

EXECUTIVE CHAMBERS
State Capitol
Honolulu, Hawaii 96813

**THE ABERCROMBIE ADMINISTRATION'S
AMENDMENTS TO THE FB 2011-13 EXECUTIVE BUDGET**

OVERVIEW

Two weeks into our administration on December 20, 2010, we submitted a transition budget as a starting point. We asked all departments to identify the most broken parts of their agencies, to begin developing new working habits under new leadership and to implement new policies that make the best use of limited resources.

Our administration's proposed amendments to the FB 2011-13 Executive Budget reflect our goal to move in a new direction during these difficult times. We must achieve three essential goals to secure Hawaii's future. First, we will restore the functions of government beginning with the most basic public needs. Second, we will accelerate our economic recovery with immediate jobs and opportunities. And third, we will reorient our entire government toward the priorities outlined in the New Day plan by investing in human capital and building a sustainable economy.

AMENDMENTS TO THE FB 2011-13 EXECUTIVE BUDGET

The Operating Budget

For FB 2011-13, proposed budget amendments total \$490.8 million in FY 2012 and \$237.8 million in FY 2013 from all means of financing for operating costs. This represents an increase of 5% and 2%, respectively, over the FB 2011-13 Executive Budget. Of these amounts, the request for general funds is \$133.8 million in FY 2012 and \$160.3 million in FY 2013, resulting in increases of 2% and 3%, respectively. Additional information on funding distribution by means of financing and department may be found on pages 4 – 9.

In recent years, the public trust has been badly damaged by personnel and programmatic policies that crippled government's ability to provide basic services taxpayers expect. We have begun the process of remedying this by making use of idle federal funds, reorganizing around public service needs, changing arbitrary rules, and growing the morale of public employees by reaching out to them, listening and acting on their suggestions and initiatives. The result: increasing efficiency and productivity. In all instances, we are not yet able to fully restore government functions, but this budget restarts with each agency focusing on those areas that are the most critical, most cost effective, and most necessary for advancing economic recovery.

The proposed general fund requests include:

- \$866,938 in FY 2012 and \$831,136 in FY 2013 for the Department of Accounting and General Services (DAGS) to include the restoration of data center operations, reapportionment, and centralized procurement.
- \$915,166 in FY 2012 and FY 2013 for the Department of the Attorney General's staffing costs.
- \$2,497,000 in FY 2012 and \$2,312,000 in FY 2013 for the Department of Business, Economic Development and Tourism (DBEDT) to support economic development through the Hawaii Film Office, restoration of the Business and Community Assistance Branch and additional Hawaii Small Business Innovation Research grants.
- \$6,781,209 in FY 2012 and \$2,372,284 in FY 2013 for the Department of Defense (DOD) for the restoration of the Office of Juvenile Justice and Delinquent Prevention, maintenance costs, and emergency management support.
- \$646,208 in FY 2012 and \$22,310,169 in FY 2013 for the Department of Education (DOE) to support student transportation, nursing services and the Charter Schools.

- \$1,638,033 in FY 2012 and \$1,475,033 in FY 2013 for the Office of the Governor to restore full-year funding.
- \$2,316,313 in FY 2012 and \$2,305,313 in FY 2013 for the Department of Health (DOH) for the Early Intervention Program and for program costs related to civil unions.
- \$10,062,264 in FY 2012 and \$6,951,208 in FY 2013 for the Department of Human Services (DHS), which includes funding for the Pre-School Open Doors Program and a new computer-based eligibility system for the Medquest Division.
- \$2,112,861 in FY 2012 and \$2,017,861 in FY 2013 for the Department of Land and Natural Resources (DLNR) to provide additional program support for Conservation and Resource Enforcement and Historic Preservation and dam safety.
- \$10,000,000 in FY 2012 and FY 2013 for the University of Hawaii (UH) to support the community colleges, the UH at Hilo and strategic outcome funding.

The following general fund requests address previously identified shortfalls which were not addressed in the FB 2011-13 Executive Budget but were included in the general fund financial plan:

- \$36,757,602 in FY 2013 for pension accumulation and \$54,285,500 in FY 2012 and FY 2013 for health benefit costs.
- \$37,974,624 in FY 2012 and FY 2013 to maintain the current level of service for the Temporary Assistance to Needy Families (TANF) program and \$11,523,511 in FY 2012 and FY 2013 for benefit payments for the TANF and Temporary Assistance to Other Needy Families (TAONF) programs.
- \$13,200,000 in FY 2012 and FY 2013 (also \$13,200,000 in FY 2012 and FY 2013 in federal funds) for the Medicaid program due to a recent court decision on benefits for Compact for Free Association clients.

Additionally, due to the rising costs of the Medicaid program, our administration is taking the difficult steps necessary to manage these costs which could easily spiral out of control. Consequently, we have proposed reductions of \$50 million (\$25 million in general funds and \$25 million in federal funds) in FY 2012 and \$100 million

(\$50 million in general funds and \$50 million in federal funds) in FY 2013.

The Capital Improvements Program (CIP) Budget

For the CIP budget, an additional amount of \$1,206.2 million in FY 2012 and \$503.0 million in FY 2013 has been recommended. This represents an increase of 249% and 103%, respectively, over the FB 2011-13 Executive Budget. Of these amounts, the request for general obligation (G.O.) bonds is \$819.8 million and \$247.8 million, respectively. Additional information on funding distribution by means of financing and department may be found on pages 10 – 15.

A central part of our economic strategy is a broad ranged series of capital improvement actions called the New Day Work Projects, which will immediately create jobs and inject dollars into the economy. This will benefit everyone.

