

**2014 Annual
Compliance Resolution Fund Report
to the Legislature**



**DEPARTMENT OF COMMERCE
AND CONSUMER AFFAIRS**

STATE OF HAWAII

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INTRODUCTION

website: www.cca.hawaii.gov

e-mail address: dcca@dcca.hawaii.gov

OVERVIEW

The Department of Commerce and Consumer Affairs (DCCA) submits its Annual Compliance Resolution Fund Report as mandated by section 26-9(o) of the Hawaii Revised Statutes. The report describes the use of the Compliance Resolution Fund (CRF) by presenting overviews of the functions and activities of core DCCA programs funded by the CRF, and provides a financial summary of expenditures from the fund including personnel and operating expenses, as well as revenues received. In addition, the report complies with the Department's reporting requirements contained in Act 100, Session Laws of Hawaii (SLH) 1999, regarding the statement of goals, objectives and policies.

The CRF, established July 1, 1996, evolved into the primary funding source for DCCA's programs as the Department moved its operations away from funding by general tax revenues to funding by fees and charges generated by its various programs. Pursuant to section 26-9(o), Hawaii Revised Statutes (HRS), fees shall be assessed and deposited into the CRF for the issuance of a license, permit, certificate, or registration, subsequent renewals, together with all other fines, income, and penalties collected or reimbursement of costs or attorneys' fees assessed as a result of actions brought by the Department. The director may use the moneys in the fund to employ and train hearings officers, investigators, attorneys, accountants, and other necessary personnel for CRF funded operations, and the fund shall defray all other administrative costs, including costs of operating the supporting offices of DCCA. Any other activity related to compliance resolution may also be funded by the CRF. As defined in section 26-9(o), HRS, "compliance resolution" means a determination of whether:

- (1) Any licensee or applicant under any chapter subject to the jurisdiction of the department of commerce and consumer affairs has complied with that chapter;
- (2) Any person subject to chapter 485A has complied with that chapter;
- (3) Any person submitting any filing required by chapter 514E or section 485A-202(a) (26) has complied with chapter 514E or section 485A-202(a) (26);
- (4) Any person has complied with the prohibitions against unfair and deceptive acts or practices in trade or commerce; or
- (5) Any person subject to chapter 467B has complied with that chapter;

and includes work involved in or supporting the above functions, licensing, or registration of individuals or companies regulated by the department, consumer protection, and other activities of the department.

By Fiscal Year 1998-1999, five DCCA programs were part of the CRF: Business Registration Division, Professional and Vocational Licensing Division, Regulated Industries Complaint Office, Office of Consumer Protection, and the Director's Office with its supporting offices of Administrative Services, Information Systems and Communications (ISCO), and Office of Administrative Hearings. Act 129, SLH 1999, effective July 1, 1999, expanded the CRF to include the Division of Consumer Advocacy, Division of Financial Institutions, and the Cable Television Division. Act 39, SLH 2002, effective July 1, 2002, merged

the Insurance Regulation Fund, the primary funding source for the Insurance Division, into the CRF. Except for trust and special funds with dedicated purposes¹ and the Hawaii Post-secondary Education Authorization Program, the CRF provides the sole source of funding for DCCA since calendar year end 2003.

Goals and Objectives

The Department’s goals and objectives are reflected in the sum of those stated by each of its divisions throughout this report.

Accomplishments

The Department’s overall CRF financial summary for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$27,860,510	\$10,142,050	\$38,002,560	\$39,051,518

The Department’s financial strategy requires that revenue-generating divisions secure revenues to cover division expenses, and contribute equitably to overhead costs, while ensuring that anticipated major improvements are addressed, and a portion of next year’s operating expenses is available. Additionally, it is the Department’s longstanding financial goal to bring its beginning year cash reserves to 9 months of budget ceiling plus overhead. This ensures fund solvency and the continuation of mandatory public services. From the onset of the CRF, the Department’s primary fiscal goal has been to implement this strategy through conservative spending and adjusting our expenses to be aligned with projected revenues. Accordingly, the Department’s financial planning takes into account both current fiscal year expenses and future major projects and expenditures.

GOALS and OBJECTIVES of the DIRECTOR’S OFFICE AGENCIES

The Director’s Office provides general policy and administrative leadership in supervising and coordinating various Department activities. Personnel management services are provided by the Director’s Office, while Administrative Services provides programs with centralized budgeting, accounting, as well as centralized clerical services. Information Systems and Communications Office (ISCO) provides system and technical computer support services for various DCCA programs. The Office of Administrative Hearings conducts formal administrative hearings for the Department’s programs and various attached boards and commissions, administers the Medical Inquiry and the Design Claim Conciliation Panels, hears appeals of

¹The Professional and Vocational Licensing Division has the following trust funds: Real Estate Recovery, Real Estate Education, Condominium Education, Contractor’s Recovery, Contractor’s Education, Real Estate Appraisers, all of which are managed and controlled by the respective licensing boards. The Insurance Division has the following trust funds: Insurance Commissioner’s Education and Training, Patient’s Compensation, Premium Taxes Paid Pending Appeal, Service Contract Providers Financial Security Deposits, Captive Insurance Companies LOC Escrow; and the following special funds: Driver Education Fund Underwriter’s Fee, and Captive Insurance Administrative Fund. The Regulated Industries Complaint’s Office has the State Certified Motor Vehicle Arbitration trust fund, the Office of Consumer Protection has a Restitution trust fund, the Division of Financial Institutions has the Mortgage Loan Recovery trust fund, and General Support has the Mortgage Foreclosure Dispute Resolution special fund. Additionally, the Hawaii Hurricane Relief Fund Board is administratively attached to DCCA, and its Board of Directors (rather than the director of DCCA) manages and controls the fund. These funds are not included in the CRF. The Hawaii Post-secondary Education Authorization Program has a special subaccount in the CRF.

the State procurement code, and conducts due process hearings for the Department of Education under the Individuals with Disability Education Act (IDEA).

These offices have various functional areas which have adopted the following objectives, goals and measures:

Functional Area	Objective	Goal	Measure
Director's Office	Balance the Department's revenues and expenditures in light of Department's self-funded status.	Bring the Department's beginning year cash reserves to 9 months of budget ceiling plus overhead.	Degree of cash reserve addition or reduction, as needed, until Department reaches 9 month goal.
	Timely and complete responses to customer inquiries and complaints.	95% of all initial non-rhetorical customer inquiries / complaints properly addressed (or acknowledged) within 5 business days.	Percentage of inquiries / complaints sent to the Director's Office addressed (or acknowledged) within 5 business days.
Personnel Office	Accurately process personnel transactions in timely manner.	100% processing of actions within time frame allotted to complete the transaction.	Percentage of personnel transactions processed properly and timely.
Fiscal Office	Review and timely process all departmental expenditures. Provide timely and accurate cashing services for all payments and collections made to the Department.	100% timely processing of payments.	Percentage of late payments processed.
Budget Office	Provide technical support services to operating programs in the areas of budget preparation, budget execution, and management analysis.	Timely, accurate, and sound guidance to the Director and operating programs of the Department.	Percentage of departmental budgetary tasks completed by the due date.
Office Services	Provide central clerical support to divisions regarding mail, duplication projects, and word processing.	Timely processing of work requests for typing and photo-copying services. Timely address and	Percentage of requisitions completed in a timely manner.

		answer all division concerns.	
	Timely and complete response to division inquiries and complaints.	Timely address and answer division concerns.	Percentage of concerns addressed (or acknowledged if time does not permit) within 5 business days.
ISCO	Find, acquire, implement, and maintain information technology that improves the divisions' operations and allows them to provide better customer service.	Reduce travel costs. Reduce electrical costs. Reduce paper usage.	Reduce travel costs by 10%. Reduce electrical costs by 10%. Reduce paper usage by 30%.

ACCOMPLISHMENTS of the DIRECTOR'S OFFICE AGENCIES

Director's Office Consumer Education: The Director's Office spent a considerable amount of time this year looking at ways to improve and expand its educational outreach through training, meetings with new contacts, and forming new partnerships, while continuing to participate in a wide variety of consumer education events. The Department's education specialist attended 49 events throughout the state targeting seniors, homeowners, consumers, job seekers, and students. This past fiscal year's planning has already resulted in an increase in the number of events attended in FY14.

The Director's Office organized a DCCA Resource Fair at the state Capitol on March 3, 2014, for the public and Hawaii legislators and their staff. The event was focused on providing more information to the lawmakers and their staff about what the different divisions of DCCA do. This also gave the chance for face-to-face time with staffers on any key issues the staff may need more insight on. The public was also invited to learn about consumer protection and licensing and regulation aspects of the department.

The Director's Office put in a lot of worked on a number of fronts to inform the public about what DCCA does to help the community. One new avenue was placing a 16-page insert in the Honolulu and Hawaii Business magazines. The inserts reached a circulation of 38,000 subscribers. The department also printed 25,000 to hand out to the public at the various fairs and public events the department education specialists attend. The insert featured different divisions and their role in helping the public and where consumers can go for help. There were also two short articles featuring the consumer protection chairs of the Legislature in how lawmakers work with DCCA in protecting Hawaii residents.

The Director's Office also took up the issue of mortgage foreclosure and launched a statewide outreach campaign that included the creation of the Hawaii Foreclosure Information Center (HFIC), creation of an HFIC website that featured information for troubled homeowners plus contact information with nonprofit housing counseling agencies, and the creation of two targeted television campaigns. One focused on homeowners getting in touch with their lenders to figure out ways to resolve potential foreclosure issues. The other sub-campaign targeted homeowners who faced scammers who would prey upon their difficult

financial situation by making empty promises (mortgage rescue fraud). The ads reached tens of thousands of people statewide that included concentrated efforts on Maui County and Hawaii Island.

The campaign was launched in conjunction with the Department's effort to increase the number of certified housing counselors in the state. DCCA removed the financial burden on nonprofit counseling agencies by paying for instructors to fly to Hawaii to teach the required HUD certification classes to the existing counselors and newly hired counselors. This effort alleviated the financial barriers to the nonprofit agencies and expedited the time frame in which the counselors were certified. The training increased the number of trained counselors in the state by about 70 percent. Both the education campaign and counselor training were funded through the State Attorney General's multi-state mortgage foreclosure settlement agreement.

The Department also increased its visibility online by expanding its reach in social media through Facebook, Twitter, YouTube, and Vimeo services in an attempt to reach residents in the growing interactive space.

The Department continued its partnerships with the University of Hawaii's College of Tropical Agriculture and Human Resources, Federal Trade Commission, National Consumer Protection Week, LifeSmarts with the National Consumers League, U.S. Postal Service, Consumer Financial Protection Bureau, and other local and national agencies.

Hawaii Post-secondary Education Authorization Program (HPEAP): The Department was tasked by Act 180 (SLH 2013) with establishing the Hawaii Post-Secondary Education Authorization Program (HPEAP) to comply with 34 C.F.R. §600.9. This federal regulation requires post-secondary educational institutions to obtain state authorization to be eligible for Title IV student financial aid. Since the law was enacted on June 25, 2013, the Department has worked expeditiously to implement the new law. General revenues funded the startup costs in FY14. HPEAP is fully operational, has completed an application cycle, and is working on establishing permanent office space. HPEAP also has been keeping abreast of the U.S. Department of Education's (USDOE) plan to reissue new state authorization for distance education regulations. Implementation of complaints processing procedures has begun, and authorization inquiries continue to come in. HPEAP continues to operate with a sole staff member because the program is unable to be self-sufficient at this time; however, the Department will pursue adequate funding and continue to work with stakeholders including the USDOE to ensure that Hawaii schools and Hawaii students will continue to fully participate in and benefit from Title IV programs.

Department Legislative Coordinator functions: The Director's Office worked extensively to support DCCA divisions during the 2014 legislative session to ensure timely and responsive communications with legislators and their respective staff. With the support of the State legislature, the Department was successful in passing all nine measures in its legislative package. Additionally, the Department, as a whole, submitted over 500 testimonies throughout the session on bills, resolutions, and Governor's Messages for board and commission appointees. As of the conference committee period, the Department submitted conference letters to the subject matter chairs on 35 bills that affected or may have impacted the Department's operational or regulatory purview. And in post-session implementation review, the Department had implementation and follow-up work on a total of 47 measures, which included 42 acts and 5 resolutions. Continued efforts will be made in this regard to be proactive and anticipatory in the coming year.

ISCO accomplishments: For FY14, ISCO continued to leverage technology to provide more efficient and expanded services to the Department. One of the most notable accomplishments was ISCO's

continuing effort to expand the use of server virtualization technology, which allowed ISCO to eliminate six more standalone servers this year. The elimination of these servers resulted in energy savings, not just from the decommissioned hardware, but also in the form of less energy needed to cool the server room. In addition to operating more efficiently, the ongoing server virtualization has also made it possible for ISCO to complete the Department’s Disaster Recovery (DR) system.

DCCA’s data is now fully backed up to an out of state location on a daily basis, and if a catastrophic event takes DCCA’s server room down, ISCO now has the capability of remotely bringing up virtual servers in the DR facility, and having access to all of DCCA’s data.

As part of ISCO’s continuing effort to enhance and better secure DCCA’s computing environment, ISCO was able to decommission or upgrade all of the staff computers that were running Windows XP. This is significant since Microsoft recently announced that they would no longer support or provide security updates for Windows XP. And finally, ISCO was able to start the complex process of replacing PVL’s Applicant/Licensee Integrated Automated System (ALIAS) software application. ALIAS is a legacy application that is very expensive to maintain, and will be replaced with a solution that provides modern tools and expanded capabilities, all while maintaining compliance with the upcoming Office of Information Management and Technology’s standards.

Note that this is just a quick look at a few of ISCO’s accomplishments during FY14. There are many more examples of ISCO’s efforts to leverage technology and provide staff with efficient and secure tools that enable DCCA to offer an ever expanding variety of services to the public.

The CRF financial summary relating to ADMIN (Director’s Office, Personnel, Administrative Hearings, Fiscal and Administrative Services Offices and ISCO) for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$3,892,078	\$2,456,032	\$6,348,110	\$594,546

CONCLUSION

The Department looks forward to continuing to fulfill its core mission to regulate business fairly and reasonably, while protecting consumers from fraud and unfair business practices. We adopted the motto “Upholding fairness in the marketplace” to both challenge and remind us of our responsibilities to the consumer and the marketplace. We will endeavor to provide our customers with the best value for their money by continuing our efforts to not only provide our services efficiently, but in ways that are also convenient for our customers, such as making more services available online.

BUSINESS REGISTRATION DIVISION (BREG)

website: www.BusinessRegistrations.com

e-mail address: breg@dcca.hawaii.gov

OVERVIEW

The Business Registration Division (BREG) has three primary functions: (1) ministerial business registration, processing and maintenance of business formation documents for public access including corporations, general and limited partnerships, limited liability partnerships, limited liability limited partnerships, limited liability companies, trade names, trademarks, service marks and publicity rights; (2) one-stop point-of-service assistance to the public to help businesses apply for state business and employer registrations and state taxpayer ID's; and (3) substantive regulatory oversight of the securities industry and franchises in the State in the following areas: (a) registration of broker-dealers, securities sales agents, investment advisers, investment adviser representatives, investment companies and securities and franchise offerings for sale in the State; (b) field examinations of broker-dealers and investment advisers in the State; (c) review of securities and franchise offerings for sale in the State; and (d) the enforcement of the Uniform Securities Act and state franchise laws.

Composition

The division's main office is located at 335 Merchant Street, Honolulu, Hawaii 96813 on the second floor. It also has three Business Action Center (BAC) offices: 1130 North Nimitz Highway, Second Level, Suite A-220, Honolulu, Hawaii 96817; 70 E. Kaahumanu Avenue, Unit 8-9, Kahului, Hawaii 96732; and 100 Pauahi Street, Suite 109, Hilo, Hawaii 96720.

In order to carry out the division's primary missions, the division is divided into four branches: (1) the Documents Registration Branch that includes the Business Action Center offices, (2) the Securities Compliance Branch that includes the Investor Education Program, (3) the Securities Enforcement Branch, and (4) the Office Services Branch which supports all of the other branches. The division's staff includes attorneys, investigators, securities examiners, securities registration staff, business center specialists, investor education specialists, business registration assistants, clerk-typists, legal secretaries, licensing clerical staff, clerical support staff and administrative staff.

The **Documents Registration Branch** maintains the business registry for corporations, limited liability companies, general partnerships, limited partnerships, limited liability limited partnerships and limited liability partnerships conducting business activities in the State. In addition, the registry contains trade names, trademarks, service marks and publicity rights. This branch consists of the Documents Information Section, the Documents Processing Section and the Records Section. It also includes the Business Action Center. The Documents Registration Branch is supervised by one branch supervisor and three section supervisors.

The **Business Action Center (BAC)**, as part of the Documents Registration Branch, operates business action center offices on Oahu, Maui, and Hawai'i Island that provide point-of-service information and assistance to the public primarily to facilitate, coordinate, and simplify the application process with the State for business and employer registration and tax licensing purposes. BAC accepts BREG filings and fees and also serves as an information clearinghouse that provides general information on county, state and federal licensing, permitting and filing requirements, and assistance programs related to business or

commercial activities. Services are delivered in-person at the center and via phone, e-mail, mail, fax, and Live Chat (an instant messaging system which allows customers on the Hawaii Business Express website to obtain real-time assistance from a customer service representative). BAC is supervised by a business center specialist who is responsible for five business registration assistants and three offices.

The **Securities Compliance Branch** handles the registration activities for the securities industry operating in the State. This includes the registration of securities broker-dealers, securities sales agents, investment advisers, investment adviser representatives, investment companies, securities offerings, and the filing of franchise offering circulars in the State. The branch is also responsible for conducting field examinations of broker-dealers and investment advisers in the State. The division's Investor Education Program provides investor education and financial literacy outreach. The Securities Compliance Branch of the division is supervised by a specialist who is responsible for the work of six examiners, five licensing clerical staff, and two secretaries.

The **Securities Enforcement Branch** enforces State laws governing the securities industry under the Uniform Securities Act and franchises under the Franchise Investment Law and other State laws, by investigating and taking legal action against those persons and/or firms, both registered and unregistered, who violate these laws or evade them. The branch has also worked in conjunction with other government agencies such as the Securities Exchange Commission, the U.S. Commodity Futures Trading Commission, the Office of Consumer Protection and the Insurance Division in DCCA, the Honolulu Police Department's White Collar Crime Unit, the State Attorney General's Offices, the U.S. Bankruptcy Trustee, and other federal and state securities and law enforcement agencies. The Securities Enforcement Branch of the division is supervised by a Senior Enforcement Attorney who is responsible for the regulatory enforcement activities of four attorneys, one supervising investigator, six investigators, and five clerical staff.

BRANCH GOALS, OBJECTIVES, and ACCOMPLISHMENTS

Introduction - Documents Registration Branch

This branch provides an invaluable service to the business community in assuring that the information on file is readily available, accessible, and current in order to support commercial activities in the State. Without the availability of this information to the business community, commercial activity in the State would be substantially impaired, since businesses depend on the information on record to support the extension of trade credit, commercial leases, real estate transactions and the delivery of financial services.

