


STATE OF HAWAII

DEPARTMENT OF HAWAIIAN HOME LANDS

June 20, 2017

TO: Chairman and Members, Hawaiian Homes Commission 

FROM: Rodney K. M. Lau, Administrative Services Officer

SUBJECT: Approval of Fiscal Year 2018 Department of Hawaiian Home Lands Budget

RECOMMENDED MOTION/ACTION

1. Approval of the Fiscal Year 2018 Department of Hawaiian Home Lands Budget and authorize the Chairman to shift funding of expenditures between cost elements and funds as warranted but not to exceed the total budget and any shift in funding between cost elements by the chair shall not exceed \$500,000.
2. Approval of a two (2) year Development budget and allow for amounts not encumbered in FY 2018 to be encumbered in FY 2019. For the Development budget items, allow the Chair's authority to shift funding between cost elements if not to exceed \$1,000,000.
3. Approval to transfer \$20,000,000 from the Hawaiian Home Administration Account to the Hawaiian Home Operating Fund.

DISCUSSION

Purpose 4: Administrative and Operating Costs

When comparing "apples to apples", the net amount appropriated by the State Legislature in the 2017 Legislative session (HB 100 HD1 SD1 CD1) (\$18,254,843), the amount was significantly less than the Nelson case "sufficient sums" amount as determined by Judge Castagnetti (\$28,478,966) and the "sufficient sums" amounts requested by the Hawaiian Homes Commission of \$30,863,110 in September 2016. The final arguments related to addressing "sufficient sums" for the department's administrative and operating expenses is scheduled for July 6, 2017. What is included as "sufficient sums" for Purpose 4 (Administrative and Operating Costs) remains to be in dispute between the

Castagnetti decision and the Legislature's and Department of Budget and Finance interpretation.

In the Nelson case decision, Judge Castagnetti determined \$28,478,966 as the "sufficient sums" amount. "Personal Services" costs was determined to be \$13,838,391 to finance the base salaries only to finance 260 positions. Fringe benefit costs were to be absorbed by a separate Department of Budget and Finance general fund appropriation. "Other Current Expenses" were determined to be \$14,640,575. The funding of general fund fringe benefit costs separately in a Department of Budget and Finance appropriation is a policy consistent with all other State general funded programs.

In comparison, the State Legislature appropriated \$25,120,730 of general funding pursuant to HB 100 HD1 SD1 CD1. "Personal Services" costs was funded in the amount of \$18,309,032. "Personal Services" costs was comprised of funding base salaries (\$11,443,145) of 200 positions and fringe benefit costs (\$6,865,887). According to budget provision 16, DHHL is to transfer up to \$6,865,887 into a separate Department of Budget and Finance general fund appropriation for fringe benefit costs. "Other Current Expenses" was funded in the amount of \$6,811,698.

Pursuant to HB 100 HD1 SD1 CD1, the State Legislature appropriated \$25,120,730 in general funds, \$4,824,709 in special funds (Hawaiian Home Administration Account), and \$3,740,534 in trust funds (Hawaiian Home Operating Fund) to finance DHHL's administrative and operating (A&O) costs. The general fund appropriation (\$25,120,730) finances those A&O expenditures that the State Legislature determined as true A&O costs, identified and separated by their related budget expenditure codes. The State Legislature also appropriated from DHHL's special (\$4,824,709) and trust funds (\$3,740,534) for costs that they determined are not true A&O costs. These excluded budget expenditure codes (e.g. repair and maintenance of unencumbered lands, services for: tree trimming, grass trimming for drainage swales, etc.) are funded by DHHL's special and trust funds. DHHL will request from the Department of Budget and Finance that all general funds be used and exhausted prior to spending any DHHL special or trust funds.

Attachment "A" provides the means of financing recommended to fund the Administrative and Operating Budget for fiscal year 2018. Attachment "D" provides a detailed comparison of the "sufficient sums" budget approved by the HHC in September 2016 and what was approved by the Legislature (HB100 HD1 SD1 CD1).

Purpose 1: Lot Development

Attachment "B" provides the means of financing for the projects recommended to fund the Lot Development Budget for fiscal year 2017.

