level of support to keep the program operational.

Your Committee also approves \$1,117,474 in each fiscal year in general funds for full-year salaries for positions in various programs. The positions were created in 2014 and funded for six months only in response to a delay in hiring.

Taxation

The Senate Draft of the executive budget adjusts the Department of Taxation's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$1,835,785 in general funds and \$15,229 in special funds; and



- (2) For fiscal year 2016-2017, by adding \$1,929,658 in general funds and \$21,222 in special funds.

The Administration's request was to add \$1,885,785 in general funds and \$15,229 in special funds in fiscal year 2015-2016 and \$1,929,658 in general funds and \$21,222 in special funds in fiscal year 2016-2017.

Your Committee approves \$200,000 in general funds in fiscal year 2015-2016 to convene the Tax Review Commission pursuant to Article VII, section 3 of the Hawaii State Constitution.

Your Committee has also approved \$111,546 in each fiscal year in general funds for full-year salaries for positions in various programs. The positions were created in 2014 and funded for six months only in response to a delay in hiring.

Transportation

The Senate Draft of the executive budget adjusts the Department of Transportation's appropriation as follows:

- (1) For fiscal year 2015-2016, by reducing \$47,400,708 in special funds; and
- (2) For fiscal year 2016-2017, by adding \$37,705,909 in special funds.

The Administration's request was to reduce \$42,946,998 in special funds and add \$1,145,971 in federal funds in fiscal year 2015-2016 and to add \$45,589,453 in special funds and \$1,050,382 in federal funds in fiscal year 2016-2017.

Your Committee approves \$121,218,000 in fiscal year 2015-2016 and \$119,904,000 in fiscal year 2016-2017 in special funds for special maintenance projects throughout the State for airports, harbors, and roadways.

Your Committee also approves \$204,189,547 in fiscal year 2015-2016 and \$292,597,569 in fiscal year 2016-2017 in special funds for debt service payments from the airport revenue fund and harbors special fund. The bonds payable from this appropriation will allow for modernization and refurbishment of airport and harbor facilities across the State.



The Senate Draft of the executive budget also makes other significant adjustments, including the following:

- (1) Adding \$500,000 in each fiscal year for the Oahu van pool program;
- (2) Adding \$1,262,000 in special and federal funds in fiscal year 2016-2017 for a rescue firefighting vehicle for Lihue Airport; and
- (3) Adding \$921,000 in each fiscal year for operation of the zipper lane.

Your Committee notes that while a majority of the Department's funding requests were accommodated, serious reservations and major concerns exist with regard to the deficit spending of the state highway fund, the amount of spending across all divisions, and your Committee's difficulty in verifying the Department's justification to fund these requests. While these resources are being allocated out of special funds, they are nonetheless tax dollars and, as such, are taken very seriously. To this end, your Committee did not approve the creation of any new branches within the Highways Division. Your Committee has also inserted a requirement in the Department's budget that the purchase of any new vehicles or equipment must align with the Department's internal policy with regard to age and other standards, as some purchases reviewed by your Committee did not appear to comply with these standards.

University of Hawaii

The Senate Draft of the executive budget adjusts the University of Hawaii's appropriation as follows:

- (1) For fiscal year 2015-2016, by adding \$18,418,438 in general funds and reducing \$51,423,736 in non-general funds; and
- (2) For fiscal year 2016-2017, by adding \$18,637,086 in general funds and reducing \$51,340,397 in non-general funds.

The Administration's request was to add \$17,918,438 in general funds and reduce \$51,423,736 in non-general funds in



fiscal year 2015-2016 and add \$18,637,086 in general funds and reduce \$51,340,397 in non-general funds in fiscal year 2016-2017.

Your Committee approves \$6,776,818 in general funds in fiscal year 2015-2016 and \$6,360,818 in general funds in fiscal year 2016-2017 for system-wide performance-based funding support. These funds will be used across all campuses to support the University's role as the State's premier institution for higher education. Your Committee has also added a requirement that, beginning in fiscal year 2016-2017, the President and Board of Regents establish and implement rigorous metrics that reflect a commitment to student achievement, access, degree attainment, and matriculation.