The Documents Registration Branch processed over 138,900 documents during fiscal year 2014, up 6% from 131,000 in fiscal year 2013, and maintains the public registry of over 161,000 active businesses, trade names, trade marks and service marks. The production databases hold over 2,076,243 documents, up 7.6% from 1,928,996 in fiscal year 2013. The active files include business entities that have been on record with the State for over 100 years. Information is also retained for business entities that have been dissolved or cancelled. Minimal information must be kept for these inactive files for the purposes of research, litigation, real estate transactions, and general business use.

The Documents Registration Branch maintains 7 databases holding over a combined total of 283 million records and has one of the most popular online services in the state with over 6.4 million unique hits a year, up 3.2% from 6.2 million in fiscal year 2013.

Goals and Objectives

It is the goal of the Documents Registration Branch to be one of the fastest, most efficient, customer-oriented business registries in the nation. To accomplish this goal, the branch has the following objectives: (1) review and implement policies and procedures designed to achieve a level of efficiency in processing document filings and information requests in a timely manner consistent with industry best practices; (2) continue to modernize the business laws so that they track as closely as possible the most current versions of the best uniform or model laws; (3) enhance the information systems to improve retrieval, processing and recording of public filing information while protecting the integrity of the data system, and (4) develop more online services and other innovations that will be useful to many.

As part of an effort to make the Documents Registration Branch as convenient as possible for the public, we have been working to advance our web interfaces and back-office computerized information systems so the public can access our services in the fastest and best ways, and we can process and record documents with enhanced speed and accuracy.

Accomplishments

Hawaii's business registry is known nationally as one of the best in the industry. We have led the way in online innovation to improve services to the public. In 2003, our registry was one of the first business registries in the nation to go online, putting the technological and legal infrastructure in place to allow online incorporation. In 2004, we were one of the first to provide a one-stop multi-agency online filing service, our Hawaii Business Express, which continues to be lauded and modeled as one of the best in the nation. In 2007, we were one of the first to offer pre-fill annual renewals online. Leading the way in 2012, we were one of the first in the world to have mobile tablet and phone applications for online annual renewals as well as document purchasing capabilities, for which we won numerous international, national and state awards. See, business.ehawaii.gov

This year, we are leading the way once again. We have launched a new interface for our entity list builder service, a service that allows users to build a customized list of businesses from our registry. The new interface includes faster response times and new gaming elements that greatly improve the user's ability to track their progress, save their work and add items to a shopping cart. We are again one of the first in the nation to incorporate these innovative and faster online technologies to serve our public.

Over the years, we have won many awards. Most important to us, however, is that our efforts translate into useful value to the public. In our case, we have recently reached an unprecedented 88% voluntary online adoption rate for annual renewals. This means 88% of our annual renewal filers are choosing to use our online services. The only states in the country that beat our online adoption rates are the ones that force filers to use an online system. We do not and our adoption rate shows that the public appreciates the online options we have provided.

The online adoption rate reduces paper, postage and other costs for the customers, helps keep our community green and reduces the division's manual handling, thereby allowing faster automated processes. Filers who have no changes on their annual filings and have their credit card handy can renew their annuals in under 5 minutes and get instant confirmation. The online adoption rate, technological innovations and staff efforts have kept our processing times down to an average of 4 days. This is one of the faster

turnaround times in the country for regular registry services. In addition, our backlog for annual processing has reached as low as 0 days this year.

This year, our “go green” effort to use email notifications and postcards reminders to filers instead of the traditional annual paper notifications has saved our state over 600 pounds of paper and nearly \$45,000 in postage in 2014.

In addition to annual filings, the branch accepts a total of 30 other online filings. All of our filing forms are available in our offices, by mail or by download for free.

The branch also continues to maintain its Hawaii Business Express website that allows customers to fill in one online application in order to complete three different state filings: business registration with the DCCA, obtaining a state taxpayer ID with the Department of Taxation, and obtaining an identification number from the Department of Labor and Industrial Relations.

Introduction - Business Action Center

BAC operates permanent business centers in Honolulu, Oahu and Kahului, Maui as well as a part-time, temporary office in Hilo. These offices offer point-of-service assistance and information to help facilitate, coordinate and simplify the application process for those who wish to register with the State in the areas of business, tax and employment. Customers interested in starting a business receive personal assistance to complete necessary business registration, tax license and employer registration applications. Customers can also submit these applications at any BAC office with the applicable filing fee. BAC, in turn, will transmit these documents to the appropriate agency within one day. In the case of certain state taxpayer identification numbers, customers can receive temporary licenses at BAC counters in a matter of minutes.

With the popularity of online registration increasing through Hawaii Business Express (HBE), BAC provides the support for “Live Chat,” HBE’s instant messaging system accessible to online filers who have questions about registering. BAC also provides e-mail, fax and phone support for HBE and other filers. BAC encourages online filing by referring customers to HBE’s website and assisting them through the process. Designated terminals at the offices are used by the customers to access registration online systems, while BAC staff is nearby to help. Online filing reduces the number of paper filings over-the-counter at BAC while also increasing processing efficiency for the Division.

In addition, BAC acts as a clearinghouse of information for broader business-related matters. In the case of other industry-specific licenses and permits, BAC provides application forms and references for additional information from the respective state, federal, or county agencies. BAC also provides general business start-up information and refers prospective business owners to a broad spectrum of public and private nonprofit organizations that assist new and existing businesses, and to business seminars and other training or entrepreneurial education programs.

Goals and Objectives

The goal of BAC is to be the most responsive and helpful point-of-service business center for business registration and licensing assistance to as many businesses in Hawaii as possible. BAC’s objectives for the fiscal year ending June 30, 2015, will be to: (1) continue to provide the best customer

service to the public who visit or otherwise contact the BAC for assistance; (2) continue developing relationships with the business community and seeking ways to reach communities in need of business registration; and (3) continue working closely with other state agencies (including cross-training) to improve customer service and help increase compliance with new laws.

Accomplishments

Our new accomplishments this year reflect our commitment to the evolving needs of the small business community. In February 2014, we started a Facebook and Twitter account for the BAC to help small businesses easily and cost effectively stay informed of new developments, outreach events, available resources and services and key office information. See twitter.com/HawaiiBAC, facebook.com/HawaiiBAC. In addition, we produced new flyers on crowdfunding and raising capital through the internet.

This year, we also began hosting “navigators” or certified application counselors for the Affordable Care Act (“Obama Care”). Since January, representatives from the Honolulu Community Action Program (HCAP) and Hale Na’au Pono (of the Hi’i Ola Program in Waianae) have come to our Oahu office twice a month to meet individually with interested business owners. Anyone who is interested receives personal assistance in navigating the website, and detailed information about how the new law operates in conjunction with Hawaii’s Prepaid Health Care Act. While interest has been modest, the representatives have helped sign up at least three business owners on the Hawaii Health Connector.

In FY14, BAC assisted over 21,000 customers over the counter or via phone, e-mail, fax, or Live Chat, up 3% from fiscal year 2013. In particular, Live-Chat assistance continues to be popular with approximately 530 chats per quarter in FY14.

In FY14, BAC strengthened its relationships with other business resources such as the Patsy Mink Center for Business & Leadership, the U.S. Small Business Administration, the Hawai’i Small Business Development Center, the Kuha’o Business Center (Moloka’i), and AARP. In the past year, new outreach partners included the Maui Food Tech Center, the Hawaii Electrical Contractors Training Fund, and the Queen Emma Foundation, which needed help with providing transitional information to the vendors upon the closing of the International Marketplace in Waikiki. Through our continued participation in the U.S. Small Business Administration’s Boots to Business Program, we are able to assist military personnel transition to life after service. The BAC received the 2013 Lender-Lending Officer of the Year Recognition Award for its support of the Boots to Business Program.

Further, BAC participated in workshops and counseling sessions throughout Hawaii. BAC also regularly provides outreach services to Kapiolani Community College, the University of Hawaii William S. Richardson Law School, O’ahu military bases, and other government offices such as DCCA’s Office of Consumer Protection, and the Dept. of Labor & Industrial Relations’ Labor Law Enforcement Division. It also participated in approximately 30 job and business fairs, workshops, and seminars reaching an estimated 1,325 attendees. In FY14, BAC served on the executive committees of the Spring and Fall Hawai’i Small Business Fairs at Chaminade University and Leeward Community College, which featured classes covering over 20 business-related topics offered at no charge. The fairs have been a success with nearly 300 entrepreneurs registering for classes and visiting with business resources in the exhibit area. In FY15, we plan to reach out to more rural communities and younger entrepreneurs.

The BAC continues to host the Hawaii State Bar Association volunteer attorney project, which allows our customers to meet one-on-one with HSBA business law attorneys each Thursday, free of charge. The program is one of BAC's most popular events, and we hope to continue hosting this service and recruit more attorneys to volunteer.

Introduction - Securities Compliance Branch

The branch currently regulates approximately 100,000 securities salespersons, up 7% from 93,400 in the previous fiscal year, and 1,305 broker/dealer firms registered to sell securities, the same as last year. In addition, the branch has 72 state registered investment advisory firms, approximately 1,000 federally covered investment advisers, and an estimated 2,000 registered investment adviser representatives on record. The branch also processed an estimated 1,000 franchise disclosure document filings, conducted 21 exams and received approximately 400 Reg D notice filings for the private placement of securities and over 10,000 initial and renewal mutual fund notice filings in FY14.

Goals and Objectives

The goal of the Securities Compliance Branch and Securities Enforcement Branch is to be an effective state securities regulatory agency that is responsive, appropriately aggressive and efficient. To accomplish this goal, the Securities Compliance Branch's objectives are to: (1) implement an ongoing comprehensive training program, (2) implement a regular field examination cycle for registered broker-dealers and state registered investment advisers, and (3) develop valuable investor education programs and materials that are responsive to the public's needs and current with the financial problems investors face, and to reach communities throughout Hawaii with practical and helpful information.

With respect to investor education, in particular, we are currently in the process of (1) implementing rules and laws to adjust to the new Dodd-Frank Wall Street Consumer Protection Act; (2) continuing our partnerships with nonprofit and state agencies to expand outreach throughout Hawaii to Native Hawaiians, the military, labor unions, seniors and keiki; (3) developing our program to leverage social media and other multimedia technology to reach our audience in a current and relevant manner.

The staff is working to adapt to the significant changes imposed by the Jumpstart Our Business Startups (JOBS) Act, including the recent U.S. Securities and Exchange Commission's draft rules on crowdfunding. There are several other significant changes in securities regulation under the JOBS Act that staff is currently carefully monitoring. We are working to engage other federal and state officials regarding these changes.

Accomplishments

Staff continues to efficiently manage the volume of applications and renewals received each year and the number of pending applications for broker-dealers, sales agents, investment advisers and their representatives remains very low. Examinations of broker-dealers and investment advisers located on all islands throughout the State are conducted on a continuing basis to provide onsite review of compliance with Hawaii law.

The branch is also continuing its comprehensive training program for professional development of its securities examiners staff with an additional emphasis on the new requirements included in the Act.

Currently, the branch is supporting training to have examiners get certified as Certified Regulatory and Compliance Professionals from the FINRA Institute at Wharton. The branch currently has two certified examiners.

Investor Education Program

Investor education continues to be an essential component of securities regulation, and we continue to expand our outreach to audiences through various community events across the state. The branch completed 53 investor protection presentations in FY14, and participated in 77 community events statewide, through which we reached an estimated 74,431 consumers in Hawaii in FY14 up 17% from 63,658 in FY13.

The branch maintains a strong statewide outreach program in five target areas: 1) Kupuna (Seniors), 2) Working Families/Union Members, 3) Keiki (Youths), 4) Military, and 5) Hawaiian & Other Ethnic Communities. We have expanded our outreach to two (2) new areas which include caregivers and professionals. Our educational presentations include information to help consumers detect and prevent securities fraud and to report complaints to our offices. Educating the public is an important part of our efforts to fight fraud, as knowledgeable investors are able to make better investment decisions and report fraud to us.

a. Kupuna (Seniors) Outreach:

Over the last 8 years, we presented to 232 senior groups reaching 6,721 seniors and participated in 189 senior community events reaching 121,511 seniors. This fiscal year, we did 40 senior presentations and 22 senior community events, reaching 11,660 seniors up 16% from 10,044 in FY13.

One notable accomplishment this year was our participation as part of a panel of experts who traveled around the state speaking to kupuna groups. We partnered with a representative from the federal Commodities Futures and Trading Commission from Washington D.C., along with representatives from the Hawaii Better Business Bureau and American Association of Retired Persons. We spoke to senior groups about financial fraud and ways to protect themselves. The panel reached about 250 seniors in 3 days.

We also entered into two important new partnerships called the Kupuna Alert Partners (KAP) and "Is this for Real" Campaign. The KAP outreach is made up of state agencies including the Department of the Attorney General, Crime Prevention and Justice Assistance Division, Community and Crime Prevention Branch, Department of Health, Executive Office on Aging, Senior Medicare Patrol (SMP) Hawaii and Department of Public Safety, Narcotics Enforcement Division. KAP provides presentations to kupuna groups on Medicare fraud, securities fraud and prescription drug misuse to the community. The "Is this for Real" Campaign is a partnership of various state, county, private and nonprofits organizations led by the Hawaii Bankers Association. This campaign focuses on financial fraud and scams targeted at our kupuna. The campaign is being promoted by television ads, radio, print materials and presentations by request.

We have created two new booklets to help seniors be safe from financial fraud/scams and an activity booklet with helpful tips on where to call for help.

b. Keiki (Youth) Outreach:

We also have an active keiki outreach. A notable new accomplishment in FY14 was our successful new role as state coordinator for LifeSmarts. LifeSmarts is a high visibility national educational program that helps teenagers develop consumer and life skills. The program is free and offered to students in 6-12th grade in partnership with the National Consumer League and Hawaii Credit Union League. Over the last 10 years, 903 students and 88 coaches in Hawaii have participated in LifeSmarts. In our first year, we recruited 14 teams, 56 students, 3 teachers and fostered a relationship with HSTA and others. We were able to secure iPads, gift certificates and other prizes for the participants and winners, increase the community partnership by 100% and send our state champion high school team to compete in the national competition held in Florida.

The branch continues to partner extensively with the Hawaii Council on Economic Education to support financial literacy and investor education for our students via an interactive educational tool called the Stock Market Simulation (SMS). The SMS program trains teachers on how the capital markets work and how to make wise investment decisions. The teachers then go back to their classrooms and pass on the knowledge to their students. Over the past 9 years, this program has reached nearly 1,162 teachers and 43,646 students. We will be implementing this program in FY15.

The branch exhibits at the Children and Youth Day Fair held on the capitol grounds and has produced new booklets for teens and pre-teens on saving and investing.

c. Social Media Outreach:

After 2 years, the branch continues to implement a social media effort that is timely and carefully monitored. We currently have an active Twitter, Facebook and Instagram accounts. The public can follow us by searching HISEcurities. Current followers include: 55 on Facebook, 276 on Twitter and 45 on Instagram.

d. Outreach Materials:

The branch maintains over 100 handouts, brochures, booklets, games, puzzles, CDs, DVDs, guides and mini-guides covering a wide range of investor education topics from how to check registration of your investment professional to how to avoid scams and fraud. We also have nine investor protection presentations and special large print handouts that have been notably popular with our seniors.

e. FY15:

For FY15, the branch has teamed up with Department of the Attorney General, Crime Prevention and Justice Assistance Division, Community and Crime Prevention Branch and Department of Health, Executive Office on Aging, and SMP Hawaii to create the second edition of the Hawaii Fraud Guide. The guide discusses some of the most popular scams in Hawaii, tips on prevention and where to get help. In the second quarter of FY15, the branch is also working on a special media campaign to reach kupuna regarding variable annuities, Ponzi schemes and affinity fraud.

Introduction - Securities Enforcement Branch

This branch leads enforcement against securities and franchise violations of State law. The difficult nature and complexity of the cases being handled by the branch is increasing every year. Cases involving multiple respondents, multiple complainants, and multiple bank accounts are occurring with much greater frequency requiring extensive financial analysis. Internet fraud, with its anonymity and ability to escalate fraud quickly, has added a significant new complexity to the work.

The Commissioner has worked with the North American Securities Administrators Association (NASAA) to help analyze and draft federal legislation regarding the controversial topic of Crowdfunding in light of the recent federal law and analyze federal policies on the new “Reg A+” registration requirements. We expect the expansion of capital-raising by small businesses via the internet and are concerned with the significant deregulation that will accompany the current laws. To that end, our staff is preparing. Our staff has been training in internet investigative tools and has begun investigations of fraud on popular websites. Our staff is currently considered leaders in leveraging powerful internet tools to investigate fraud. In FY14, staff was invited as featured speakers at the NASAA’s annual enforcement conference this year. They were also asked to speak at the Asia-Pacific Chapter of the Association of Inspectors General and the Association of Government Accountants on our advanced investigative techniques.

Goals and Objectives

As previously discussed, the goal of the Securities Compliance Branch and Securities Enforcement Branch is to be an effective, efficient, responsive and appropriately aggressive state securities regulatory agency. To that end, the Securities Enforcement Branch’s objectives are to: (1) investigate and prosecute state securities violations under the Uniform Securities Act; (2) intake complaints from the public and respond quickly and appropriately; (3) reduce case backlog; (4) inform consumers of enforcement matters and investment scams through participating in investor education; (5) develop and implement internal procedures that will improve the timely and effective resolution of cases, improving the branch’s overall effectiveness; (6) attend and develop training to keep professional staff current on emerging investigative techniques, legal analysis and trends in securities fraud and other securities violations; (7) draft and assist in securities legislation; and (8) work with the media to raise public awareness.

Accomplishments

As a result of the enforcement work of the branch in FY14, the division issued six (6) preliminary orders to cease and desist with penalty recommendations of \$510,000; obtained seven (7) final orders, and issued thirteen (13) consent agreements or orders, imposing \$1,237,049 in penalties. During the past fiscal year, the branch collected \$954,049 in fines and penalties.

The securities enforcement branch continues to be involved in the litigation and settlements of major banks over the freezing of the auction rate securities (ARS) markets, a market estimated to be over \$300 billion. Hawaii has assisted NASAA in the multi-state actions. Resolutions of the remaining ARS cases are anticipated in FY15.

CRF Financial Summary

The CRF financial summary relating to BREG for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$4,494,543	\$999,198	\$5,493,741	\$7,321,288

CONCLUSION

The Business Registration Division continues to receive business filings, requests to purchase business documents, business registration inquiries, securities and franchise registration filings, securities and franchise inquiries and securities and franchise complaints that indicate an enduring need for the essential government services involving the business registry, business action center, securities law enforcement, securities registration and investor education outreach. The Division also continues to investigate and take legal action on securities fraud in the state. The demand for the division’s services has necessitated improved information systems to handle the workload, more sophisticated online support, increased training to improve the quality of regulatory oversight, increased personnel and constant attention and commitment to the changing, increasingly complex needs for service. In addition, the division has worked extensively with NASAA to assist in the national regulatory reform effort and to promote and advocate positions that best support Hawaii’s consumers.