The Development Budget responds to issues and priorities expressed by the Commission. In addition, the following principles guided the preparation of the list of projects:

- The department's commitment to providing improvements for the Undivided Interest Lots that have been awarded, and to completing other projects that have been initiated;
- The development of new homesteads for award, with particular emphasis on providing improved residential lots;
- The need to repair, maintenance and upgrade of aging infrastructure on Hawaiian Home Lands; and
- The need to initiate the planning and design of new homestead projects to provide an inventory for future development.
- Design and construction of projects that are awarded USDA Rural Development loan/grant funds. These projects leverage federal funding resources to reduce the amount of funds needed from the Trust Fund for projects.

The primary sources of financing are from the Hawaiian Home Operating Fund (HHOF), the Native American Housing and Self-Determination Act (NAHASDA), a U.S. Housing and Urban Development program and the United States Department of Agriculture Rural Development program (USDA-RD). The Hawaiian Home Lands Trust Fund (HHLTF) is used as a secondary source of financing and will be reimbursed by the HHOF in the event the HHLTF project funds are used.

Purpose 2: Loans

Pursuant to Act 11, SpSLH 1995, all special and revolving funds are subject to the State allotment process. For the DHHL's loan program, this affects the financing provided by the Hawaiian

Home Loan Fund and the Hawaiian Home General Loan Fund. This budget will serve as a basis to allot funds necessary for equity payments of cancelled or surrendered homestead lease improvements, new loan financing and insurance advances, property tax advances, and contingency reserve for loan guarantee and insurance programs.

The fiscal year 2018 Loan Program Budget sets forth the the department's loan program.

The planned expenditures by cost elements are as follows:

	Loans: Fiscal Year 2019	Total	(S-302-I) HH Loan Fund	(S-323-I) HH General Loan Fund	(T-917-I) HH Trust Fund	(T-902-I) HHL Trust Fund	NAHASDA
A.	Section 209 HHC Transaction	3,000,000	2,000,000	1,000,000	0	0	
B.	Direct Loan Financing	11,000,000		3,000,000	0	0	8,000,000
C.	Real Property Taxes	100,000		100,000	0	0	
D.	Contingency- Guaranteed/Insured Loan Portfolio	1,300,000		1,000,000	300,000	0	
E.	Improvements Purchased- Writedowns	300,000		0	0	300,000	
	Total Loans	15,700,000	2,000,000	5,100,000	300,000	300,000	8,000,000

Explanation of Cost Elements:

Section 209, HHCA Transactions - Equity payments of cancelled or surrendered homestead lease improvements. Includes the appraised value of the improvement less any indebtedness to the department and taxes owed by the previous lessee. The payments are advanced from the loan funds and repaid by the subsequent purchaser of the improvements.

Direct Loan Financing and Advances - Includes loan refinancing, replacement home loans, repair loans, new home construction, farm loans and loan insurance advances.

Real Property Tax Advances - Pursuant to section 208(7) of the HHCA, the department may advance payments on behalf of lessees to address real property tax delinquencies and have a lien placed as provided by section 216 of the Act.

Contingency - Guaranteed/Insured Loan Portfolio - A reserve set aside to address loans to lessees where the department guarantees or insures repayment to lenders in the event of loan default.

Improvements Purchased Write-downs - Write-down of "Improvement Purchased" asset accounts due to decline in value of assets.

Purpose 3: Rehabilitation Projects

Pursuant to Chapter 6.1 of Title 10 Hawaii Administrative Rules, DHHL prepares the Native Hawaiian Development Program Plan (NHDPP) every two years for HHC review and approval. The goal of the NHDPP is to "increase the self-sufficiency and self-determination of native Hawaiian individuals and native Hawaiian communities." This is accomplished through the NHDPP by "improve(ing) the general welfare and conditions of native Hawaiians through educational, economic, political, social, cultural, and other programs."

