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January 11, 2024

TO: The Honorable Ken Kuraya
Chairperson, Finance and Infrastructure Committee

FROM: Curt T. Otaguro
Deputy Superintendent of Operations 

SUBJECT: Review of Status of Department Capital Improvement Projects

1. EXECUTIVE SUMMARY

- The Hawaii State Department of Education (Department) established Bright Line Rules to define the process and standards for the Capital Improvement Program (CIP) projects due to project delays and cost escalations.
- The Department identified over \$800 million in projects that had a lapse date of June 30, 2024.
- Of those projects, the Department began to identify at-risk projects with the intent to request to lapse and re-appropriate funding for those projects in the next legislative session.
- Through the supplemental budget process, the Department of Budget and Finance (B&F) recommended \$616,852,594 in proposed projects to early lapse, to which the Department submitted an appeal totaling \$130,584,753 of projects that were at risk of encumbering funding by the June 30, 2024 lapse date.
- Following a meeting with the B&F on November 22, 2023, the Department was asked to identify \$400 million in General Obligation (GO) Bond funded CIP projects and \$68 million in General Funded Repair and Maintenance projects for early lapses.
- The Department identified \$441,081,823 of GO Bond funded CIP projects in response to the B&F's request.
- The Department continues to work on CIP projects that have the potential to be encumbered prior to the June 30, 2024 lapse date and that can be completed with its original appropriation.

AN AFFIRMATIVE ACTION AND EQUAL OPPORTUNITY EMPLOYER

2. DESCRIPTION

Status update on the Department's CIP projects with a lapse date of June 30, 2024 and the new Bright Line Rules.

3. UPDATE

The Department understood the need to review its overall internal processes related to CIP projects in the spring of 2023. Supply chain challenges experienced in the construction industry have caused concern for timing and delay of projects. Additionally, the Department has frequently seen cost escalations that exceeded the original appropriations and have encountered general project risks associated with permitting delays by the Counties. The Department had a total of over \$800 million in projects with a lapse date of June 30, 2024.

The Department met with the B&F in March of 2023 to advise the B&F of the Department's intent to conduct an analysis of the CIP projects in progress. The analysis intended to define which projects would be categorized as "high risk" to complete with the existing appropriations or to identify projects where the Department was unable to contract or encumber funds before the CIP bond lapse date of June 30, 2024.

During the 2023 legislative session, the Department was advised that an additional funding source used to offset funding shortfalls to complete obligated projects may not be available. As session ended, the Department was not afforded this additional appropriation to augment funding shortfalls.

As a result, the Department established and implemented a new discipline called Bright Line Rules in the late summer of 2023. These new rules clearly defined a new standard of objective factors for projects to begin before issuing a notice to proceed. This new discipline was discussed with the Office of Facilities and Operations, Facilities Development Branch. The Department also began to socialize this new discipline and intent to review CIP projects with members of the Board of Education, the Hawaii State Legislature and internally with Department leadership. At that time, the intent of identifying at-risk projects was to request for a lapse and re-appropriation of funds in the next legislative session.

Starting in August the Department began holding discussions with the B&F regarding the Governor's budget. Through the supplemental budget process \$616,852,594 was recommended by the B&F to early lapse. Through subsequent iterations, the Department submitted an appeal early lapse \$130,584,753 of projects in mid November.

In late November, the B&F required the Department to identify \$400 million in GO Bond funded CIP projects and \$68 million in General Funded Repair and Maintenance projects.

The Department responded with several revised lists of identified projects. The final list submitted by the Department to the B&F totaled \$441,081,823.

On December 20, 2023 the Department participated in the Senate Committee on Ways and Means Informational Briefing on Capital Improvement Program Projects which have a lapse

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date of June 30, 2024. To discuss and clarify the timeline and chronology of the lapsing projects list, the criteria for selecting projects on this list, and the timeframe that the Department became aware of project delay issues.

The Department continues to work closely with the B&F on lapsing funds. The Department also continues to work on CIP projects that go through the Bright Line Rules process and are deemed as low risk or can be completed with the original appropriation and/or can meet the criteria established.

CTO:cm

c: Keith T. Hayashi, Superintendent
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Facilities Development Branch