CABLE TELEVISION DIVISION (CATV)

website: www.cca.hawaii.gov/catv

e-mail address: cabletv@dcca.hawaii.gov

OVERVIEW

The Cable Television Division (“CATV”) supports the Director in the regulation of cable television operators. CATV's primary function is to determine whether the initial issuance, renewal, or transfer of a cable franchise is in the public’s best interest. This determination is made only after careful consideration by CATV of the public need for the proposed service; the adequacy, efficiency, and reliability of service; and the legal, technical, financial, and operational ability of the franchisee.

After the issuance of a franchise, CATV’s role in protecting the public interest continues. CATV acts to enforce the franchisee’s obligations under the franchise order and to ensure compliance with State rules and regulations relating to cable operators’ practices and procedures. CATV continues to monitor the franchisee to ensure that the cable operating system is reliable and responsive to the public. Such reliability and responsiveness to the public interest may be indicated by operators providing the widest possible diversity of information sources and services and enhancing communication capabilities for its communities by supporting public television; public, educational, and governmental (“PEG”) access; and the interconnection of public facilities.

CATV is cognizant of the increasing importance of cable service to the people of Hawaii. With advanced technology, cable systems are becoming more than strictly a source of entertainment, and increasingly serve as a means of providing informational and educational programming, as well as emerging cable communications services and facilities. Therefore, CATV recognizes that the extension of cable service to all communities within the franchise service areas is a high priority.

Included within the responsibility of overseeing all franchised wireline cable operators within the State, and as an integral part of the cable regulatory scheme, CATV responds to public inquiries, concerns, and complaints. CATV staff is trained to assist, provide answers, refer complaints to the appropriate cable operator in the franchised area, or otherwise inform the general public of complaint-filing procedures. It is CATV’s mission to ensure that all complaints and concerns are researched and appropriately resolved. In furtherance of this goal, CATV will continue to monitor resolution of customer service concerns and to examine customer satisfaction by conducting and reviewing surveys and reports. CATV continues to encourage operators to develop new, improved, or more effective utilization of cable communications services and facilities that enhance customer-based services to the people of Hawaii.

In addition to overseeing system operators, CATV is also responsible for the expansion of the State’s Institutional Network (“INET”) in a manner that is efficient and effective for the State. The INET provides broadband telecommunications capabilities among government and educational organizations and is constructed for two-way operation as part of the State’s current cable television network. The tremendous growth in the State’s information processing, storage, and retrieval needs requires high transmission capacity with a more flexible network configuration, which may be achieved through the INET.

In franchise agreements with cable operators, CATV requires that cable operators set aside a number of channels for PEG access and provide a percentage of gross revenues for PEG use. DCCA,

through CATV, has contracted oversight of the access channels to nonprofit entities located in each of the four counties.

In 2010, the Hawaii State Legislature passed Act 199 (“Act 199”), which added broadband and telework responsibilities to DCCA/CATV’s responsibilities. Pursuant to Act 199, DCCA/CATV convened the Broadband Assistance Advisory Council (“BAAC”) and continues to utilize the expertise of the BAAC and its working groups in DCCA’s broadband activities to increase broadband adoption and to expedite and expand access to competitively priced broadband services. CATV’s broadband-related duties have included assisting with legislation related to expediting and increasing broadband adoption and deployment; working with other state and county government agencies, the Legislature, service providers and other stakeholders to address issues related to the advancement of broadband; planning efforts to facilitate broadband infrastructure development for unserved and underserved communities; working on partnerships with other public and private agencies to expand and expedite broadband deployment and adoption; and participating in Federal Communications Commission (“FCC”) proceedings related to reforms affecting funding for telecommunications and broadband.

Composition

The staff of CATV currently consists of an administrator, two staff attorneys, four program specialists (1 cable television specialist and 3 broadband specialists), and a secretary. The office is located on the first floor of the King Kalakaua Building at 335 Merchant Street. Mailing address: P.O. Box 541, Honolulu, HI 96809; phone number: 586-2620; internet website: www.cca.hawaii.gov/catv.

GOALS and OBJECTIVES

CATV’s goals and objectives are as follows:

- 1) Ensure consistent cable television regulatory policies and practices
 - Conduct regularly scheduled franchise fee and PEG reviews
 - Designate access organizations to provide PEG access services
 - Collaborate and assist in the INET deployment process
 - Convene regular Cable Advisory Committee meetings
- 2) Monitor and participate in federal telecommunications legislation and rulemaking
 - Work with Hawaii’s congressional delegation on applicable federal legislation
 - Participate in relevant FCC proceedings on Direct Broadcast Satellite service, universal service support, broadband, and other cable and telecommunications related matters
 - Protect and advocate the State's interests in federal funding programs for broadband infrastructure and services
 - Monitor other relevant government programs to identify potential funding for State broadband-related activities
 - Monitor federal issues that may have an impact on Hawaii cable television subscribers and broadband consumers
- 3) Advocate for equivalent enhanced services for the State
 - Ensure that DirecTV and Dish Network comply with the FCC’s order regarding service to Hawaii

- Monitor development and deployment of new advanced services
 - Ensure that Hawaii receives equivalent service to the mainland U.S.
- 4) Bridge the broadband availability gap by advancing broadband infrastructure deployment and supporting competitive marketplace
- Work with federal, state and county agencies, broadband providers and other stakeholders to identify physical gaps in broadband availability
 - Develop a roadmap to bridge gaps for un-served and underserved areas, and identify and pursue methods of funding broadband infrastructure to service these areas
 - Streamline government permitting and approval processes
 - Develop equitable process for shared use of government assets
- 5) Support and facilitate broadband adoption initiatives and programs to drive use of high speed broadband
- Support and develop government programs and applications, including telework and consumer applications
 - Support other state agencies' efforts to increase use of broadband through various digital literacy, computer ownership, and other adoption programs

ACCOMPLISHMENTS

Institutional Network – DCCA/CATV continues its leadership role in the development, expansion and enhancement of the INET. Working with the State’s Office of Information Management & Technology and DCCA/CATV’s INET Partners¹, DCCA/CATV continued its role under existing cable television franchises in the upgrade and expansion of the INET, management of the INET interisland network, and in the deployment of broadband infrastructure for education and government applications. As the INET partner providing the non-technical administration of the INET interisland network, during FY14, DCCA/CATV began discussions with the Partners to develop a master plan for statewide infrastructure development as well as the creation of an online system to track the government “at cost” and “free of charge” INET connection requests. DCCA/CATV anticipates that such an online tracking system will be available for the Partners’ use in FY15.

One of the most significant INET related projects that was recently completed is the UH administered federal Broadband Technology Opportunities Program (“BTOP”) grant project Ke Ala `Ike, which deployed fiber connectivity to all of the public schools and libraries throughout the State. Various INET-related benefits were used to obtain the grant award for the State and to ensure the success of this project, including the pledge and use of INET Franchise fees dedicated to INET and broadband activities to provide the initial required matching funds of \$4M. For the project, UH was also able to maximize efforts by leveraging grant funds received by installing connections at cost under provisions of the cable franchise agreements with Oceanic Time Warner Cable (“Oceanic”) and by utilizing connections of INET sites provided “free of charge,” pursuant to those agreements.

As of the end of FY14 (June 30, 2014), Oceanic held approximately \$7.7 million in an interest-bearing account on behalf of DCCA/CATV for INET purposes and broadband activities. These funds are a

¹The INET partners are the Information, Communications and Services Division of the Department of Accounting and General Services, (2) the University of Hawaii (“UH”), and (3) the Department of Education (collectively the “Partners”).

part of the franchise fees that are collected from Oahu cable television subscribers. CATV sought input this past year on and has begun working to identify activities that may advance broadband access and availability across the State. Pursuant to the Supplemental Appropriations Act of 2014, Act 122, 2014 Session Laws of Hawaii (“SLH”), which amended Act 134, SLH 2013, and other appropriations and authorizations effective during the 2013 – 2015 biennium, the Legislature authorized CATV during FY14 to provide \$2 million from this Oceanic account to the Hawaii Public Television Foundation, dba PBS Hawaii, for its grant-in-aid project with the State Department of Labor and Industrial Relations.

Comcast/Time Warner Cable Proposed Merger Transaction Review – On April 11, 2014, Time Warner Cable Inc. (“TWC”), the parent company of Oceanic, and Comcast Corporation (“Comcast”) submitted an FCC Form 394 with DCCA. On May 23, 2014, TWC and Comcast, (“applicants”) filed their State Transfer Application with DCCA, requesting that DCCA approve the proposed indirect transfer of control of all of Oceanic’s cable franchises in the State from TWC to Comcast pursuant to a February 12, 2014 “Agreement and Plan of Merger” that was entered into by TWC and Comcast. Among other things, the applicants represented that the proposed merger transaction will generate substantial public interest benefits for Oceanic’s customers in Hawaii. During FY14 and FY15, DCCA/CATV reviewed the Form 394 and State Transfer Application; conducted public hearings statewide in each franchise service area; took written or verbal comments, views, and/or arguments from Oceanic’s customers, interested persons, and the general public regarding the proposed merger transaction; issued two sets of information requests to the applicants; and held numerous discussions with the applicants regarding the proposed merger transaction.

Federal regulations require local franchising authorities, such as DCCA/CATV, to act within 120 days of the submission of the FCC’s Form 394, various exhibits, and any additional information required by the terms of the franchise agreement and state laws. If a local franchising authority fails to act within that prescribed time, the transfer is deemed approved. Initially, the applicants and DCCA disagreed as to when the 120-day review period would end. However, on August 25, 2014, DCCA and the applicants agreed that the review period for the proposed merger transaction would be deemed to end on September 19, 2014, unless otherwise extended by mutual agreement. On September 15, 2014, DCCA and the applicants agreed to extend the review period without prejudice to the existing position of any party to September 30, 2014, to give DCCA additional time to complete its review of the proposed merger transaction and to issue a written decision. And on September 30, 2014, the parties agreed to further extend the review period to October 8, 2014. DCCA issued a Decision and Order approving the requested proposed merger transaction on October 8, 2014, requiring, among other things that: Comcast fulfill its commitments to invest at least \$50 million to upgrade Oceanic’s cable systems in the state; to provide net neutrality protection in the state; continue to provide Oceanic’s “Everyday Low Price” stand-alone Internet service to customers for at least 12 months; and extend its *Internet Essentials* program to qualified Hawaii residents. The *Internet Essentials* program provides qualified low-income families low-cost broadband service with download speeds of up to five megabits per second for \$9.95 per month, an option to purchase an Internet ready computer for less than \$150, and training opportunities. Comcast will provide updates to DCCA detailing its progress towards satisfying all of the commitments enumerated in the order.

Oceanic Time Warner Cable – Hawaii Island Franchise Renewal – On July 20, 2011, Oceanic submitted an application to renew its cable franchises for the island of Hawaii. CATV along with its consultant held numerous meetings with various stakeholders and groups seeking comments on the renewal of this franchise. In addition, CATV held four public meetings to ensure that the public had ample opportunity to provide input into the renewal process. On February 8, 2013, Oceanic submitted its First

Amended Application of Cable Television Franchise for the East Hawaii and West Hawaii cable franchise systems franchises. CATV and Oceanic are presently negotiating a new franchise agreement, and CATV expects this process to conclude by year end 2014.

Oceanic Time Warner Cable – Maui Franchise Renewal – Oceanic filed its intent to consolidate the Renewal Applications for its Maui County and Lahaina cable television franchises on June 2, 2011. Since that time, CATV conducted an initial round of discovery and ascertainment meetings across Maui County; held four public meetings in Kaunakakai, Lanai City, Lahaina, and Kahului to take public comment on Oceanic’s application; conducted numerous discussions in and about Hana, Maui regarding service reliability and customer service issues; and reviewed the application and public comments. CATV intends to begin negotiations with Oceanic and to complete the franchise renewal process sometime in 2015.

Franchise fee reviews and refunds – CATV contracted with a certified public accounting firm to conduct annual reviews of the franchise fee payment process in each of the different franchise areas. Based on the results of reviews of the franchise fee calculation, collection, and payment process for all franchise areas, DCCA/CATV ordered refunds to cable subscribers for audits conducted during FY 14 totaling approximately \$446,000 (for the period 2009-2012). CATV is continuing these annual reviews to ensure that the franchise fee collection process is being conducted accurately.

Federal Legislation and FCC Rulemaking – CATV continues to monitor developments in Congress and at the FCC related to telecommunications, cable television and broadband, and has actively participated in 2014 in FCC's proposed rulemaking proceedings related to the Connect America Fund and the E-rate Program for Schools and Libraries. DCCA/CATV has filed position statements in these dockets on behalf of the State and has met and worked with Hawaii’s congressional delegation and the FCC.

Designation of PEG Organizations to Provide PEG Services – CATV is responsible for reviewing the applications and negotiations required for the PEG access organization designation process. Since Act 19 was signed into law, all four existing PEG access organizations, `Ōlelo Community Media (“Ōlelo”) on Oahu; Na Leo O Hawaii Community Television (“Na Leo”) on Hawaii island; Ho`ike Kaua`i Community Television (“Ho`ike”) on Kauai; and Akaku: Maui Community Television (“Akaku”) on Maui, Molokai, and Lanai, have filed applications for designation as the PEG access provider in their respective service areas.

American Recovery and Reinvestment Act (“ARRA”) – Broadband Mapping and Planning Projects – DCCA/CATV was awarded \$4.3M in ARRA funds to be expended over a 5-year period ending January 2015. CATV partnered with the UH to carry out many of the grant projects, including the following projects: (1) Broadband Data Collection and Mapping; (2) Broadband Planning; (3) Broadband Capacity Building; and (4) Technical Assistance. Activities under this grant includes data collection to develop and maintain Hawaii’s broadband map to identify available broadband services throughout the State; development of plans to fill identified gaps in broadband service throughout the State and to reduce barriers to broadband access; and implementation of programs to increase digital literacy and access to broadband services. A statewide map of broadband availability has been created, and continues to be refined. In December 2012, CATV completed a State Broadband Strategic Plan to guide activities in broadband infrastructure development, adoption, and applications for economic development.

As part of the grant activities, the Hawaii Broadband Map Speed Test lets residents of the State voluntarily contribute information about their wired or wireless broadband connection speeds (downstream and upstream speeds) with approximate location information. This information gives DCCA the ability to identify areas that may be underserved when compared to current definitions of broadband. The FCC, for example, defines Basic Broadband as speeds of at least 4 Mbps downstream and 1 Mbps upstream. The speed test can be found at the internet website: www.hibroadbandmap.org/speed-test/. In the summer of 2013, DCCA began a second campaign to encourage residents to take the speed test. New data collected will allow the State to measure improvements in broadband speeds across the State, and to better identify un-served and underserved communities. CATV is partnering with broadband providers and the FCC to expand an existing FCC program by deploying additional devices that could measure individual customers' broadband connection speeds and provide additional information to the providers, CATV, and the FCC.

In 2014, DCCA/CATV continued its capacity building and technical assistance projects enabled as a result of the ARRA grant. These activities included the BAAC activities and other activities to advance infrastructure deployment and broadband adoption through identification and development of statewide, as well as county specific proposed policies and programs. Market research was conducted to provide data on the Hawaii broadband user experience and usage and motivations to adopt higher speed services.

CATV also partnered with the Hawaii State Public Library System ("HSPLS") to help HSPLS create brochures and other materials, and offer training and other support assistance as part of HSPLS' netbook loan program launched in FY14. HSPLS' netbook loan program offers library cardholders the opportunity to borrow a netbook equipped with 3G mobile service for a three week period. With branch locations throughout the State providing access to computers, HSPLS plays a pivotal role in reaching and teaching non-adopters in rural areas, and reaching various targeted demographic groups, including lower income residents and seniors. CATV is also partnering with the County of Hawaii, the United States National Park Service, public utilities, and broadband and cable providers to study possible solutions to "close the gap" of communications infrastructure through the Volcanoes National Park area to ensure that such systems are reliable, resilient, and robust. Such pilot broadband planning projects with the County may help streamline approval policies as well as serve as models for projects in other counties, such as a project that seeks to provide Wi-Fi at parks and recreation facilities and community centers across the County.

To further facilitate broadband deployment, DCCA/CATV also continues to focus on leveraging the INET connections made under the cable television franchises as well as franchise fees collected for INET and broadband purposes when and where opportunities are presented.

CRF Financial Summary

The CRF financial summary relating to CATV for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$635,808	\$824,798	\$1,460,606	\$2,102,851

CONCLUSION

This year has again been noteworthy for CATV because of the transfer of franchises across the State that are being reviewed, the multiple cable franchise renewals at issue, the activity surrounding the designation of all four PEG access organizations, the rapid development of advanced technology by cable companies and its implications, the many federal cable and telecommunications regulations and programs undergoing reform, and the many broadband-related activities of the division and the department. Advancements in technology, such as the continued enhancement of the fiber to node architecture and the migration of analog channels to the digital tier, provided increased bandwidth capacity for broadband, new interactive and digital services, and an increase in available content. Through its many regulatory activities and its additional responsibilities to facilitate broadband access, CATV strives to ensure fairness to the public in the provision of improved cable television services, to provide valuable INET benefits to state and county agencies, and to provide ubiquitous access to reasonably priced broadband services to residents statewide, during a time of rapid advancements in communications technology.

DIVISION OF CONSUMER ADVOCACY (DCA)

website: cca.hawaii.gov/dca/

e-mail address: consumeradvocate@dcca.hawaii.gov

OVERVIEW

The Division of Consumer Advocacy (“DCA”) represents, protects, and advances the interests of consumers of utility and transportation services before regulatory agencies, primarily the Hawaii Public Utilities Commission (“PUC”) and the Federal Communications Commission (“FCC”). DCA reviews requests for rate and tariff changes, capital improvement projects, integrated resource plans, certificates for authority to operate, and other applications filed by public utility and transportation companies, in addition to other proceedings opened by regulatory agencies to investigate or review generic issues. In representing the consumers of utility and transportation services before the PUC, DCA must analyze financial and statistical data, prior docketed material, industry standards, and the information provided by the utility and transportation companies to support their applications. After analyzing the information, DCA generally submits either written statements of position or testimonies explaining its analyses, findings, and recommendations to the PUC. Oral testimonies by DCA analysts, subject to utility company cross-examination, are required in evidentiary hearings before the PUC to resolve differences among the parties in utility proceedings.

Act 108, Session Laws of Hawaii (“SLH”) 2014 (“Act 108”), amended §269-51, Hawaii Revised Statutes (“HRS”), to authorize that the executive director of DCA shall be the consumer advocate in hearings before the PUC. Act 108 further provides that the executive director shall supervise and control the operations and personnel of the division, and shall be responsible for the performance of the duties imposed upon the division.¹

Composition

DCA consists of 17 employees, ranging from an administrator, a secretary, a utilities/transportation officer, a utilities/transportation specialist, an education specialist, rate analysts, researchers, engineers, attorneys, and clerical support. DCA is located on the third floor of the King Kalakaua Building, 335 Merchant Street. Its contact information is as follows: mailing address, P.O. Box 541, Honolulu, Hawaii 96809; phone number, 586-2800; internet address, cca.hawaii.gov/dca/.