In this upcoming Fiscal Year, DHHL plans to implement the following components in the NHDPP:

- a) Training and Technical Assistance for beneficiary organizations on business development, includes business planning, financial feasibility, project management, operational planning.
- b) Homesteading Opportunities Program
 - o Small business development and entrepreneurship training
 - o Agriculture peer-to-peer learning
 - o Agriculture co-operative training
 - o Pastoral task force
- c) Hawaiian Home Lands Trust Capacity Building Grants for beneficiary organizations
- d) Statewide Beneficiary Leaders conference and workshop events, including an Agriculture Leaders conference

e) Community Liaison

Attachment "C" provides the means of financing and rehabilitation projects for FY 2018.

The Commission's approval of above recommended motion is respectfully requested.

**Department of Hawaiian Home Lands
Executive Budget for FY 2018**

Object Code		Administration and Operating Costs				NHRF	Rev. Bond Special Fund	NAHASDA	TOTAL BUDGET
		General	Administration	Operating Fund					
		Fund	Account	Operating Portion	Development Portion				
2000	Personnel Costs	18,309,032	0	0			416,210	18,725,242	
2900	Other Personal Services	732,000	100,000	0	0	0	0	832,000	
3010	Operating Supplies - Gas & Oil Supplies	49,300	8,000	20,000	0	0	0	77,300	
3020	Operating Supplies - Fuel & Oil Other	2,800	3,000	25,580	0	0	0	31,380	
3030	Operating Supplies - Janitorial	21,680	0	6,548	0	0	0	28,228	
3040	Operating Supplies- Medical	0	0	0	0	0	0	0	
3090	Operating Supplies - Others	14,400	850	17,084	0	0	0	32,334	
3100	Maintenance Materials Supplies & Parts	103,600	8,000	130,000	0	0	0	241,600	
3200	Office Supplies	129,730	16,000	800	0	0	5,000	151,530	
3400	Other Supplies	23,116	0	1,500	0	0	0	24,616	
3500	Dues and Subscriptions	13,712	4,000	300	0	0	3,000	21,012	
3600	Freight and Delivery Charges	2,217	1,200	4,000	0	0	1,000	8,417	
3700	Postage	177,820	0	3,050	0	0	0	180,870	
3800	Telephone	125,210	0	400	0	0	15,000	140,610	
3900	Printing and Binding	149,700	0	0	0	0	20,000	169,700	
4000	Advertising	101,200	0	0	0	0	5,000	106,200	
4100	Car Mileage	19,350	0	0	0	0	3,000	22,350	
4200	Transportation, Intrastate	337,700	0	10,000	0	47,500	20,000	415,200	
4300	Subsistence Allowance, Intra-State	205,470	0	5,000	0	22,500	20,000	252,970	
4400	Transportation, Out of State	51,000	0	0	0	0	10,000	61,000	
4500	Subsistence Allowance, Out of State	41,500	0	0	0	10,000	10,000	61,500	
4600	Hire of Passenger Cars	78,900	0	3,000	0	0	10,000	91,900	
5000	Electricity	372,000	571,000	477,100	0	0	0	1,420,100	
5200	Water	103,700	204,000	249,800	0	0	0	557,500	
5400	Other Utilities	0	500	0	0	0	0	500	
5500	Rental of Land and Bldg.	32,800	0	0	0	13,300	38,000	84,100	
5600	Rental of Equipment	76,100	1,000	1,000	0	0	2,400	80,500	
5700	Other Rentals	1,772,500	3,000	0	0	0	5,000	1,780,500	
5810	Repairs- Data Processing	14,000	0	0	0	0	0	14,000	
5815	Maintenance - Data Processing	149,342	0	0	0	0	0	149,342	
5820	Repairs- Equipment, Building, etc.	47,697	22,000	30,200	0	0	0	99,897	
5825	Maintenance- Equipment, Building, etc.	50,978	377,050	102,472	0	0	50,000	580,500	
5830	Repairs- Motor Vehicles	19,700	5,200	5,000	0	0	0	29,900	
5835	Maintenance- Motor Vehicles	24,500	3,000	2,500	0	0	0	30,000	
5840	Maintenance-Unencumbered Lands & Other	0	35,800	0	0	0	0	35,800	
5895	Maintenance-Other Miscellaneous	6,000	93,184	4,000	0	0	0	103,184	
5900	Insurance	0	75,000	0	0	0	0	75,000	
6120	Interest Payment--RGOB	0	0	0	1,000	0	0	1,000	
6500	Other Grants in Aid	0	0	0	0	0	0	0	
7110	Services Fee Basis	1,241,509	3,104,221	2,467,729	0	2,400,000	4,000,000	13,213,459	
7230	Training Costs	85,196	168,000	6,000	0	0	5,000	264,196	
7290	Other Current Expenditures	15,700	2,954	2,500	0	4,800	2,000	27,954	
7700	Equipment	339,571	17,750	5,000	0	0	0	362,321	
7700	Motor Vehicle	80,000	0	0	0	0	0	80,000	
7900	Construction in Progress	0	0	0	0	0	0	0	
8020	Principal Payment--RGOB	0	0	0	30,000	0	0	30,000	
6120/8020	Debt Service: Revenue Bond Payment	0	0	0	0	3,200,000	0	3,200,000	
8201	Loans Receivable	0	0	0	0	0	0	0	
8201	Loans Receivable	0	0	0	0	0	0	0	
Total - Current Expenditure & Equipment		6,811,698	4,824,709	3,580,563	31,000	2,498,100	3,200,000	4,224,400	25,170,470
Total		25,120,730	4,824,709	3,580,563	31,000	2,498,100	3,200,000	4,640,610	43,895,712
A--Personnel Cost		18,309,032	0	0	0	0	0	416,210	18,725,242
B --Current Expenditure		6,392,127	4,806,959	3,575,563	31,000	2,498,100	3,200,000	4,224,400	24,728,149
C --Equipment		339,571	17,750	5,000	0	0	0	0	362,321
M--Motor Vehicle		80,000	0	0	0	0	0	0	80,000
Total		25,120,730	4,824,709	3,580,563	31,000	2,498,100	3,200,000	4,640,610	43,895,712