Your Committee also approves \$723,182 in general funds in fiscal year 2015-2016 and \$1,139,182 in general funds in fiscal year 2016-2017 for the Violence Against Women Act and Title IX. This appropriation is necessary to comply with a federal mandate.

Your Committee also approves \$500,000 in general funds in fiscal year 2015-2016 for student employees. These funds will assist students who work part-time at the University with gaining professional experience and will help offset the financial costs of attending school.

PART VI. CAPITAL IMPROVEMENTS PROGRAM BUDGET

Your Committee finds that capital improvement projects play a vital role in rebuilding the State's economy and strengthening our social infrastructure. The State is committed to expanding into new growth sectors, while remaining mindful of the current needs and priorities of the Administration, its departments, and the community at large. After carefully considering the many needs facing the State, your Committee has provided a total of \$538,277,000 for fiscal year 2015-2016 and \$255,808,000 for fiscal year 2016-2017 for projects funded by general obligation bonds and \$1,498,772,000 in fiscal biennium 2015-2017 for projects funded by all means of financing.

Your Committee crafted a capital improvement program budget that focused on funding both critical and significant capital projects that:

- (1) Address the shortage of affordable housing in Hawaii by providing funds to address the immediate repair and



maintenance needs in Hawaii's public housing program, as well as the long-term financing requirements to support an expansion of affordable housing units statewide. To this objective, your Committee provided \$5,850,000 to the Hawaii Public Housing Authority and \$50,000,000 to the Rental Housing Trust Fund to build affordable housing units;

- (2) Encourage the State's expansion into new sectors that generate growth, diversify the economy, and create jobs in Hawaii, paving a brighter future for our keiki;
- (3) Renovate and maintain existing state-owned facilities to reduce general fund expenditures on recurring short-term fixes to outstanding deferred maintenance. To this objective, your Committee provided over \$220,000,000 over the fiscal biennium to fund renovations to:
 - (A) Hawaii Health Systems Corporation's network of hospitals;
 - (B) University of Hawaii campuses and Department of Education schools; and
 - (C) Hundreds of other projects for the Department of Public Safety, Department of Hawaiian Home Lands, Department of Land and Natural Resources, and the Department of Accounting and General Services, among others;
- (4) Support the use of alternative energy to achieve long-term cost savings and a sustainable future for Hawaii. To this objective, your Committee provided funds for photovoltaic projects in the Hawaii Health Systems Corporation East Hawaii Region, alternative energy for the Moloaa Well, as well as several other infrastructure improvements to support green energy in the future; and
- (5) Address critical health, safety, and building code requirements with appropriations to the Department of Defense; Department of Land and Natural Resources; Department of Business, Economic Development, and Tourism; and the Department of Public Safety, among others.



Your Committee also strongly believes in supporting Hawaii's veterans by providing \$25,384,000 in general obligation bond funds that will be used to leverage an additional \$37,429,000 in federal funds to support the construction of a long-term veterans care facility on Oahu.

In addition, your Committee believes that investment in airports, harbors, and highways is necessary to address the continued influx of visitors, the efficient transport of goods within and without the State, and the day-to-day needs of our residents. Your Committee has demonstrated its commitment to transportation projects by appropriating, for fiscal biennium 2015-2017, \$1,380,184,000 for the Department of Transportation, including \$351,380,000 for state highways on every island.

Your Committee recognizes the great need in the State for services provided by non-governmental groups and nonprofit agencies. Your Committee commends these organizations for their devotion and commitment to serving the community and understands the fiscal constraints within which these organizations often operate. Your Committee will be thoroughly assessing all grant-in-aid applications alongside the State's evolving financial forecast in order to determine the most appropriate and judicious funding levels for these organizations.

In addition, your Committee provided funding for various projects within the Department of Transportation, Department of Defense, Department of Agriculture, Department of Health, Department of Education, Department of Human Services, and the University of Hawaii, among others, to ensure that matching contributions of federal, private, and other funds are maximized and not lost or forfeited.

Finally, this biennium budget provides funding for various other capital projects that your Committee believes should be included at this time, but that may warrant additional discussion as the budget is further refined during the remainder of Regular Session.



As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 500, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 500, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,



JILL N. TOKUDA, Chair