The majority of DCA’s professional staff is comprised of the Rate Analysis Branch, the Engineering Branch, the Research Branch, and the Legal Branch.

The **Rate Analysis Branch** reviews and analyzes economic conditions, investor requirements and returns, and other aspects relating to the capital structure of regulated public utilities and transportation companies. In addition, the branch evaluates and develops recommendations relating to rate schedules, effects of rates, sales levels, and other pertinent considerations in establishing rates.

The **Engineering Branch** analyzes and makes recommendations on technical matters such as production capacity and efficiency, depreciation allowances, maintenance cost factors, engineering safety standards, plans for capital improvements, purchased power agreements, and quality of service standards.

¹ See Act 108, Section 9, amending §269-52, HRS.

The **Research Branch** analyzes and advises on matters imposed on regulated public utility and transportation industries, provides services and advice relating to the current operations of and evolving changes to regulated public utilities and transportation industries, conducts special studies on the changes in various regulatory areas, including energy and telecommunications, and assists and participates with other branches in developing data and conducting analyses on matters under examination.

The **Legal Branch** provides legal representation before regulatory agencies. The branch also provides general clerical support by updating and maintaining the DCA's docket, general office, and electronic data base files, formatting draft documents prepared by the technical staff and attorneys for filing with regulatory agencies and utility companies, and maintaining the office library.

GOALS and OBJECTIVES

DCA's goals and objectives can be categorized generally in three broad areas: consumer advocacy, policy advancement, and consumer education and outreach. These areas are not mutually exclusive and often overlap; however, for purposes of describing DCA's goals and how DCA will reach them, the goals will be described separately.

Consumer Advocacy

Goal

Ensuring that Hawaii's consumers receive fairly priced rates for safe and reliable services, while ensuring customer and environmental protections and renewable resource use, is DCA's primary goal. This goal generally involves balancing various competing interests.

Planned Approach/Methods

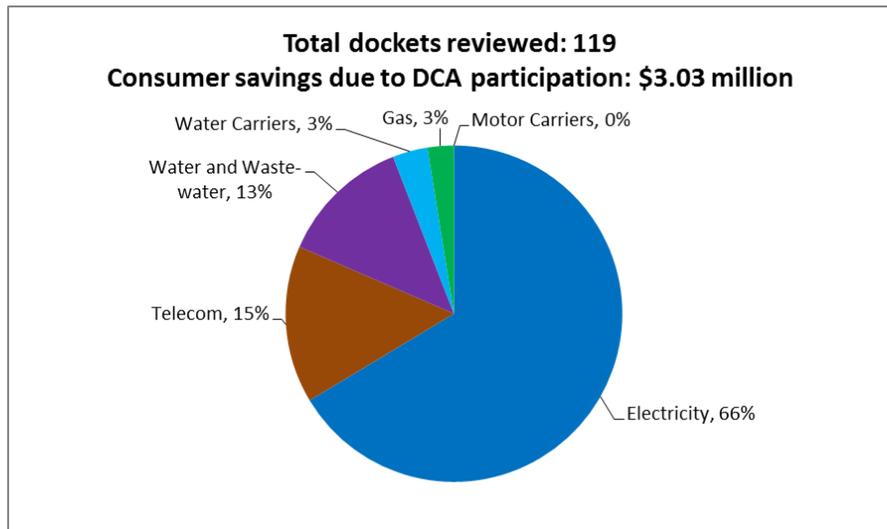
DCA's resources are focused on PUC proceedings, which often affect the rates and the reliability of utility and transportation systems and services. DCA's participation in PUC proceedings will typically involve some or all of the following:

1. Review of applications to ensure compliance with regulations;
2. Participation at PUC public hearings;
3. Procurement of consultant services to manage workload and for complex cases;
4. Completion of discovery;
5. Analysis of applications and supporting documents to determine the accuracy and the reasonableness of the requests;
6. Provision of recommendations to the PUC on the merits of the applications through statements of position or direct testimonies; provision of oral testimonies, which are subject to cross-examination in proceedings where evidentiary hearings are necessary; and
7. Completion of related legal actions, such as filings of legal briefs, motions, and appeals, etc., where necessary.

Measures

To measure DCA’s performance in advocating consumer interests, DCA tracks various categories of information. DCA monitors consumer savings resulting from its participation in PUC proceedings, the percentage of PUC decisions that adopt settlements reached amongst the parties to a proceeding, the number of service quality investigations DCA participates in, and the number of filings before the PUC reviewed by DCA. Chart 1 describes the total number of dockets DCA reviewed, the proportion of dockets reviewed by area, and the total consumer savings due to DCA participation.

Chart 1. Dockets Reviewed By Area and Overall Consumer Savings, Fiscal Year 2014

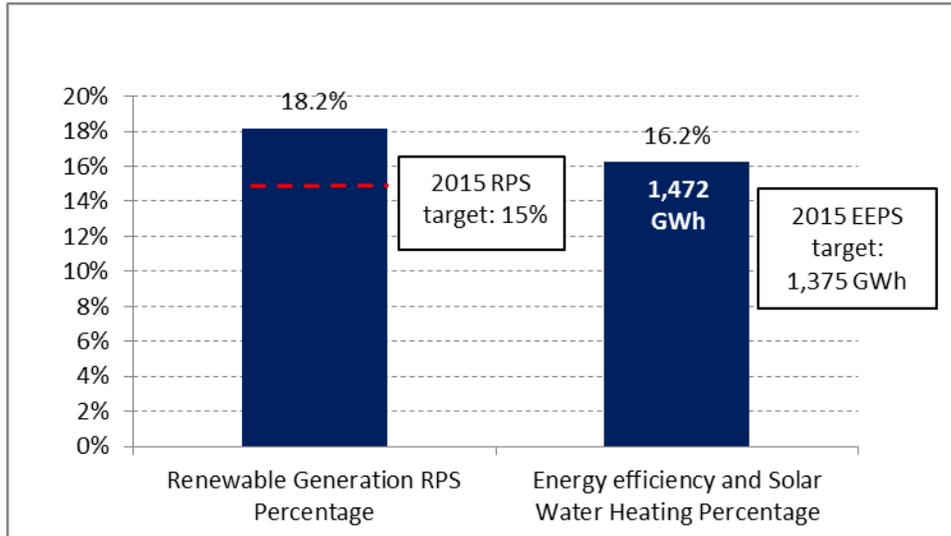


Policy Advancement

Goal

DCA will remain active in promoting policies to protect and advance the interests of utility and transportation consumers on the local, state, and national levels. Two of the major objectives that DCA will pursue are the advancement of federal and state broadband initiatives, as well as continued efforts to promote and facilitate Hawaii’s transition away from imported fossil fuels towards clean renewable energy. As shown in Chart 2, Hawaii is currently exceeding its 2015 Renewable Portfolio Standard (“RPS”) and Energy Efficiency Portfolio Standard (“EEPS”) goals.

Chart 2. Hawaii’s Progress to Date Exceeds its 2015 RPS and EEPS Goals.



Planned Approach/Methods

In the PUC’s generic, investigative, or policy proceedings, DCA follows a similar approach to its review and analysis of applications. A typical investigative proceeding may involve the following steps:

- After DCA and other parties to the proceeding state their initial positions on the issues, discovery and analyses are done to determine the reasonableness of the other parties’ positions;
- Technical meetings between the parties are often held to discuss and educate each other on the issues and positions taken, and to determine where possible agreement may be reached;
- DCA then provides PUC with a recommendation that it believes is in the best interest of consumers; and
- DCA participates in evidentiary or panel hearings conducted by PUC. DCA presents its evidence by way of expert testimony on specific technical issues.

DCA monitors congressional activity in the energy and telecommunications areas. DCA maintains contact with Hawaii’s Congressional delegation, particularly those members sitting on committees that deal with energy and telecommunications, and provides input where appropriate and when called upon.

DCA is actively involved in the National Association of State Utility Consumer Advocates (“NASUCA”). NASUCA participates in proceedings before the FCC, Congress, and the federal courts in advancing consumer interests on national issues, many of which affect Hawaii consumers.

DCA is actively involved with the state legislature and provides testimonies that detail consumer benefits or detriments of specific proposals and bills being considered by the various legislative committees. In the 2014 legislative session, DCA monitored and testified on 27 bills and submitted written testimony on 51 occasions.

Measures

Measuring the performance of DCA's efforts to promote policy objectives is inexact. While DCA generally tracks the percentage of its positions with which the PUC ultimately agrees, the measure does not capture the efforts throughout proceedings to educate and work with other parties to come to agreement on issues.

Education & Outreach

Goal

DCA's goal is to encourage the public to be wiser consumers of public utility services by, among other things, emphasizing the possible effects that their consumption habits may have on utility rates and the environment. It is through the education and outreach process that DCA aims to gather consumer input on utility issues and to encourage consumers to be more involved in utility proceedings. DCA attends public meetings and hearings to learn of consumer complaints and concerns.

Planned Approach/Methods

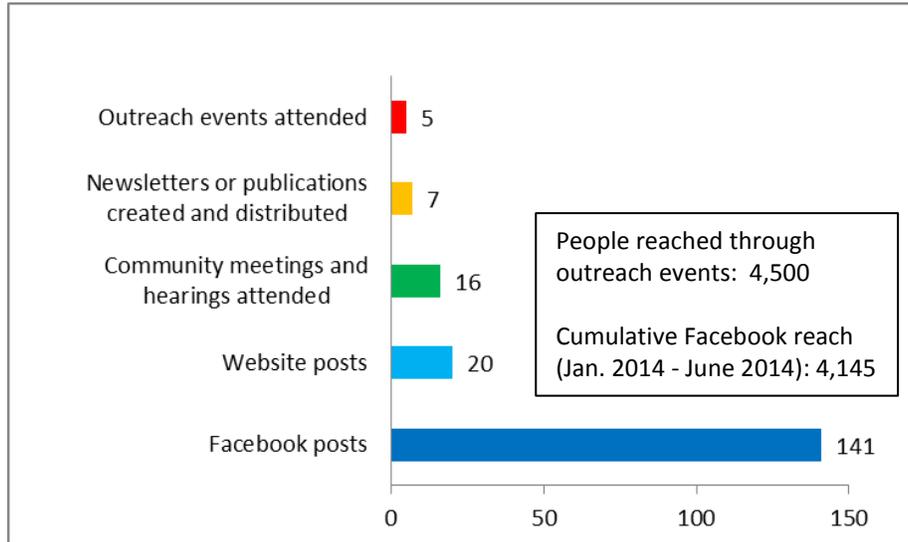
DCA can accomplish its goal of positively affecting the habits of consumers on a statewide basis through the use of its web site and public outreach activities. DCA established the following action plan to accomplish its goals and objectives:

1. Update and improve its website with consumer-friendly and useful content;
2. Use social media, such as Facebook, to reach a greater number of consumers;
3. Attend public hearings and meetings to listen to consumer complaints and concerns;
4. Establish information booths and provide presentations at community events, such as home shows and public fairs throughout the state and build positive relationships with both business and individual community members;
5. Improve communications with consumers and the public through expanded distribution and publication of its newsletter; and
6. Hold informational seminars or use public service announcements to highlight different utility issues and topics.

Measures

To measure DCA's performance and progress of its education and outreach activities, it tracks the number of people reached through education and outreach events, newsletters and other publications distributed, and consumers assisted with complaints and other issues. Chart 3 illustrates various ways DCA engaged in community outreach and education in Fiscal Year 2014.

Chart 3. DCA’s Multi-pronged Approach to Community Outreach and Education



ACCOMPLISHMENTS

Results of DCA’s efforts to protect and advance the interests of consumers in Fiscal Year 2014 are summarized below for some of the more significant matters in which DCA was involved:

Advocacy before the Public Utilities Commission

Energy Dockets

Competitive Waiver Projects

The Competitive Bidding Framework was adopted by the PUC in Order No. 23121, filed on December 8, 2006, to establish guidelines governing the use of a competitive process to acquire or build new generation in Hawaii. PUC may approve waivers from this process if, for example, it can be shown that more cost effective resources would likely be acquired more efficiently through an alternate procurement process. DCA reviewed applications by Hawaiian Electric Company, Inc. (HECO) for waivers involving a total of thirteen renewable energy projects whose proposed levelized prices fell significantly below the price range of other recently approved renewable energy projects on Oahu (21.8 to 23.6 cents per kWh). On October 10, 2014, HECO submitted a power purchase agreement (PPA) for one of the projects to the PUC for approval. PPA negotiations for six of the projects are ongoing. Four projects were voluntarily withdrawn.

In addition to providing comments and recommendations regarding waiver approvals, DCA has periodically met with HECO and various developers to discuss PPA progress and design. Table 1 summarizes the competitive waiver dockets DCA reviewed in Fiscal Year 2014, including how many projects each docket involved, the total number of megawatts (“MW”) proposed, the average proposed price, and the status of each docket.

Table 1. Summary of Competitive Waiver Dockets

Project(s)/Docket No.	No. of Projects	Total MW	Price* (cents per kWh)	Status
Initial Waiver Projects Docket No. 2013-0156	5	63.9	15.934	PUC approved subject to conditions. Four projects were voluntarily withdrawn. One PPA submitted for PUC approval on October 10, 2014.
Second Waiver Projects Docket No. 2013-0381	6	210	15.576	PUC approved subject to conditions. PPA negotiations are ongoing. PPAs are due December 4, 2014.
Kahe PV Project** Docket No. 2013-0360	1	15	16.133; revised to 13.8	Pending PUC decision.
Na Pua Makani Wind Docket No. 2013-0423	1	24	14.998	Pending PUC decision.

* Average levelized price, as proposed in each Application.

** The Kahe PV Project's "price" was initially based on a 30 year term. All other levelized prices, including the revised Kahe PV Project's price are based on a 20 year term.

Selected waiver projects are discussed in further detail below.

*Kahe Utility-Scale Photovoltaic ("PV") Generating System ("Kahe PV Project")
(Docket No. 2013-0360)*

On October 22, 2013, HECO filed an application requesting a waiver from the Competitive Bidding Framework for the 15 MW Kahe PV Project. HECO estimated the cost of this project to be \$42.4 million with a levelized cost, assuming a 30-year life, of approximately 16.1 cents per kWh. In its May 15, 2013 comments, DCA contended that HECO's proposed levelized cost appeared too high given that 1) HECO owns the land upon which the project would be sited, 2) interconnection costs should be relatively small since the project is at HECO's generating facility, and 3) HECO amortized its costs over a longer period of time. DCA asserted that it was likely to oppose HECO's Kahe PV Project application.

In July 2014, HECO significantly lowered its cost estimate for the Kahe Project from \$42.4 million to \$39.9 million. HECO also lowered its estimated levelized costs from 16.1 cents per kWh over 30 years to 13.8 cents per kWh over 20 years, a rate lower than the proposed pricing of other competitive waiver projects. Although AES Hawaii and Hawaii Renewable Energy Association ("HREA") continued to object to HECO's ownership of the Kahe PV Project, DCA contended that further analysis is necessary to determine whether Hawaii's energy market is large and robust enough to sustain a model without some level of utility owned generation. DCA subsequently recommended PUC approve HECO's request for a waiver from the Competitive Bidding Framework for the Kahe PV Project. This docket is still pending before the PUC.

*HECO's Application for Approval of the Na Pua Makani Wind Farm
(Docket No. 2013-0423)*

On December 12, 2013, HECO filed an application for the approval of the Na Pua Makani wind farm that was proposed for Kahuku, Oahu by wind developer Champlin. DCA attended three Kahuku community meetings to listen to the objections of Kahuku residents. The Kahuku Community Association and the Kahuku Neighborhood Board both adopted resolutions opposing the proposed wind farm.

Although the proposed Power Purchase Agreement offered the lowest priced wind energy at approximately 14 cents per kwh at the outset of the contract, DCA in recognition of the Kahuku community's opposition to the project recommended that PUC hold on any decision approving the project pending the completion of the Environmental Impact Statement that should consider environmental, societal, and archaeological impacts. The decision is still pending before the PUC.

MECO's Application for Approval of a Waiver from the Competitive Bidding Process for Anaergia's Mahinahina Energy Park Project (Docket No. 2013-0114)

On May 10, 2013, Maui Electric filed an application for approval of a waiver from the competitive bidding process for a proposed Power Purchase Agreement with project developer Anaergia for a biomass project that would generate electricity to be sold to MECO. This project arises out of Maui County's need to dispose of treated wastewater in the Lahaina/Kaanapali area. Currently, Maui County disposes of R-1 treated wastewater into ejection wells. Earth Justice filed a lawsuit against Maui County alleging that Maui County is in violation of the Clean Water Act, because the effluent in the ejection wells eventually finds its way to the ocean. A federal district court judge ruled against Maui County on liability. Maui County is attempting to resolve that lawsuit by agreeing to stop the use of the ejection wells. Instead, the treated effluent will be used to irrigate a biomass crop that will then be digested and converted to electricity by Anaergia.

On September 6, 2013, DCA filed its statement of position recommending approval of the waiver from the competitive bidding process, because the project meets one of the criteria for a waiver in that it serves an important governmental purpose. On May 13, 2014, the PUC issued a decision and order approving the waiver from the competitive bidding process. Currently, Maui Electric is in negotiations with Anaergia over the terms of the Power Purchase Agreement.

HECO Decoupling Investigation

The investigation of HECO's decoupling mechanism was divided into two separate proceedings – Schedule A and B. Schedule A went to an evidentiary hearing in January, 2014. One of the principal Schedule A issues was the interest rate on HECO's Revenue Balancing Account (RBA) that had been set at 6% by previous commission order. HECO took the position that the interest rate should be increased, which would have meant a small increase in electricity rates. The DCA took the position that the interest rate should be lowered consistent with other interest rates HECO is entitled to charge. The PUC ruled in favor of the DCA and lowered the interest rate on RBA balances. Following the hearing, the parties agreed upon the performance metrics that HECO would report on its website.

Schedule B issues involve the much more complex issue of modifying the Rate Adjustment Mechanism (RAM) that HECO uses to put into rate base its capital expenditures on an annual basis rather than having to await its next rate case in the three year cycle that had previously been agreed to and ordered by the commission.

The parties, including DCA, exchanged Initial Statements of Position, and then filed Reply Statements of Position in August, 2014. The PUC has scheduled panel hearings on Schedule B issues for the end of October, 2014.