Department of Hawaiian Home Lands								
Development Budget (FY 2018)								
(000's omitted)								
Project / Description	Fiscal Year 2018 Budget				Fiscal Year 2019 Budget			
	HHL Trust Funds *	NAHASDA Funds	USDA/ other Fed Funds	Leg Appns	HHL Trust Funds *	NAHASDA Funds	USDA/ other Fed Funds	Leg Appns
PART A: Lot Development Projects (Addressing the homestead waiting list)								
OAHU								
Kakaina House Construction	200							
Kanehili Wall, Pedestrian Access	75							
East Kapolei II-B House Construction Loan		10,000						
East Kapolei II-C Site Construction	18,000							
East Kapolei II-A TOD	275							
Luualalei Subdivision	1							
Voice of America Phase I Infrastructure				800				
Ulu Ke Kukui Lease Expiration	25							
Waianae (Freitas)	840							
Waimanalo Residential Lots	200							
Waimanalo Agricultural Lots				1,300				
Land Acquisition / Lot Development, Oahu				6,900				
MAUI								
Keokea-Waiohuli, Phase 1(B)		1,000				5,000		
Keokea-Waiohuli, Phase 2				1,000		15		
Maui Development Fees (water, sewer, school district)	140							
Agricultural Off-site Water System, Keokea				2,000				
Lei Alii Phase 1B					1			
Lei Alii Highway and Access Improvements	1							1,400
Honokowai Feasibility Study	500							
Scattered lot improvements for UI relocations	150							
Pulehunui Development				17,500				
LANAI								
Lanai Scattered Lots	150							
MOLOKAI								
Molokai Water System/PV						13,750	11,250	
Hoolehua Scattered Ag Lots				1,500				
Naiwa Ag Lot Subdivision								1,500
BIG ISLAND								
Makuu Production Well - Well Capping	50							
Kau Water System	500			1,500				
Panaewa - Subsistence Ag Lots (Lot 185)		2,998						
HCC Home Project	220				220			
Kaumana Subdivision Rehabilitation				500				
Honomu	1,500							
Lower Piihonua Res and Subs Ag Lots					1			
Lalamilo Housing Phase 2A, Increment 1	1							
Puukapu Hybrid Water System	1							
Puukapu Agricultural Lots	1							
Laiopua Village 4 (Akau) Infrastructure	420							
Laiopua Village 4 (Akau) House Construction						5,000		
Laiopua Village 4 (Hema) Design	1							
Laiopua Village 4 (Hema) Construction	1	1,200	2,759					
Water Source Development, West Hawaii	1,000							
UXO Mitigation/ Construction Support	500							
KAUAI								
Hanapepe Residential Subdivision, Phase 2				1,000				
Wailua Well #1	100							
STATEWIDE PROJECTS								
Scattered Lots program (Statewide)	1,200	1,200						
Acquisition Due Diligence	500							
HHFDC Land Exchange Payment	1,705				1,700			
VOKA Payment	38				38			
Federal Funds Reimbursements	3,000							
Dispute Resolution	2,000							
PART A SUBTOTAL	\$ 33,295	\$ 16,398	\$ 2,759	\$ 34,000	\$ 1,960	\$ 23,765	\$ 11,250	\$ 2,900
PART B: Repair, Maintenance, and Operating Costs (Promoting thriving, healthy communities)								
OAHU								
Nanakuli Drainage Channel Concrete Repair					1,500			
Papakolea Sewer Improvements & Slope Stabilization	1							
Maintenance of Various Vacant Lots	180				200			