We instructed all departments to look for projects that were ready to go and that could be completed in two years so that they could be prime movers in attacking the recession. The New Day Work Projects focus building on a vital infrastructure that will advance a sustainable economy built on the strength of our human capital as well.

The proposed G.O. bond requests provide:

- \$10,260,000 in FY 2012 and \$5,900,000 in FY 2013 for the Department of Agriculture for various irrigation system and watershed improvements.
- \$60,000,000 in FY 2012 and \$30,000,000 in FY 2013 for DAGS to provide maintenance and health and safety improvements for State facilities and Aloha Stadium, Statewide energy conservation improvements, asbestos removal and renovation of the Kamamalu building, and renovation of Washington Place.
- \$488,965,000 in FY 2012 and \$98,000,000 in FY 2013 for the Department of Budget and Finance to reauthorize prior year

funding and authorize FB 2011-13 funding to support the State Educational Facilities Improvement (SEFI) Special Fund.

- \$37,830,000 in FY 2012 and \$12,100,000 in FY 2013 for DBEDT for the Rental Housing Trust Fund and a Senior Residence at Iwilei.
- \$8,060,000 in FY 2012 and \$5,234,000 in FY 2013 for DOD to support the renovation of Building 117 at Kalaeloa, renovation and improvements to Army Guard facilities and National Guard Armories, and Veteran's Cemetery improvements.
- \$98,000,000 in FY 2012 and FY 2013 for the DOE for Statewide improvements for electrical infrastructure, high school science facilities and noise and heat abatement; construction of new Ewa Makai Middle School and Keeau Middle School classroom building; fire safety improvements at McKinley High School; and new Kapolei II Elementary School. (Although these projects are funded by the SEFI special fund, the SEFI special fund is supported by G.O. bonds)
- \$16,250,000 in FY 2012 and \$15,000,000 in FY 2013 for the Department of Hawaiian Home Lands to support construction of water systems at Makuu, North Kona, and Honokowai, and the Papakolea sewer system.
- \$15,670,000 in FY 2012 and \$35,300,000 in FY 2013 for DHS for various improvements at Kuhio Park Terrace, Mayor Wright Homes, Palolo Valley Homes, Lanakila Homes, Hale Laulima and Puahala Homes.
- \$26,182,000 in FY 2012 and \$1,303,000 in FY 2013 for DOH for energy efficiency and improvements at the Hawaii State Hospital, Waimano Ridge and other DOH facilities.
- \$44,839,000 in FY 2012 and \$15,667,000 in FY 2013 for the Hawaii Health Systems Corporation for electronic medical records and various improvements.
- \$26,250,000 in FY 2012 and \$26,300,000 in FY 2013 for DLNR for rockfall and flood mitigation and improvements to State parks, boating and ocean recreation facilities, and forest and outdoor recreation facilities, Statewide.
- \$5,500,000 in FY 2012 and \$3,000,000 in FY 2013 for the Department of Public Safety for renovations at correctional facilities, an exploratory well at Kulani Correctional Center, and planning for the orderly development of correctional facilities.

- \$80,000,000 in FY 2012 for UH for systemwide capital renewal and deferred maintenance and the Leeward Community College's Education and Innovation Instructional Facility.

THE GENERAL FUND EXPENDITURE CEILING

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Section 9, Article VII of the Hawaii State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level, including all branches of government, total proposed appropriations from the General Fund are within the expenditure ceilings for both FY 2012 and FY 2013.

For the Executive Branch, total proposed appropriations from the General Fund (which include the Executive Budget for FB 2011-13 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by \$516.1 million (or 9.9%) in FY 2012 and by \$121.2 million (or 2.1% in FY 2013). The reasons for these excesses are due to the restoration of furlough savings adjustments and funds supplanted by the federal State Fiscal Stabilization Fund program; increases in Medicaid, debt service, and fringe benefit costs; the new administration's priority initiatives and restorations to meet operational requirements.

CHANGING OUR WAYS

Our financial plan, our legislative proposals and this amended budget were developed in accordance with a number of key principles:

It has to be fair with everyone contributing something.

It has to be sensitive to the needs of those taxpayers with the least ability to pay.

It has to create an infusion of support for the overall economy so we can continue to recover.

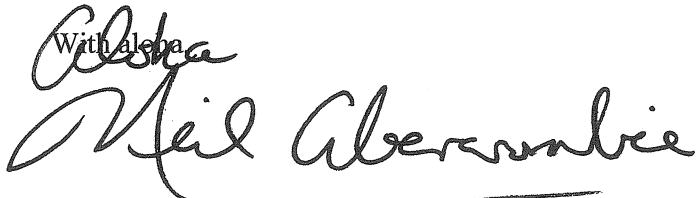
We will not shy away from difficult choices or use gimmicks to mask our problems.

There is no one left to blame, no one else to carry the load for us, no more time to push problems down the road for someone else to solve. Our administration will not avoid making the hard choices.

We invite new ideas and modifications to this plan. If there are better ways to get to where we need to go and that addresses our multi-dimensional challenges with thoughtful convictions, we are happy indeed eager to entertain them. But we cannot tolerate necessary delay or drama for the sake of advancing personal agendas or because we lack enough civic courage. We cannot keep looking for the worst in each other. It is a disservice to ourselves and to the people of Hawaii.

We need to listen to the people outside the halls of the Capitol – the silent majority that is ready for determined leadership; the voters who chose change over the status quo.

Now is the time for us to make our mark; to show our character; to be responsible. Hawaii will be what we make it. Let's expect more of ourselves. Let's get to work.

With aloha
A handwritten signature in dark ink, reading "Neil Abercrombie". The signature is fluid and cursive, with a large, sweeping "N" and "A".

NEIL ABERCROMBIE
Governor of Hawaii