On Bill Financing

The On-Bill Financing Program is intended to reduce the market barriers that prevent customers without sufficient resources or incentives (e.g., low to middle income customers and those in the rental market) from making efficient, cost-saving energy investments. On August 15, 2011, pursuant to Act 204, SLH 2011, the PUC opened Docket No. 2011-0186 to investigate whether on-bill financing is a viable financing method that should be implemented in Hawaii. Following various workshops and discussions, the PUC issued Order No. 30974 on February 1, 2013, which found a properly designed on-bill financing program for all electric utility customers in Hawaii could be viable, contingent on program details. The PUC further determined that a Working Group comprised of the Parties and Participants from Docket No. 2011-0186, financial institutions, representatives of target on-bill financing customer groups, and other contributing entities should work together toward the development of a program targeting the hard-to-reach low income and rental customer markets. The Finance Program Administrator, AFC First, was selected and became part of the working group discussions in December 2013.

DCA has worked collaboratively as part of the On-Bill Financing Working Group, providing comments and recommendations regarding program design, operating procedures, program evaluation and measurement, and the integration of EEPs goals. While supportive of the fundamental objectives of the program, DCA opposed measures that would have shifted risk to and unduly burdened consumers and sought to minimize the potential impact of the program on non-participant customers.

The Hawaii Energy Bill Saver Program is the result of the numerous Working Group meetings and discussions. On June 3, 2014, the PUC opened Docket No. 2014-0129 to establish and implement this on-bill financing program. On August 7, 2014, the PUC issued Order No. 32252 directing the parties, interveners, and participants in the docket to address whether the proposed Hawaii Energy Bill Saver Program is just, reasonable, and consistent with the public interest.

On October 1, 2014, the PUC issued Order No. 32318 approving DBEDT's Program Order request subject to certain modifications and oversight. The PUC adopted several of DCA's recommendations regarding the use of GEMS funds and the implementation of data collection and reporting procedures to evaluate program success.

*Kauai Island Utility Cooperative ("KIUC") Decoupling Mechanism
(Docket No. 2014-0016)*

On January 23, 2014, KIUC filed an application with the PUC for approval of KIUC's proposed decoupling mechanism that would de-link KIUC's revenue from the sale of electricity. KIUC's proposed decoupling mechanism would eliminate any over collection of revenues and the additional expense of revenue taxes KIUC must pay from any over-collection through rates. KIUC asserts that the decoupling mechanism would result in lowering electricity rates to its members.

DCA worked collaboratively with KIUC to establish a decoupling mechanism that would protect consumers from any potentially large rate increase resulting from decoupling. Consistent with Act 57 that recognizes that as a utility cooperative, KIUC, under appropriate circumstances, should be given less regulatory scrutiny than an investor-owned utility, DCA did not object to the decoupling proposal, but instead worked to improve the mechanism with adequate safeguards for consumers. On October 10, 2014, KIUC and DCA filed an agreed-upon decoupling mechanism with the PUC.

Water and Wastewater Rate Cases

Table 2 summarizes the water and wastewater rate cases that the DCA was involved in during Fiscal Year 2014. The table includes the rate increase requested by each utility, the DCA proposed rate increase or decrease, and the rate increase authorized by the PUC:

Table 2. Summary of Water and Wastewater rate cases reviewed by DCA

Utility Name	Docket No.	Rate Increase Requested by Utility		Rate Increase (Decrease) Proposed by DCA		Rate Increase Authorized by PUC	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
Hawaii Water Service Co., Pukalani District	2011-0148	\$1,325,924	225%	\$153,651	26%	\$586,352	107%
Waikoloa Resort Utilities, Inc.	2011-0331	\$4,133,771	88.38%	(\$139,069)	(2%)	\$1,953,396	28.16%
Waikoloa Sanitary Sewer Co.	2012-0147	\$1,378,084	141.7%	\$309,301	31.4%	Pending ²	Pending
Waikoloa Water Co.	2012-0148	\$784,387	36%	\$53,540	2.5%	Pending ³	Pending
Hawaiian Beaches Water Co.	2013-0203	\$270,748	37.35%	\$107,159	14.3%	\$161,698	21.83%
Total		\$7,892,914		\$484,582			

Advocacy through Participation on Committees and Boards

Enhanced Wireless 911 (“E911”) Services

Act 168, SLH 2011 (“Act 168”), created an E911 Fund and established the E911 Board. Act 168 established the framework to implement the State’s wireless E911 system to route emergency calls to emergency responders, along with the wireless callers’ identification and location. Under Act 168, the E911 Board oversees the collection and distribution of money collected by the E911 special fund and designates the Executive Director of DCA as a member of the board. During Fiscal Year 2014, DCA was involved in the E911 Board’s successful efforts to transition its daily operations from a consultant to two full-time employee positions. The E911 Board is in the process of recruiting for the positions of Executive Director and Assistant Executive Director.

² DCA entered into a settlement agreement with the utility on November 15, 2013 based on a proposed rate increase of \$681,425 or 69.2%. A PUC decision on the settlement agreement has not been issued.

³ DCA entered into a settlement agreement with the utility on August 14, 2013 based on a proposed rate increase of \$145,976 or 6.8%. A PUC decision on the settlement agreement has not been issued.

One Call Center Advisory Committee

The Executive Director of the DCA is also a member of the One Call Center Advisory Committee, which makes recommendations to the PUC regarding the implementation of Chapter 269E, HRS, Act 141, SLH 2004. This advisory committee was integral in developing the request for proposals for a vendor to operate a “call-before-you-dig” system. The system, which was operational on January 1, 2006, will reduce the risk of critical services being disrupted because utility systems were inadvertently damaged due to excavation work conducted in areas where the systems are placed in underground facilities. This will ensure greater public health and safety, and ultimately save excavators time and money.

Energy Policy Forum

The Executive Director of DCA is a member of the Hawaii Energy Policy Forum (“HEPF”), which is a collaborative organization of the University of Hawaii at Manoa. HEPF consists of members from the business, government, and regulatory communities. Meetings are held quarterly to discuss Hawaii’s energy needs for both electricity and transportation. HEPF provides support to other organizations, such as the Hawaii Clean Energy Initiative Steering Committee. In FY 2014, DCA continued to maintain its active role in the meetings providing input to HEPF concerning consumer concerns in the regulatory process before the PUC and the difficulties facing the state in achieving reliable electricity service at reasonable rates.

Hawaii Clean Energy Initiative (“HCEI”)

On January 31, 2008, the State of Hawaii and the United States Department of Energy (“U.S. DOE”) launched the HCEI, an agreement, which among other things, established for the State a goal of 70% clean energy resource use by 2030. The State and the U.S. DOE formed various committees designed to examine differing aspects of the State’s energy use – transportation, electricity, energy efficiency, etc. The DCA is participating in the HCEI’s Integration Committee, which, with the aid of U.S. DOE experts, seeks to consolidate the themes and suggestions put forth by the remaining committees.

As part of HCEI, the Executive Director of DCA also participates in the Management Committee, which deals with the high level planning associated with various aspects of the technical committees that are analyzing various areas (electricity, end-use efficiency, transportation, fuels, and outreach) that are expected to be integral to the success of HCEI.

DCA also participates in the Technical Advisory Group (“TAG”) that is responsible for evaluating the energy efficiency process that has been transitioned from the HECO Companies to a third-party administrator, also now known as Hawaii Energy. As part of this process, the TAG currently meets on a quarterly basis and evaluates various aspects of the measures being implemented to help plan, evaluate, and implement energy efficient programs in the service territories of the HECO Companies. Using the monies collected through the Public Benefits Fund surcharge, the TAG evaluates the use of the monies to help Hawaii’s efforts to reduce its over-reliance on imported fossil fuels.

The HCEI management committee, which includes the Consumer Advocate, is working on HCEI 2.0. A new Memorandum of Understanding between the State of Hawaii and the U.S. Department of Energy was drafted in FY 2014 then executed in FY 2015. Finally, the management committee determined

that the Energy Agreement, entered into in 2008, contained a number of provisions that were no longer applicable and voted to rescind it.

Education and Outreach

During the past year, DCA has continued to focus on expanding its education and outreach activities. This has allowed DCA to increase its ability to educate consumers and extend its reach into communities throughout the State. In addition to attending community fairs, DCA publishes its own newsletter and has increased the plan frequency of these newsletters from a quarterly to monthly schedule. In addition, the DCA is focusing on improving its web presence by keeping the online information relevant and informative.

Consumer Advocate launches Facebook page

DCA created its Facebook page in an effort to reach consumers more quickly through social media and made its first post on January 16, 2014. Through Facebook, DCA educates consumers by posting energy and water saving tips and notifies consumers of pertinent, utility-related online newspaper articles, blog posts, and radio and television programs. The Facebook page is also used to announce upcoming utility-related public hearings, consumer fairs, utility and green energy conferences, and media events. As of June 30, 2014, DCA’s Facebook reach was 4,145.

CRF Financial Summary

The CRF financial summary⁴ relating to DCA for FY13-14 as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$1,428,340	\$878,565	\$2,306,905	\$3,092,514

CONCLUSION

DCA will continue to prioritize its caseload to target projects and consumer issues that have the greatest impact on the ratepayers of utility and transportation services in Hawaii. In addition, DCA is expanding its education and outreach efforts. These efforts place DCA in a better position to take a more proactive approach to address specific consumer issues and to gain greater public participation in decisions that affect their public utility and transportation services.

⁴ These are pre-close numbers.

DIVISION OF FINANCIAL INSTITUTIONS (DFI)

website: <http://cca.hawaii.gov/dfi/>

twitter: @HawaiiDFI

e-mail address for general matters: dfi@dcca.hawaii.gov

e-mail address for mortgage loan originator program: dfi-nmls@dcca.hawaii.gov

OVERVIEW

The Division of Financial Institutions' ("DFI") Mission: DFI ensures the safety and soundness of state-chartered and state-licensed financial institutions, and ensures regulatory compliance by state-licensed financial institutions ("FI"), escrow depositories ("ED"), money transmitters ("MT"), mortgage servicers ("MS"), mortgage loan originators ("MLO") and mortgage loan originator companies ("MLOC"), by fairly administering applicable statutes and rules, in order to protect the rights and funds of depositors, borrowers, consumers and other members of the public. In order to effectively regulate a growing and diverse group of industries and implement state and federal regulatory requirements, the DFI made changes to its licensing and examination programs to focus its resources on risk based supervision.

DFI's budget shortfalls were addressed by the 2013 legislature, and DFI's 2014 revenue projections allowed DFI to hire for most of its vacant positions, although DFI continues to actively recruit examiners. The 180-day backlog in the licensing branch is now down to 60-90 days or less. DFI has implemented technology to more efficiently review applications.

DFI provides regulatory oversight for our state's financial service providers. DFI provides supervision, regulation and examination of all Hawaii State-chartered and State-licensed financial institutions, including banks, foreign banking agencies and representative offices, savings banks, trust companies, and financial services loan companies (both depository and non-depository), and credit unions. DFI also licenses and regulates, supervises and examines ED, MT, MS, MLOs, and MLOCs. In supervising financial institutions authorized to take deposits, DFI works closely with the Federal Deposit Insurance Corporation ("FDIC"), the Federal Reserve Bank of San Francisco ("FRB"), the Consumer Financial Protection Bureau ("CFPB"), and the National Credit Union Administration ("NCUA").

DFI was first accredited by the Conference of State Bank Supervisors ("CSBS") in 1990 and re-accredited in 1995, 2000, 2005, and 2012. The CSBS accreditation program sets high standards for state banking regulators nationwide.

DFI is located at 335 Merchant Street, Room 221, Honolulu, Hawaii 96813. The public may call DFI at (808) 586-2820 or send e-mail to dfi@dcca.hawaii.gov or dfi-nmls@dcca.hawaii.gov (mortgage program).

Composition

DFI is led by the Commissioner of Financial Institutions. The Commissioner is assisted by an *Administrative Section* consisting of the Deputy Commissioner, a specialist, a regulation analyst, and a secretarial staff supervised by the Secretary of the Division. This section coordinates and facilitates

activities within DFI, with other divisions, and with other state and federal agencies regarding regulatory and supervisory oversight issues.

Within DFI, there are two branches: (1) the Field Examination Branch and (2) the Licensing and Regulatory Analysis Branch, each composed of financial institution examiners and supervised by its own Branch Manager. The *Field Examination Branch* is responsible for the on-site examination of all state-chartered and state-licensed financial institutions. Examinations, unlike accounting audits, are forward-looking reviews of factors underlying the safety and soundness of the financial institutions. For example, examiners not only evaluate existing and projected financial information, but also assess the effectiveness of management, its policies, and implementation of those policies in administering the institution's risk management programs and practices.

The *Licensing and Regulatory Analysis Branch* is responsible for licensing activities and other regulatory approvals, the quarterly off-site monitoring program, responding to complaints and inquiries, and investigating alleged violations of state law. Licensing activities include review and analysis for all applications for new financial institutions, closure of any branches, opening or relocation of branches, addition of new or unique services to determine whether consumers may be harmed by the action of any licensee. The Licensing and Regulatory Analysis Branch Manager¹ also assists the Deputy Commissioner in administrative matters such as legislation, training, and budgetary items.

GOALS and OBJECTIVES

Division Goals

DFI's mission reflects the increased focus of its role in, not only protecting consumers, but in educating them to protect themselves. Recent legislation in the financial services area reflects the need to educate consumers of financial services in order to prevent consequences such as those currently seen in the sub-prime lending crisis. Regulation and appropriate enforcement, hand in hand with consumer education and awareness are the best defense in protecting consumers. DFI faces a number of challenges in the next few years including: the increasing risk of cybersecurity fueled by the innovative uses of technology, the impact of the economy on financial service providers and consumers; dealing with increased complexity in financial institution companies and their products, which can lead to increased opportunity for fraudulent activity; and dealing with the threat of federal preemption of the State's regulatory authority at a time when consumer protection and the State's regulatory services are needed the most.

DFI's goals center on the orientation, training, and effective deployment of its Examiners and providing best practices to licensees in a professional manner. Federal programs administered by the FDIC and the Federal Reserve are regularly used for this purpose, as are web-based programs provided by CSBS, the Risk Management Association, and the Hawaii Bankers Association. On-the-job training is also a valuable component of the training program. DFI's goals also focus on the recruitment of new staff who will be able to comprehend and adjust to an ever changing financial services industry. New financial service products continue to be created, modified, and initiated by licensees regulated and supervised by DFI. The delivery methods have also expanded with the use of the internet and mobile cellular telephones or other mobile devices and its concurrent impact on cybersecurity. Consequently, the orientation and

¹ DFI filled this position 1Q 2014. This position has been vacant since 4Q 2010.

training for Examiners have been challenging to keep up to date with the latest iteration of products, services and delivery methods.

Objectives and Policies

As a part of the CSBS accreditation process, DFI established a strategic plan and developed policies and operating guidelines to achieve plan objectives. DFI went through a year-long strategic planning effort with the entire staff in 2012 and has been updating the plan annually. DFI's strategic plan calls for it to:

- Stay relevant in a changing environment
- Provide value for the services we offer
- Expand employee's skill set
- Embrace the new regulatory and compliance environment
- Deliver effective and timely services
- Communicate in a respectful, timely and meaningful manner.

DFI's objectives are defined by its strategic plan and the policies to accomplish those objectives are imbedded within its policy and operating manuals.

Action Plan

DFI's action plan is built around its strategic plan. The timetable calls for reaching its goals in a three to five year time frame as it must provide additional training for staff and provide new training to meet the regulatory needs required by federal regulations, and expected by consumers who use financial institutions. DFI did not implement its action plans that involved technology to improve its databases due to the proposed state-wide initiatives by the Office of Information Management and Technology ("OIMT"). Consequently, DFI will need to update its action plans to re-evaluate the technology once OIMT implements its initiative.

Performance Measurement

DFI currently measures performance in two ways. The first is empirical – that is, absolute measurements based on the fiscal health and regulatory compliance of the State's DFI-regulated financial institutions using both regular financial and examination based measurements. The second is the measurement of DFI's internal throughput – that is, how many complaints have been answered, how many applications processed, etc. The first measurement is critical, especially in the current climate of global turmoil in the financial services industry, and demonstrates performance in DFI's key area of responsibility - to ensure the safety and soundness of Hawaii-chartered and licensed financial institutions. The second measurement, while informative, is less useful in showing DFI's productivity in both effort and results as it does not measure the complexity of any inquiry, complaint or application and does not take into account the changing nature of the work. The second measurement is also viewed as the "pulse" of Hawaii's financial institutions in terms of any "hot button" issues facing consumers.

ACCOMPLISHMENTS

1. Use of technology for education: DFI has used the technology of social media to provide free education to its licensees and consumers. DFI developed and maintains its website. DFI frequently updates its website and will eblast the industry affected. Using YouTube videos to provide education to licensees about regulatory compliance issues and reminders when they apply for licensure has increased compliance and a quicker processing time to licensure. Twitter has been used to quickly alert followers to new developments or information about fraud, elder financial abuse, cybersecurity, disaster planning, updates to our website, and upcoming training opportunities.
2. Use of technology for applications: DFI is using NMLS to process applications for mortgage loan originators, mortgage loan originator companies, mortgage servicers and MT. This technology forces applicants to provide a response to each question before submitting an application to DFI for review. DFI communicates questions via a secure email channel to applicants for their response.
3. Licensing branch: The licensing branch is currently experiencing a 60-90 day backlog, an improvement from the historic 120-180 day backlog due to the use of technology and hiring of an examiner. Our existing financial institutions have not been delayed in their operations in opening or relocating branches to serve the public.
4. Field branch: DFI continues to take the lead as the regulatory agency for at least one bank examination and one visitation with the FDIC. DFI has also assisted the FDIC and Federal Reserve examiners on regulatory compliance examinations.
5. Business Continuity / Disaster Planning – The Commissioner continues to participate with the Civil Defense’s Makani Pahili Disaster week-long training exercise. We continue to meet with state-chartered and national banks to improve communication and disaster planning.
6. CSBS District V: The Commissioner serves as the Chairperson for the CSBS District V consisting of the commissioners for banking departments in the Western States, which includes Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington and Wyoming. As Chair, the Commissioner coordinates semi-annual meetings of the District V states to discuss emerging issues in supervision, regulation and examination. The meetings also include representatives of the FDIC, FRB, CFPB, and the Office of the Comptroller of the Currency.
7. AARMR Board: The Commissioner served as a Director on the national AARMR Board (American Association of Residential Mortgage Regulators). As a member of the annual conference committee, the Commissioner successfully implemented changes to the delivery of education to regulators (state and federal) and the mortgage industry.

Efficiency

DFI increased its efficiency through automating the initial application and renewal process for MLOs, MLOCs, MS, and MT. The automation includes the filing of any additional documentation through the NMLS system. All states can share regulatory information with one another to assist in licensing and enforcement of multi-state licensees.

Mortgage Loan Recovery Fund

The Mortgage Loan Recovery Fund (“Recovery Fund”) was created to allow recovery for a consumer aggrieved by an act, representation, transaction, or conduct of a licensee involving fraud, misrepresentation, or deceit. Consumers may recover from the Recovery Fund with an order of the circuit

court or district court of the county where the violation occurred, an amount of not more than \$25,000 per transaction, including court costs and fees as set by law, and reasonable attorney fees as determined by the court. DFI is awaiting instructions from the circuit court to distribute funds from the Recovery Fund for several consumers who sought recovery for damages sustained by the actions of an MLO and MLOC.