* HHL Trust Funds includes monies from DHHL Trust Fund and Operating Fund.

Department of Hawaiian Home Lands								
Development Budget (FY 2018)								
(000's omitted)								
Project / Description	Fiscal Year 2018 Budget				Fiscal Year 2019 Budget			
	HHL Trust Funds *	NAHASDA Funds	USDA/ other Fed Funds	Leg Appns	HHL Trust Funds *	NAHASDA Funds	USDA/ other Fed Funds	Leg Appns
Drainage Basins and Other areas	820				442			
Sewers Spill Response and Inspections	75				75			
Signage Replacement	10				10			
Nanakuli Channel Fence Repair	700				25			
Waianae Coast Secondary Access Road				3,000				
MAUI								
Maintenance of Various Vacant Lots	50				50			
Leliali Parkway Maintenance	370				200			
Maui Pump Station and Sewer Improvements	100							
Maintenance of drainage basins and ditches	500				500			
Waiehu Kou III Sewer Pump Station O & M	50				55			
Roadway Safety and Drainage Improvements, Kula				1,200				
Archaeological Preservation, Keokea-Waiohuli				1,000				
LANAI								
Drainage Ditches and Unencumbered Area	100							
MOLOKAI								
Kapaakea Flood Mitigation			600					
Ground Maintenance of Cemetery & Drainage Ditches	150				165			
Drainage Basins and Ditches	1							
Water System Repairs	1							
Engineering Services for Various Locations	500							
Molokai Veterans Center				4,000				
BIG ISLAND								
Kawaihae Improvements	1							
Puukapu Water System O&M	255				255			
Puukapu Water System Utility Fees	1							
Honokaia Non-potable Water System	780							
Lalamilo Housing Ph 1, Kawaihae Road Imprv		500						
Keaukaha Village Pavilion		250						
Infrastructure Improvements at Various Locations	500	800			500			
Maintenance of Various Vacant Lots	1							
Ground Maintenance for East Hawaii	20				22			
Drainage Basins and Ditches	300				300			
Maintenance of Drainage Ditches (Kuhio Village, Kawaihae)	30				30			
Road Construction/Maintenance on Unencumbered Land	80				80			
Laiopua Plant Preserves O/M	1							
KAUAI								
Anahola Dam and Reservoir Additional Improvements	1,500							
Anahola Water System - Interim Improvements	100							
Anahola Water System - Long-term Improvements						2,964	3,971	
Anahola Development Plans	1,000							
Drainage Basins, Ditches Repairs and Upgrades	150				150			
Maintenance of Various Vacant Lots	150				150			
Puu Opaee Reservoir								
STATEWIDE PROJECTS								
Engineering Services for Various Locations	500				500			
Maintenance of Fire Breaks	1							
Rock Fall Mitigation, Statewide	1							
Street Lamp Repair, Replace, Upgrade	1							
R/M of Improvements on HHL, Statewide	2,000	2,000			2,000	2,000		
R/M of Utilities in Existing Subdivisions				2,900				
Molokai and Kauai Water Systems Security				500				
Environmental Mitigation and Remediation, Statewide				2,000				
Aerial Mapping Services	200							
UXO Mitigation and Construction Support	1							
PART B SUBTOTAL	\$ 11,181	\$ 3,550	\$ 600	\$ 14,600	\$ 7,209	\$ 4,964	\$ 3,971	\$ -
BUDGET SUBTOTAL BY SOF	\$ 44,476	\$ 19,948	\$ 3,359	\$ 48,600	\$ 9,169	\$ 28,729	\$ 15,221	\$ 2,900
FISCAL YEAR TOTALS				\$ 116,383				\$ 56,019