The current balance of the Recovery Fund as of June 30, 2014, is \$1,124,965. The maximum recovery against each licensee is \$100,000 which may be divided among the claimants as the court determines. In anticipation of a court order to compensate these claimants, DFI requested that the Legislature permanently raise the expenditure ceiling for the Recovery Fund to provide for \$200,000 in payments; however the ceiling was only raised for FY2015. If the courts order payments in excess of the expenditure ceiling in any fiscal year, a claimant would have to wait to receive their damages. Therefore, DFI will again seek a permanent ceiling increase for FY2016 and beyond.

Staffing

1. DFI was provided additional industries to provide supervisory oversight; however, the staff was not increased. The current staff of 34² allocated positions was originally provided to allow DFI to supervise banks and escrow depositories. Today, DFI supervises three additional industries, which includes MLOs, MLOC, MS, and MTs that have increasingly complex business models and innovative use of technology, with no additional staff.
2. DFI continues to recruit for examiners in the field branch. DFI has filled 9 of 10 examiner positions; however, 4 of the recently hired examiners do not have any regulatory examination experience. It typically takes about five years of attendance at specialized schools and on the job training to learn examination techniques before examiners are able to work independently. DFI is recruiting 2 civil service examiners³ and also requesting the establishment of 2 exempt positions.
3. DFI filled all the licensing branch positions. However, DFI anticipates needing at least 3 more positions to process the applications for, and conduct investigations of, MS and MT. DFI is currently using temporary staff paid for by the mortgage servicing settlement funds to augment its licensing staff; although these staff persons concentrate most of their time on the MLO program.
4. Additional staff is necessary to maintain the bank accreditation from CSBS⁴ and to seek mortgage accreditation from CSBS/AARMR. These accreditation statuses mean that DFI is able to meet the standard of excellence to examine and appropriately supervise its industries.

Workload and Budget Impact

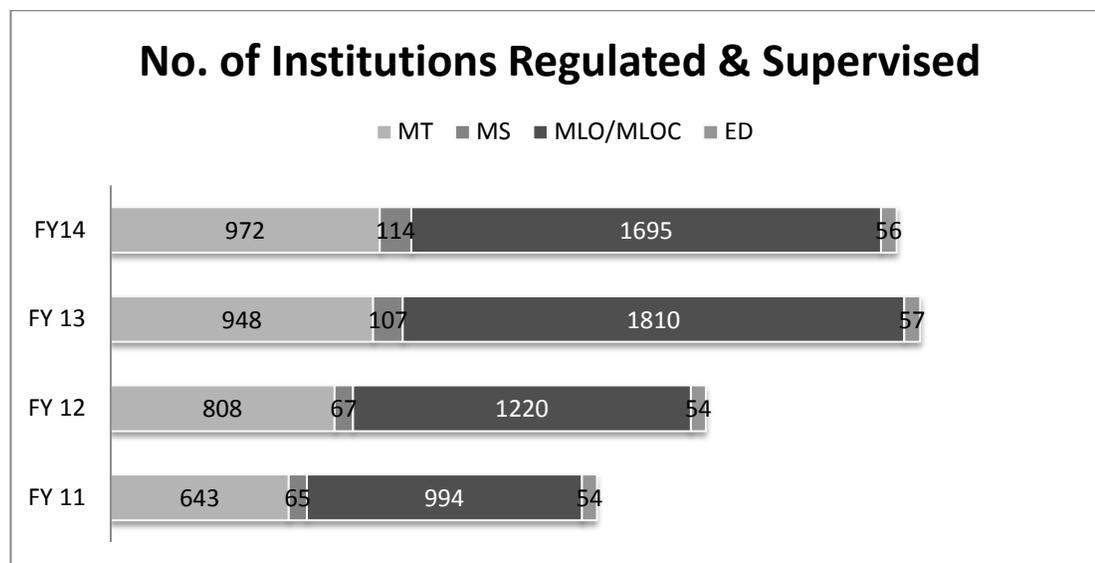
As noted above, DFI's workload has increased dramatically, both in the type and number of institutions regulated (see chart below) and in the scope and complexity of the work. In 2013, the adjustment in fees for each type of institution was designed to provide the revenues from each industry to cover DFI's costs of

² The Legislature provided 4 licensing positions for the mortgage loan originator program.

³ The recruitment link is on several websites including the DFI website. We hired 4 examiners using the website links on other national regulatory websites.

⁴ The CSBS Accreditation Program involves a comprehensive review of the critical elements that assure a banking department's ability to discharge its responsibilities. This is done through an investigation of all department operations including, administration and finance, personnel, training, examination, supervision, and legislative powers. CSBS is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. State banking regulators supervise approximately 5,300 state-chartered financial institutions.

regulating and supervising that industry. Consequently, the implementation in 2014 of the new fee structure enabled DFI to hire needed staff.⁵



The Money Transmitter industry in this State may have been associated with smaller “mom and pop” stores, but today new issues are constantly arising from the growing popularity of money transfers via virtual wallets and mobile devices, expanding use of internet money transfers and prepaid cards, the rise of virtual currencies, and rapidly developing technology. DFI is working to address these issues as they impact cyber security, consumer security and privacy, potential money laundering and fraud, and others.

DFI has implemented its examination program for MLOCs. With over 250 that need to be examined at least once every five years, DFI will need additional examiners to properly examine these companies. Currently DFI has 1 field examiner and 1 temporary employee conducting the examinations. In order to examine all companies within the five year examination cycle, DFI would need to conduct 50 examinations a year, in addition to conducting examinations for all other industries it supervises. DFI also needs to conduct an examination on new licensees approximately six months from the time they are first licensed to determine if they are complying with state and federal laws. In order to adequately perform these examinations, DFI will need three dedicated field examiners and at least one dedicated licensing examiner⁶.

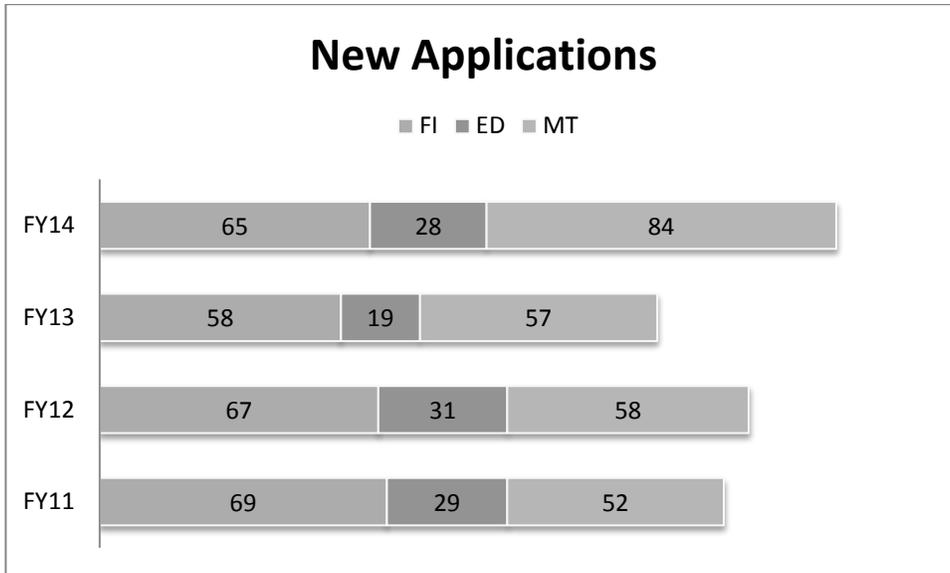
DFI is also implementing the MS examination. DFI does not have any examiners dedicated to this industry examination. Currently, several examiners from the field and licensing branches are conducting this examination, however, a dedicated team is necessary to appropriately determine whether companies are complying with state and federal laws.

⁵ Acts 166, 167, 198, 92, and 172 (Session Laws of Hawaii 2013), relating to Escrow Depositories, Money Transmitters, Mortgage Loan Origination, Mortgage Servicers, and Financial Institutions, respectively

⁶ The licensing branch will be conducting the six month examinations.

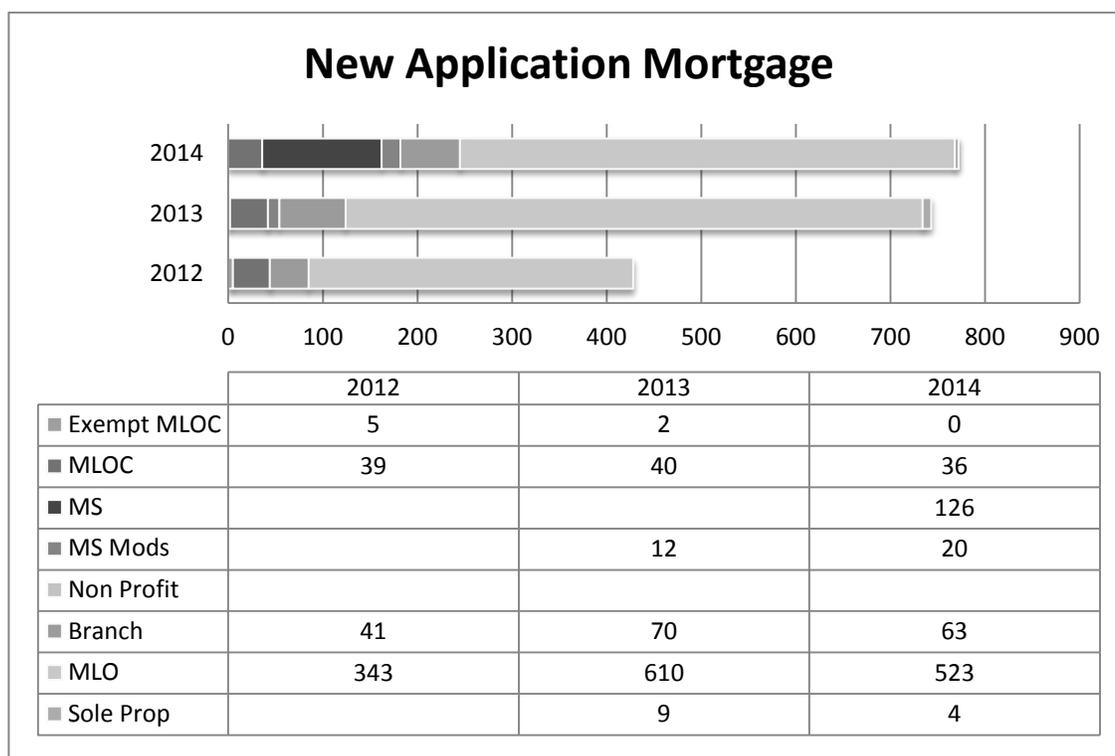
New Applications

With existing staffing level unchanged since 2010, the charts below show the number of new applications received for each industry, except the MLO/MLOC applications⁷. These applications were processed by the licensing staff. The processing of new applications includes a review of the financial condition and financial projection, expertise of the management or directors, and potential impact on consumers protection factors.



Applications processed by the MLO Program staff; note, the license type MS Modifications began in 2013 and until July 2013, all sole proprietor statistics were included in MLO (individuals). The mortgage servicer industry was added in 2013:

⁷ This program has a dedicated staff of four employees.



CRF Financial Summary

The CRF financial summary relating to DFI for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$2,263,582	\$323,446	\$2,587,028	\$4,346,585

CONCLUSION

During FY2014, while DFI maintained its established regulatory, supervisory, and licensing programs, and devoted considerable resources to developing and implementing the new MS and MLO programs, it was challenged by funding and staffing problems.

The impact of the current “global financial crisis”, with its attendant disruption to the normal pattern of financial services product delivery, has affected both our local economy and all financial institutions operating in the State. Increased supervisory oversight is mandated by new federal laws and expected by consumers. The increased supervisory oversight brings increased costs and expenses for DFI to validate compliance with the new federal laws. In addition, DFI must keep abreast of the emerging issues and technological advances in order to not fall behind the industry’s advances and to protect consumers.

DFI continues to aggressively respond to the rapidly changing global and local economic conditions, and pursues active regulation and supervision of Hawaii-chartered financial institutions to preserve their safety and soundness, and protect the rights of depositors, borrowers, consumers and other members of the community.

INSURANCE DIVISION (ID)

website: www.cca.hawaii.gov/ins

e-mail address: insurance@dcca.hawaii.gov

OVERVIEW

The Insurance Division's (ID) goal and mission is to ensure that commercial and individual consumers are provided with insurance services meeting acceptable standards of quality, equity, and dependability at fair rates by establishing and enforcing appropriate service standards and fairly administering the Insurance Code.

The primary goals are for all insurance licensees to comply with the letter and spirit of the law through appropriate oversight and to maintain insurers' solvency by monitoring their financial condition.

The following were the number of active insurance licensees at the end of the last two fiscal years.

<u>Type of License</u>	<u>Licenses as of June 30, 2014</u>	<u>Licenses as of June 30, 2013</u>
Adjuster	1,814	1,642
Captives	188	176
Certificate of Authority (Insurer)	1,020	1,002
Foreign Risk Retention Groups (Registered)	57	60
Fraternal Benefit Society	7	7
HMO (Health Maintenance Organizations)	3	3
Independent Bill Reviewer	31	26
Life Settlement Broker	15	15
Life Settlement Provider	14	16
Limited Lines Motor Vehicle Rental Company Producer	25	26
Limited Lines Portable	14	14
Limited Lines Producers	1,056	1,000
Managing General Agent	33	37
Mutual Benefit Society	6	6
Nonresident Producers	39,160	36,112
Producers	6,908	7,010
Purchasing Group (Registered)	262	244
Reinsurance Intermediary Broker	25	25
Service Contract Provider Registration	135	135
Surplus Lines Broker	1,473	1,473
Vehicle Protection Product Warrantor Registration	24	24
TOTAL:	52,270	49,056

ID administers chapters 431, 431K, 431L, 431M, 431P, 432, 432C, 432D, 432E, 435C, 435E, 448D, 481R, 481X, and 488, Hawaii Revised Statutes (HRS), relating to licensing, supervision, and regulation of all insurance transacted in the state by all insurance entities.

ID is located at 335 Merchant Street, Room 213, Honolulu, Hawaii 96813. The public can call ID at (808) 586-2790, and send e-mail to insurance@dcca.hawaii.gov.

Composition

The Insurance Commissioner heads ID and is assisted by the Chief Deputy Insurance Commissioner and the Branch Chiefs. The branches of ID are:

Captive Insurance Branch. The Captive Insurance Branch (CIB) is currently led by the Deputy Commissioner and Captive Insurance Administrator and includes a secretary and thirteen captive insurance examiners. The CIB reports directly to the Insurance Commissioner and is responsible for all aspects of licensing, regulating, and developing the captive insurance industry for the State of Hawaii. The size and scope of Hawaii's captive insurance industry surpasses the size and scope of Hawaii's domestic insurance companies.

The captive program cost is not funded from the CRF. Pursuant to Act 1, Session Laws of Hawaii (SLH) 2005, funds expended for ID's captive insurance program are defrayed from the Captive Insurance Administrative Fund.

Compliance and Enforcement Branch. When a complaint is filed with ID, the Compliance and Enforcement Branch (C&E) conducts an investigation to assure compliance with the applicable statutes and rules. Appropriate disciplinary actions are taken by C&E when necessary. In addition, C&E is responsible for processing administrative hearing requests, qualifying applicants to the Hawaii Joint Underwriting Plan Assigned Claims program, qualifying no-fault challenges on medical care and treatments to peer review organizations, and coordinating and qualifying Applications for Written Consent received by the Commissioner pursuant to 18 U.S.C. § 1033 and HRS § 431:2-201.3. C&E is comprised of a chief investigator and three investigators.

Financial Surveillance and Examination Branch. The Financial Surveillance and Examination Branch (FS&E) is comprised of a manager, ten examiners and an office assistant.

FS&E conducts a continuous program of financial analyses and examinations of Hawaii-domiciled insurance companies, agencies, and mutual benefit societies, to determine financial condition, solvency, and compliance with applicable laws and administrative rules in an effort to safeguard consumer interests and maintain integrity in the industry. FS&E's functions also include licensing more than 1,000 domestic, foreign, and alien insurers; processing and collecting of more than \$135 million in Premium and Surplus Lines taxes from General Fund and Workers' Compensation levies on behalf of the Department of Labor & Industrial Relations; processing and administration of Qualified High Technology Business Investment Tax Credits claimed against the Insurance Premium taxes; authorizing and monitoring of accredited and trusted reinsurers; registering of purchasing groups and foreign risk retention groups; regulating self-insurance; administering of security deposits; and monitoring of market share and competitive standards of mergers and acquisitions.

ID is subject to review by the National Association of Insurance Commissioners' (NAIC) Financial Regulation Standards and Accreditation Program, which requires state insurance departments to regulate domestic insurers' corporate and financial affairs. FS&E recommends the adoption of legislation and administrative rules to ensure that ID has adequate statutory and administrative authority and the necessary resources to carry out that authority.

Health Insurance Branch. The Health Insurance Branch (HIB) is responsible for regulating health insurers, including health maintenance organizations and mutual benefit societies. HIB's primary responsibilities are to: receive inquiries and complaints pertaining to health insurance, including long-term care insurance; receive requests from consumers for external reviews of a health plan's coverage decisions under HRS Chapter 432E and administer the external review process; review premium rate filings and forms to ensure readability and the disclosure of required information; and conduct financial surveillance of health insurers. HIB also reviews advertising materials of long term care insurers. HIB is headed by the Program Administrator and has fourteen other authorized positions.

Insurance Fraud Investigations Branch. The Insurance Fraud Investigations Branch (IFIB) conducts a statewide program for the prevention, investigation, and prosecution of insurance fraud cases and complaints relating to insurance fraud. Effective July 1, 2009, IFIB's jurisdiction expanded to all lines of insurance, except workers' compensation, pursuant to Act 149, SLH 2009. IFIB reviews referrals submitted by the insurance industry, other agencies, and members of the public and initiates an investigation in all cases where there is reason to believe that a crime may have been or is currently being committed. State law requires any insurer or insurer's employee or agent who believes that a fraudulent claim is being made to refer the case to IFIB within 60 days.

IFIB consists of an administrator, a staff attorney, five investigators, two forensic investigators, and a legal clerk. The administrator and staff attorney are both trained in criminal prosecution and as a result, all cases receive prompt attention and representation in the criminal justice system.

Legal Branch. The Legal Branch advises the Commissioner, the Chief Deputy, the Branch Chiefs, and ID on all legal matters and serves as the interface between ID and the Department of the Attorney General. The Legal Branch function includes serving as hearings officers for administrative hearings as assigned by the Commissioner; researching insurance issues, providing interpretations of laws and rules, and reviewing and analyzing administrative decisions and rulings; preparing legislative bills, legislative testimonies, and administrative rules; responding to requests for formal and informal legal opinions; assisting the branches in enforcing compliance provisions within Title 24, HRS; and providing assistance to FS&E, HIB, and CIB in regards to supervision, rehabilitation, and liquidation proceedings. The Legal Branch is comprised of a supervising attorney, three staff attorneys, and a legal assistant.