* HHL Trust Funds includes monies from DHHL Trust Fund and Operating Fund.

Department of Hawaiian Home Lands
Rehabilitation Projects
Fiscal Year 2018

	<u>NHRF</u>
4200 Transportation, Intrastate	\$47,500
4300 Subsistence Allowance, Intrastate	\$22,500
4600 Hire of Passenger Cars	\$10,000
5500 Rental of Buildings	\$13,300
7290 Other Current Expenses	\$4,800
7110 Native Hawaiian Development Program Plan	\$1,000,000
7110 Agricultural Program Plan	\$100,000
7110 CTAHR CES Agents (Hawaii and Molokai)	\$300,000
7110 Beneficiary Capacity Building	\$450,000
7110 Special Area Plan for Kuleana Homesteading	\$250,000
	<u>\$2,198,100</u>

Funded by the Native Hawaiian Rehabilitation Fund (NHRF)

Department of Hawaiian Home Lands
 Analysis: Comparing Hawaiian Homes Commission "Sufficient Sums" Budget Request to State Legislature Appropriation Bill (HB 100 HD1 SD1 CD1)

		Applies-to-Apples: DHHL General Funding			
		Hawaiian Homes Commission Request of September 20, 2016		State Legislature HB 100 HD1 SD1 CD1	
		FY 2018	FY 2019	FY 2018	FY 2019
Personnel Services:	260 Positions	\$ 14,152,358	\$ 14,152,358	\$ 11,443,145	\$ 11,443,145
	Fringe: Not in DHHL's Budget; Funded by Dept of B&F Budget.	\$ -	\$ -	\$ 6,865,887	\$ 6,865,887
	Fringe: Transfer funds to Dept. of B&F Budget for DHHL fringe			\$ (6,865,887)	\$ (6,865,887)
Other Current Expenses:	All Administrative and Operating costs are General funded	\$ 17,164,922	\$ 17,164,922	\$ 6,811,698	\$ 6,811,698
	Total	\$ 31,317,280	\$ 31,317,280	\$ 18,254,843	\$ 18,254,843
		(A)	(A)	(A)	(A)
		\$ 13,062,437	\$ 13,062,437	General Fund Shortage	
State Constitution, Article XII, Section 1, Purpose 4:					
Administrative and Operating Costs					
Personnel	\$ 14,152,358	\$ 14,152,358		\$ 11,443,145	\$ (2,709,213)
Other Current Expenditure	\$ 17,164,922	\$ 17,164,922		\$ 6,811,698	\$ (10,353,224)
Subtotal: Administrative and Operating Costs	\$ 31,317,280	\$ 31,317,280		\$ 18,254,843	\$ (13,062,437)
	(A)	(A)		(A)	(A)
Repair and Maintenance of Existing Infrastructure	\$ 3,613,000	\$ 3,613,000		\$ -	\$ (3,613,000)
Repair and Maintenance of Existing Infrastructure	\$ 24,115,000	\$ 18,500,000		\$ 7,600,000	\$ (16,515,000)
Subtotal: R&M of Existing Infrastructure	\$ 27,728,000	\$ 22,113,000		\$ 7,600,000	\$ (20,128,000)
Total Administrative and Operating Costs	\$ 59,045,280	\$ 53,430,280		\$ 25,854,843	\$ (33,190,437)