Licensing Branch. The Licensing Branch (LB) oversees the examination process, continuing education and issues licenses to qualified applicants for various insurance licensees. The major license types are producer, nonresident producer, and adjuster licenses. LB maintains records of these licensees and is also responsible for continuing education deficiency notices, license renewal notifications, processing of remittance checks, processing amendments, preparing and updating fee schedule, assisting callers and walk-ins, and confirmation and cancellation of these insurance licenses. LB also works with the Commissioner's advisory board on continuing education requirements for producers. LB is comprised of a licensing assistant, six licensing clerks, and an office assistant.

Office Services Branch. The Office Services Branch (OS) provides general reception; answers and screens telephone calls; and provides clerical, stenographic, typing, duplicating and other administrative services for ID. OS also maintains ID's central administrative files, including ID's memorandum, newspaper articles, documents, reports, etc.; orders office supplies and equipment for ID, and maintains its inventory; and handles the receiving and distribution of ID's general mail. OS is comprised of a clerical supervisor, a clerk-typist, and five office assistants.

Rate and Policy Analysis Branch. The Rate and Policy Analysis Branch (RPA) provides systems and procedures for the conduct and analyses of rate and policy filings of domestic, foreign and alien insurance companies for compliance with State insurance laws. RPA analyzes and approves or disapproves rate filings for casualty, property, motor vehicle, inland marine, surety, credit life and disability, and Medicare supplement insurance. RPA also reviews policy form filings for workers' compensation, motor vehicle, credit life and disability, long-term care, Medicare supplement, temporary disability, and title insurance. RPA is comprised of a manager and nine rate and policy analysts.

GOALS, OBJECTIVES, and POLICIES

ID's goal is to ensure that consumers are provided with insurance services meeting acceptable standards of quality, equity, and dependability at fair rates by establishing, implementing, and enforcing appropriate service standards and fairly administering the Insurance Code and other applicable laws.

Short and Long Term Goals of the Division: (1) Meet its statutorily mandated requirements for compliance with the PPACA of 2010; (2) Work with other stakeholders to formulate the PPACA State innovation waiver; (3) Develop a marketing strategy that will maintain Hawai'i's world ranking as a leading captive insurance domicile; (4) Continue to meet its statutorily mandated requirements; (5) Continue to increase the efficiency of ID's operations; and (6) Redevelop and redesign ID's database.

Objectives and Policies Setting Forth How Goals Can and Will be Accomplished.

1. President Obama signed the PPACA into law in 2010. The Division was the recipient of several grants from DHHS beginning in 2010 in relation to the start-up of a health insurance exchange in Hawai'i and participated in the formation of the Hawai'i Health Connector. ID is devoting resources and is assisting the Connector to ensure that the Connector is sustainable or, in the alternative, planning for contingencies.

2. ID was a recipient of a \$3 million grant from DHHS to examine healthcare cost drivers and their relationship to healthcare systems' operations and performance. In coordination with other stakeholders' work in addressing this issue, ID will focus on increasing the availability of data on costs and utilization and factors impacting cost shifting. This information will provide significant value in understanding macro trends that might not otherwise be readily apparent through normal data gathering methods.

3. Hawai'i has long been an attractive domicile for the captive insurance industry because of its rigorous standards and geographical location. Recently, other regions have aggressively entered into this area and have had great success in having captive insurers establish companies in their own locations. Hawai'i must review its existing marketing strategy and amend existing components to reflect the changes ongoing in the industry to maintain its standing as a captive insurer domicile world leader.

4. To increase efficiency of operations, ID is continuously improving its computerization and the use of the Internet in its regulation of the business of insurance. This includes the review of current operating systems and the exploration of adopting and using national regulatory systems to increase efficiency. ID developed a database named the Hawai'i Insurance Division System (HIDS), which is an integrated system with the licensing module at its core, and subsystems to support other ID functions. HIDS provides better management of the large volume of transactions handled by ID. It has greatly

reduced the manual processes and has allowed for the dissemination of information to the public through the Internet. The examination application allows for the electronic submission and collection of premium tax returns and payments which is quicker and more efficient than the method of accepting hard copy submissions. By continuing to modify HIDS and the continued interfaces with NAIC and the Hawaii Information Consortium (it provides the Internet portal for the State of Hawaii’s web site), databases can keep up with the rapid technical changes in the insurance regulatory arena. These interfaces will continue to improve ID’s efficiency and provide better services and information via the web to consumers and insurance licensees.

5. Accreditation of state insurance regulators is administered by NAIC and requires state insurance departments/divisions to have and maintain adequate statutory and administrative authority as well as sufficient resources to effectively regulate the financial solvency of insurance companies. In order to maintain its accreditation, ID will ensure the required level of funding in the budget for its financial surveillance resources. Also, ID will review and submit to the Legislature, when necessary, proposed legislation for the adoption of NAIC model laws required for accreditation.

6. ID will strive to meet the mandated statutory requirements for the Insurance Code and related statutes through proper personnel and case load management.

ACCOMPLISHMENTS

Compliance and Enforcement Branch (C&E). C&E assists consumers and carriers with a variety of complaints. Consumers and carriers saved or recovered \$572,039 through the complaint process, investigations conducted by the branch, and formal actions recommended by C&E in 2013. Five-hundred and fifty-five (555) complaints were received during the year.

There were 15 formal actions involving C&E. Of this amount, eight (8) were certificate of authority revocations, one (1) was a reprimand, three (3) were license revocations, two (2) were fines only, and one (1) was a cease and desist. A total of \$28,000 was levied in fines.

Financial Surveillance and Examination Branch (FS&E). Accredited insurance departments undergo a comprehensive review every five years by an independent review team, as well as interim annual reviews, to ensure they continue to meet NAIC standards. ID was first accredited by the NAIC in 1996 and re-accredited by the NAIC’s Financial Regulation Standards and Accreditation Committee for the full five year accreditation term in every review since, most recently in 2011. In August 2014, ID successfully completed the NAIC's interim annual review.

The following is a summary of activities administered by the FS&E during the last two calendar years (dollar amounts are rounded to the nearest thousand):

	<u>2013</u>	<u>2012</u>
Number of Active Licensees	1,075	1,075
Direct Premiums Written in Hawaii*	\$10,125,212,000	\$9,679,312,000
Surplus Lines Premiums Written in Hawaii	\$ 204,997,000	\$ 184,566,000
Foreign Risk Retention Group Premiums Written in Hawaii	\$ 6,274,000	\$ 6,394,000
Premium Tax Returns Processed	10,000+	9,000+

Insurance Division (ID)

Premium Taxes & Levies Collected**	\$ 144,544,000	\$ 135,544,000
Total Hawaii Investments***	\$7,439,269,000	\$6,891,218,000

- * Includes annuities, mutual benefit societies ("MBS"), health maintenance organizations ("HMO") and Dental Insurers ("DI") which are not subject to premium taxes. Annuities, MBS, HMO and DI premiums for 2013 and 2012 were \$5,796,291,000 and \$5,608,285,000, respectively.
- ** Net of premium tax credits.
- *** Includes bank balances as reported by insurers, unaudited.

Health Insurance Branch (HIB). For fiscal year 2013-2014, there was a 57% increase in the total number of complaints, with the resolution of complaints resulting in consumer savings of over \$19,000. Also during the fiscal year, HIB reviewed 75 rate and policy filings, resulting in a total savings to consumers of \$22,866,694. This represents an increase in total savings over the prior year of 81%.

HIB also conducts independent external reviews of managed care plan coverage decisions that are appealed by the plan member pursuant to HRS chapter 432E. For fiscal year 2013-2014, although approximately the same number of requests was received from the prior year, the savings to consumers went up by 40%, for a total of \$48,200.

HIB is also the federal grantee under a grant from the Department of Health and Human Services (HHS) for improving its health insurance premium rate review program, and the implementation of those improvements is underway. HIB has significantly improved the policies and procedures governing the oversight of rates in the small group and individual markets, and is collecting more data than ever before to enable a careful review of rate requests.

HIB also qualifies health plans for listing on the Hawaii Health Connector. This process has been fully implemented and the necessary review has proceeded effectively.

HIB has also worked closely with the Hawaii Department of Labor and Industrial Relations to ensure that implementation of the federal Patient Protection and Affordable Care Act (PPACA) can be done in a way that preserves Hawaii's Prepaid Health Care Act for the benefit of consumers.

Insurance Fraud Investigations Branch (IFIB). During fiscal year 2013-2014, IFIB received 369 referrals from insurance companies, various agencies, and the public. Of the referrals accepted for prosecution, criminal indictments were obtained against 47 individuals with a fraud amount totaling \$98,000 for the fiscal year. IFIB obtained restitution orders totaling \$27,000 for the cases that reached final disposition. In addition, IFIB obtained fines payable to the State of Hawaii totaling \$16,000, payments in the amount of \$4,050 to the Crime Victim Compensation Fund, probation service fees in the amount of \$2,850, and other miscellaneous fees in the amount of \$350.

Rate and Policy Analysis Branch (RPA). During fiscal year 2013-2014, filings reviewed increased by 4.4% from the preceding year (fiscal year 2012-2013). Review of Long-Term Care rate filings saved consumers over \$1.2 million. Review of Property and Casualty rate filings saved consumers over \$650,000.

CRF Financial Summary

The CRF financial summary relating to ID for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$5,416,656	\$2,557,990	\$7,974,646	\$8,613,693

CONCLUSION

ID has met and continues to meet its mission and goals to maintain a secure and competitive insurance market place for consumers.

OFFICE OF ADMINISTRATIVE HEARINGS (OAH)

website: www.cca.hawaii.gov/oah

e-mail address: oah@dcca.hawaii.gov

OVERVIEW

The Office of Administrative Hearings (OAH) is a support office under the Director's Office and is responsible for conducting administrative hearings and issuing recommended decisions for all divisions within the Department of Commerce and Consumer Affairs (DCCA) that are required by law to provide contested case hearings under the provisions of Hawaii Revised Statutes (HRS) Chapter 91. The primary Compliance Resolution Fund (CRF) caseload of OAH is composed of cases originating from: 1) the Regulated Industries Complaints Office (RICO) and boards, commissions, and programs attached to the Professional and Vocational Licensing Division (PVL) on licensee disciplinary action and declaratory relief petitions; 2) citations issued to persons or businesses engaged in unlicensed activities; 3) trade name/trademark revocation and securities cases from the Business Registration Division (BREG); 4) denials of no-fault and personal injury protection benefits; and 5) other matters from other divisions.

OAH also is responsible for conducting administrative hearings for 1) procurement cases from all agencies and divisions of the State and the four counties that arise under the State's Procurement Code, HRS Chapter 103D; 2) due process hearings involving the Individuals with Disabilities Education Act (IDEA) under a Memorandum of Agreement with the Department of Education; 3) certain kinds of motor vehicle dealer, distributor and manufacturer disputes under HRS Chapter 437 Part 2; 4) appeals of benefit determinations from the Employer-Union Health Benefits Trust Fund under a Memorandum of Understanding; and 5) appeals of benefits determinations from the Employees' Retirement System of the State of Hawaii under a Memorandum of Understanding. Lastly, OAH also provides administrative support to the Medical Inquiry and Conciliation Panel (MICP) and the Design Claims Conciliation Panel (DCCP). The MICP program is responsible for conducting informal conciliation hearings on inquiries regarding health care providers before any claims against those providers can be filed as lawsuits. Similarly, the DCCP program is responsible for conducting informal conciliation hearings on claims against design professionals (engineers, architects, surveyors, and landscape architects) before such claims can be filed as lawsuits. The MICP does not make any decisions on the merits of the parties' positions. The decision of the DCCP panels are advisory in nature and are not binding on the parties, in the event that any party still wishes to pursue the matter via the courts. An annual report is separately produced regarding MICP and DCCP activities.

Composition

OAH staff responsible for CRF related activities are: Senior Hearings Officer, division secretary, four additional hearings officers, two legal clerks, and an MICP/DCCP clerk. The office is physically located in the King Kalakaua Building, 335 Merchant Street, Suite 100. OAH's mailing address is: Office of Administrative Hearings, 335 Merchant Street, Suite 100, Honolulu, Hawai'i 96813; phone number: 586-2828; fax number: 586-3097; internet address: www.cca.hawaii.gov/oah/; and e-mail address: oah@dcca.hawaii.gov.

GOALS and OBJECTIVES

The primary goal and objective of OAH has always been to conduct contested case hearings and issue recommended decisions, in a fair and impartial manner, as expeditiously as possible.

In order to track the processing of cases from the date of filing to the issuance of a final order, OAH has implemented additional processes and procedures to ensure that all cases are timely processed:

1. Revise OAH’s data base to include additional data fields so that all pending cases can be tracked for timeliness throughout the entire hearings process;
2. Inventory of all OAH cases in February and August of each year; and
3. Dispose of cases in which no action has been taken by the parties.

The secondary goal and objective of OAH is to make all of the decisions issued by the Boards, Commissions, Programs, and Divisions that are part of the CRF, available to the public. All procurement protest decisions are currently available online shortly after the parties themselves are notified of the decisions. All special education decisions are made available online by the Department of Education. All decisions in other areas since January 2009 have been posted online. The purchase of new software has allowed OAH to redact decisions of personal information protected by privacy laws and also make the online decisions ADA compliant. OAH now publishes all such decisions shortly after they are issued.

ACCOMPLISHMENTS

The following table summarizes the CRF-related activities conducted by OAH for the 2013-2014 fiscal years:

Type of Proceeding Conducted	Number
Pre-hearing conferences	103
Status conferences	57
Motions	25
Hearings	84

The following table summarizes the number of cases and the relative percentage of CRF-related activities conducted by OAH for the 2013-2014 fiscal years.

DCCA Divisions Referring Matters to OAH	Cases Filed	%
Insurance Division (denial of personal injury protection benefits)	205	62%
Regulated Industries Complaints Office (petitions for discipline and appeals from citations for unlicensed activities)	47	14%
Business Registration Division (trade name revocation proceedings, corporate name abatement proceedings, violations of securities laws)	13	4%
Professional and Vocational Licensing (license denials)	16	5%

Employees' Retirement System	30	9%
Procurement Protests	14	4%
Other CRF-related hearings	6	2%

Additional statistical data pertaining to CRF-related activities conducted by OAH can be found in the statistical tables presented by RICO.

CONCLUSION

OAH will continue to work closely with all of the Boards, Commissions, and Programs that are part of the CRF, as well as with the other DCCA divisions that are also integral parts of the professional and vocational licensing system, to ensure that cases are processed as expeditiously as possible, and that all participating entities will have access to OAH's case data base and archives of past decisions.

OFFICE OF CONSUMER PROTECTION (OCP)

Website: www.cca.hawaii.gov/ocp

E-mail address: ocp@dcca.hawaii.gov

OVERVIEW

The Office of Consumer Protection (“OCP”) acts on behalf of the Director of the Department of Commerce and Consumer Affairs, who serves as the consumer counsel for the State of Hawaii under Chapter 487 of the Hawaii Revised Statutes (“HRS”). OCP reviews, investigates and conducts enforcement actions against unfair or deceptive trade practices in consumer transactions. OCP also provides consumer education and promotes awareness of important consumer protection issues through its programs, media releases, and educational materials.

OCP’s enforcement jurisdiction encompasses a wide range of businesses and commercial activities, including, but not limited to: advertising violations, door-to-door sales, gift certificates, offers of gifts and prizes, going out of business sales, refunds and exchanges, collection practices, credit sales, health clubs, towing, fine prints and motor vehicle rentals. More recently OCP has investigated and initiated enforcement actions in numerous consumer fraud cases stemming from mortgage foreclosure rescue scams under HRS Chap. 480E. *See* Table 1, Laws Enforced by OCP.

OCP received over 800 consumer complaints in FY 2014. The actual number of OCP complaints varies from year to year depending on circumstances. Many factors may influence the number of complaints to OCP in any given year. However, for the period beginning FY 2012 through FY 2014, OCP averaged over 1,100 consumer complaints per year.

In addition to its enforcement duties, OCP offers information on the Hawaii Residential-Landlord Tenant Code to the general public through the Landlord-Tenant Hotline under HRS § 521-77.

OCP employs a number of different strategies to ensure that its mission is achieved in a meaningful and cost-effective manner. First, the staff prioritizes cases according to the seriousness of the violation. To help achieve this goal, investigations of actions that present significant consumer harm are “fast-tracked” for immediate legal intervention. Second, in an effort to proactively address perceived consumer problems, the office initiates investigations of problematic commercial practices. Third, OCP staff attempts to provide as much assistance by telephone as possible, enabling consumers to resolve their concern(s) without government intervention. Fourth, emphasis is placed on consumer and business education through public service announcements, Consumer Dial messages, social media, public informational forums, speaking engagements, media releases, and the dissemination of brochures. Finally, OCP partners with numerous public and private agencies to promote consumer protection throughout the State of Hawaii. OCP will continue to implement these strategies for the foreseeable future during the next five years.

OCP’s main office is located at the Leiopapa A Kamehameha Building (State Office Tower), 235 South Beretania Street, Suite 801, Honolulu, Hawaii 96813. It shares offices with the Regulated Industries Complaints Office in Wailuku, Maui at 1063 Lower Main Street, Suite C-216 and in Hilo, Hawaii at the Bank of Hawaii Building, 120 Pauahi Street, Suite 212. OCP’s website address is

www.cca.hawaii.gov/ocp. Its functions are divided into four basic sections: intake, investigation, landlord-tenant, and legal.

Composition

OCP is organized under the Following Four Sections:

The Consumer Resource Center Intake Section - phone: (808) 587-4272

The Consumer Resource Center (“CRC”) performs intake of complaints for OCP. CRC is staffed by intake investigators at the Regulated Industries Complaints Office who answer consumers’ questions, distribute OCP complaint forms to consumers, receive written consumer complaints, and forward cases to OCP for review, closing or further investigation. In addition, a section within CRC answers telephonic requests for prior complaint history. If circumstances permit, consumers also have the opportunity to visit OCP’s Honolulu office to view the actual case files. Prior to the release of any file, OCP’s staff reviews its contents to ensure that legally protected private information is not disclosed.

The Investigation Section - phone: (808) 586-2630

OCP’s investigation section receives cases from CRC and gathers evidence to determine whether violations of consumer laws have occurred. Investigators’ tasks include site inspections, witness interviews, document collection, evidentiary analysis, report writing and the service of subpoenas. *See* Table 3, Numerical Breakdown of Dispositions of All OCP Cases and Table 4, OCP Top Ten Complaints.

The Landlord-Tenant Section - phone: (808) 586-2634; Consumer Dial: (808) 587-1234; website www.cca.hawaii.gov/ocp

OCP operates the Residential Landlord-Tenant Hotline (“Hotline”). The Hotline is staffed by OCP investigators and volunteers Monday through Friday each week. The Hotline does not represent landlords or tenants in court or provide legal advice; its role is limited to providing information regarding the particular laws governing landlords and tenants. The office supplements this function by making available additional information on the department’s 24-hour Consumer Dial Information Service, and on its website. OCP also publishes the Hawaii Residential Landlord-Tenant Handbook, of which thousands are distributed each year.

The Legal Section - phone: (808) 586-2636

The Legal Section consists of staff attorneys who undertake civil enforcement actions against consumer law violators. The staff attorneys also engage in informal and formal resolution of cases prior to filing lawsuits.

OCP also provides the Following Services:

Consumer Education

In an effort to enhance consumer awareness of various consumer problems, OCP continuously strives to promote consumer education. The office issues press releases on a variety of consumer topics, and distributes written materials tailored to provide specific consumer information. OCP also provides consumer information through its website and its Consumer Dial Information Service, in which interested persons may call 24 hours a day and receive information on a variety of topics. OCP staff participates in numerous educational forums in which thousands of consumers and business persons have received extensive information about consumer protection in Hawaii.

Neighbor Island Assistance Requests

OCP staff offers assistance to neighbor islands residents in DCCA-related matters or other areas. See Table 5 for statistics on OCP Neighbor Island Assistance.

GOALS AND OBJECTIVES

During the next five years, OCP expects to fulfill its statutory mandate by fostering a fair and safe marketplace for consumers and businesses alike. It will continue to investigate allegations relating to unfair or deceptive trade practices, enforce Hawaii's consumer laws, and educate consumers and businesses on their respective rights and responsibilities. The specific goals and objectives will include:

- Maintaining fiscal responsibility on behalf of DCCA/OCP operations;
- Supporting innovative legislation designed to protect the consumers in the State of Hawaii;
- Proactively initiating cases against problematic business practices before there is widespread consumer harm;
- Disseminating consumer education to the largest possible populace;
- Facilitating the exchange of information with a wide array of civil and criminal law enforcement agencies; and
- Providing in-house training to OCP investigators and attorneys.

ACCOMPLISHMENTS

Consumer Education

During the past several years, OCP has educated tens of thousands of citizens by speaking to business leaders, attorneys and consumers regarding consumer protection issues and OCP's role in enforcing Hawaii's consumer protection laws.

Most recently, OCP has focused on the growing problems of identity theft, data breaches, and mortgage rescue fraud by providing important information to thousands of Hawaii residents on what they can do to avoid becoming victim of identity theft or mortgage rescue schemes.

In FY 2014, OCP responded to over 172,000 requests and inquiries from the general public, including more than 11,000 requests for information through the Hawaii Residential Landlord-Tenant Hotline operated and maintained by OCP and 137,000 page views on its website. In addition OCP received inquiries through its website as well as direct requests for information on complaints, prior complaint histories and requests for records review. See Table 2, statistics on OCP Information Requests.

Legislation

OCP testified and provided input on numerous measures related to consumer protection during the Twenty-Seventh Hawaii State Legislature of 2014, including bills relating to association foreclosures, the scanning of the machine readable portions of state identification cards and driver's licenses by merchants and other establishments, mortgage rescue fraud, and amendments to the Hawaii Residential Landlord-Tenant Code regarding the use of medical marijuana.

Cases

OCP's staff handled many significant cases in FY 2014 involving nearly every area of consumer protection. These cases involved violations of Hawaii's consumer protection laws governing mortgage rescue fraud, gift certificates, door-to-door sales, refund and exchanges, and unfair or deceptive trade practices, including complex multistate enforcement actions based on unfair and deceptive marketing practices by pharmaceutical companies.

As a result of its efforts, OCP recovered over \$65,000 in fines and penalties and tens of thousands of dollars in restitution for Hawaii consumers.

CRF Financial Summary

The CRF financial summary relating to OCP for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$1,374,395	\$154,465	\$1,528,860	\$95,773

CONCLUSION

OCP continues to receive numerous requests for assistance. Consumer complaints are diverse in nature and range from isolated cases to widespread practices affecting every Hawaii citizen. Through regular training and information exchange with law enforcement agencies and consumer protection agencies throughout the country, OCP's staff attempts to keep abreast of the latest consumer problems and "rip-offs," in order to prevent them from occurring and, if this is not possible then to limit their impact. Through its proactive efforts to prevent wide-scale consumer problems before they occur, and through its enforcement actions and consumer and business education, OCP strives to provide consumer protection for Hawaii consumers, and fulfill its mission.

Table 1: Laws Enforced by OCP

HRS §209-9	Price Gouging
HRS §290-11	Towing
HRS §437	Motor Vehicle Sales – Spot Delivery
HRS Chapter 437D	Motor Vehicle Rental
HRS Chapter 446	Debt Adjusting
HRS Chapter 446E	Unaccredited Degree Granting Institutions
HRS Chapter 457G	Occupational Therapists
HRS Chapter 476	Credit Sales ¹
HRS Chapter 477E	Fair Credit Extension
HRS §480-2	Unfair and Deceptive Acts or Practices ²
HRS Chapter 480D	Collection Practices ³
HRS Chapter 480E	Mortgage Rescue Fraud Prevention Act
HRS Chapter 480F	Check Cashing
HRS Chapter 481A	Uniform Deceptive Trade Practice Act
HRS Chapter 481B	Unfair and Deceptive Practices, including Unsolicited Goods; Commercial Mail Order Buying Clubs; Offers of Gifts or Prizes; Aid to Handicapped; Refunds and Exchanges; Solar Energy Devices; Sales of Computers; Sensitivity Awareness Group Seminar; Credit Repair Organizations; Gift Certificates; Ticket Sales
HRS Chapter 481C	Door-to-door Sales
HRS Chapter 481D	Going Out of Business Sales
HRS Chapter 481F	Sale of Fine Prints
HRS Chapter 481H	Water Treatment Units
HRS Chapter 481K	Assistive Technology Warranty Act
HRS Chapter 481L	Motor Vehicle Lease Transactions
HRS Chapter 481M	Rent-to-Own
HRS Chapter 481P	Telemarketing Fraud Prevention Act
HRS Chapter 481 X	Service Contracts
HRS Chapter 486N	Health Clubs
HRS §487-5	Laws Enacted and Rules Adopted for the purpose of consumer protection ⁴
HRS Chapter 487A	Plain Language Law
HRS 487J	Personal Information Protection
HRS 487N	Notification of Security Breaches
HRS 487R	Destruction of Personal Information Records
HRS Chapter 506	Reverse Mortgage Loan
HRS Chapter 521	Landlord Tenant Code ⁵

¹ HRS §476-31. OCP has also filed cases based upon the Federal Truth in Lending Act and the State’s usury statute, HRS Chapter 478.

² OCP also has enforcement power over certain Lemon Law agreements (HRS §481I-4), and has filed lawsuits based upon HRS §486-119, “Made in Hawai‘i” law. Also HRS Chapter 514E sets forth a comprehensive regulatory scheme for time-share development, sales and maintenance. However, there is a section which makes thirteen specific types of conduct *per se* violations of HRS §480-2. Under HRS §490:2A-104, UCC leases are explicitly subject to state consumer protection statutes and case law.

³ See also, Collection Agencies HRS §443B-20.

⁴ E.g. Motor vehicle advertising, HRS §437-4.

⁵ HRS §521-74.5 provides that a landlord who recovers possession of a dwelling unit by willful interruption of utilities or other essential services violates HRS §480-2. In addition, HRS §521-77 provides that OCP may receive, investigate and attempt to resolve any dispute arising under HRS Chapter 521.

Table 2: OCP Information Requests

REQUEST AND INQUIRIES	FY 11-12	FY 12-13	FY 13-14
Requests for Prior Complaint History	6,318	8,596	9,012
Website inquiry General Information	80,633	78,805	97,291
Website inquiry Landlord/Tenant Information	91,139	23,735	40,674
Requests for Landlord/Tenant Information	7,211	10,533	11,521
Complaint Inquiries	16,558	17,709	14,545
Requests for Records Review	10	37	3
TOTAL	201,869	139,415	173,046

Table 3: Numerical Breakdown of Dispositions of All OCP Cases

DISPOSITIONS	FY 11-12	FY 12-13	FY 13-14
Complaint Withdrawn	13	8	1
Legal Action & Referrals to Legal	174	73	112
Advisory Contact	30	16	11
Civil Dispute/Personal Matter	66	56	34
Monetary Threshold	0	2	0
Complainant Uncooperative	34	27	17
Consumer Complaint Resolved	40	30	17
Respondent Died or Bankrupt	91	30	108
Business vs. Business	37	23	12
No Jurisdiction	13	23	18
Refer to Investigation	81	63	111
Other	2	3	1
Warning Letter	35	18	24
Insufficient Evidence	365	252	172
Transferred to Other Gov't. Agency	858	618	214
No Violation	9	15	26
Information Only/Inquiry	88	82	66
Total	1,936	1,339	944

Table 4: OCP Top Ten Complaints

SUBJECT	FY 11-12	FY 12-13	FY 13-14
Internet Crime Complaints (NWC3)	#1. 639	#1. 352	
Internet Transactions	#2. 436	#2. 195	
Exercise/Health Club			#1. 84
Scams	#3. 83	#3. 117	#3. 41
Refund law/Exchange merchandise/Credit	#4. 44	#5. 38	
Vehicle (incl mopeds) New & Used	#5. 37		
Real Estate	#6. 37	#4. 47	
Loans/Mortgage Related Services	#7. 36	#9. 27	#2. 59
Towing	#8. 33	#6. 36	
Telephone/Cellular/Pager	#9. 30	#7. 33	#8. 19
Credit Card	#10. 29		
Miscellaneous Internet Advertisement		#8. 31	#9. 16
Travel/Vacation		#10. 24	#7. 28
Elderly Issues			#4. 37
Identity Theft/Security Brief			#5. 29
Car & Truck			#6. 29
Gift Certificate			#10. 15

Table 5: OCP Neighbor Island Assistance FY 13-14

DIVISION	HILO	MAUI	TOTAL
Division of Financial Institutions	4	2	6
Business Registration	19	39	58
Cable Television	1	1	2
Insurance Division	6	1	7
Division of Consumer Advocacy	0	0	0
Professional & Vocational Licensing	2	20	22
Regulated Industries Complaints Office	90	105	195
Non-Departmental Related	73	120	193
Other DCCA Divisions	2	8	10
TOTAL	197	296	493

PROFESSIONAL AND VOCATIONAL LICENSING DIVISION (PVL)

website: hawaii.gov/dcca/pvl

e-mail address: pvl@dcca.hawaii.gov

OVERVIEW

The Professional and Vocational Licensing Division (PVL) is responsible for implementing the licensing regulations for forty-eight (48) different professions and vocations. Twenty-five (25) licensing regulatory boards and commissions are administratively attached to DCCA/PVL, as well as twenty-three (23) licensing programs (board duties and functions vested in the DCCA Director). The division provides staff support to the licensing regulatory boards, commissions, and programs, handles applications and licenses, reviews and processes renewals, and maintains license records. The division provides guidance for proper implementation of the licensing laws and administrative rules for the forty-eight (48) professions and vocations. Additionally, PVL responds to phone inquiries on whether a person or entity is properly licensed. This service assists consumers in making a decision on whether or not to utilize the services of the person or entity.

PVL's division and the Board and Program websites are very user friendly. PVL continues to explore ways to enhance public accessibility to licensing information, the licensing process, and its licensee roster. PVL's webpage, a site that provides general licensing information for all 48 licensing areas, features fillable license applications, publications, links to Hawaii Revised Statutes (HRS) and Hawaii Administrative Rules (HAR), as well as a means to request an application or contact the board or program staff via e-mail. The website address is <http://hawaii.gov/dcca/pvl>. The website also includes FAQs, a link to online services, a link to board meeting schedules and agendas, board meeting minutes, and a Geographical Report of current licensees by licensee type, by island, and by type of entity. The geographical report is updated regularly to reflect the number of current licensees who have been issued licenses by PVL. It is a useful tool for those who are interested in the number of licensees by their professions and their geographic locations.

PVL also maintains License Search and List Builder sites, both of which are fully interactive sites. The License Search site enables the public to obtain basic information about businesses and individuals that hold professional and vocational licenses issued by PVL including license ID number, whether the license is active or inactive, current status, original date of licensure, expiration date of licensure, current and former persons/businesses/tradenames, information on "conditional license" codes and descriptions, and any formal disciplinary action information against the licensee. The List Builder site also enables the public to access and order a licensee roster online. The roster may be sorted by license number, license name, and other identifying public information. Lists are available for download within twenty-four (24) hours of making the request. Updates to the online information to both sites occur within thirty (30) minutes of the update to the PVL licensing database. Feedback received on these sites indicate that the sites benefit a wide range of users, including consumers, licensees, employers, and government agencies, both in Hawaii and out-of-state. Links to other DCCA sites provide easy access to additional useful consumer information, such as a licensee's complaints history. The website address for PVL's Online Services is http://hawaii.gov/dcca/pvl/e_services.

This entirely paperless process enables licensees to complete, file, and pay for their license renewals electronically. A fair share of renewals are still mailed in by licensees and manually processed by PVL, but by far, the majority of the renewals are done online. Online renewals are available at http://hawaii.gov/dcca/pvl/e_services.

With regard to fiscal matters, PVL's goal is to maintain the division as a special-funded and entirely self-sufficient program. Through thoughtful budgeting of PVL revenues and expenditures, PVL endeavors to maintain self-sufficiency, while expanding and improving services to the public. Internally, PVL continues to evaluate and re-engineer its processes for efficiency and streamlining, and to develop alternative means of delivery of licensing information to the public.

PVL is located at 335 Merchant Street, on the third floor of the King Kalakaua Building, Honolulu, Hawaii 96813.

Composition

PVL is divided into four branches:

Licensing Branch (Phone 586-3000) is comprised of the Applications Section and the Records Section. The Applications Section 1) assists with the review and processing of applications for licensure; 2) issues licenses; and 3) maintains records of licensing applications. The Applications Section staff, on behalf of the boards, commissions, and programs, conducts highly intensive reviews of all initial licensing applications, determines the status of such applications, and, in some instances, makes the final determination to either issue or defer issuing licenses. The Applications Section also performs customer service duties by answering the main public call-in line of the division which normally exceeds 5,000 calls per month. The Records Section is responsible for renewing, restoring, and reactivating licenses and maintaining records of all licensees. The Records Section staff is also involved with performing customer service duties by assisting the public with licensing information at the main PVL walk-in counter. Both sections of the Licensing Branch utilize the PVL computerized licensing database to provide immediate information pertaining to applicants and licensees. Inquirers may obtain information on whether a person or entity is licensed, the original date of licensure, the current status of licensure, the expiration date of the license, Hawaii disciplinary sanctions imposed on the licensee, and, if applicable, whether mandatory insurance (e.g., workers compensation, liability insurance) is current and in effect.

Administration Branch (Phone 586-2690) is comprised of a Staff Attorney, Supervising Executive Officer, Executive Officers, Program Specialists, and Secretaries, which handles board affairs such as the coordinating, preparing, facilitating, and recording of board meetings; ensuring board compliance with applicable laws that guide and direct their conduct; and implementing board decisions on applications, policies and procedures, and disciplinary actions. The Administration Branch also responds to requests for interpretation of the licensing laws and rules, oversees licensing and examination activities, and guides and assists with regulatory compliance issues. The same activities are done for the twenty-three (23) programs (absent the necessity of board meetings) on behalf of the director of the department. There are also substantial coordination and facilitation activities performed

by the Administration Branch with other state, county, and federal agencies involved with licensing and regulatory issues.

Examination Branch (Phone 586-2711) assists in ensuring that the administrations of the required licensing examinations of the boards, commissions, and programs occur fairly, accurately and as efficiently as possible. The Examination Branch helps to confirm the validity and reliability of the numerous exams, including reviewing and revising board-constructed examinations with the input of board members and other subject matter experts when necessary. In addition, the Examination Branch researches and transmits eligibility information daily for applicants seeking licensure in Hawaii who have been approved to sit for an examination, and ensures that approved applicants are provided the necessary pre-examination information. Post-examination duties include daily processing of examination scores, results and transfers as well as generating summary lists and education reports. Moreover, the Examination Branch reviews and processes requests by applicants for special examination accommodations with regard to the Americans with Disabilities Act, and maintains the examination records for applicants and licensees.

Real Estate Branch (Phone 586-2643) performs the same functions as the Administration Branch but specifically for real estate licensing and regulation, and condominium property regimes. With a large volume of applicants, licensees, and registrations, the Branch (comprising a Supervising Executive Officer, an Executive Officer, Real Estate Specialists, Condominium Specialists, Secretarial and Office Assistant staff) administers the Real Estate Recovery Fund, Real Estate Education Trust Fund, and the Condominium Education Trust Fund. The Branch also administers education and research programs in the field of real estate and condominiums. Information on the programs, financial reports, and the Commission's annual report may be reviewed at the Branch's website: <http://hawaii.gov/hirec>.

In summary, all Branches within PVL work toward efficient and expedient processing of applications, licenses, and renewals to ensure the public has choices among competent and licensed practitioners.

In FY 14, 90.21% of licensees renewed their licenses online as compared to 88.4%, who renewed online in FY 12. Licensees have been encouraged to use the online renewal system, which is an ideal opportunity to help them save on valuable time and effort. Also in FY 14, PVL received and responded to 34,170 emails as compared to 31,886 emails received and responded to in FY 13. The increase is likely due to trending of licensees and consumers who now have accessibility to modern technological hardware and the capabilities of computer savviness. For a statistical summary of PVL key activities, see Table 1: PVL Statistical Overview and Table 2: Total Number of Current PVL Licensees.

GOALS and OBJECTIVES (Action Plan) for FY 2015

PVL will continue to look for ways to enhance and improve its online systems for initial online applications, late renewals, and restorations.

PVL will continue the scanning and imaging of licensee files so that new documents for a current licensee file are added as new licensee files are scanned, and will continue the reorganization of the hardcopy files.

Spearheaded by the Director's Office, PVL and the Regulated Industries Complaints Office (RICO) embarked on the Licensing Enforcement Administration Project (LEAP), on June 10, 2014. It is a work in progress focusing on the replacement of the Application and Licensing Integrated Automated System (ALIAS) and Complaint Management System (CMS), and looking for creative ways to enhance the efficiencies and productivities of the divisions, for the licensees, and the consuming public.

PVL will be migrating and replacing ALIAS to an enhanced database system. A Statement of Work was entered into in June 2013, encompassing Phase 1 of the project, which includes a new automated system. Phase 1 will focus on planning, analysis, data migration assessment/strategy, and design tasks. Build and deploy tasks may also be included in Phase 1 as determined during the project. The new database will be relied upon to process license applications, renewals, change transactions received via walk-in, mail, or over the web, and check on the status of applications. It will also be configured to issue licenses, wall certificates, pocket cards, and other required documentation.

The Licensing Branch will focus on improving public service through various changes on how staff processes its work and through increased use of technology. Both sections will continue to seek as many ways possible to incorporate further use of technology to process tasks more efficiently and to better communicate with customers. In addition, staff will be using electronic means to maintain documents until they are ready to be processed. Having the documents stored electronically will significantly decrease the amount of time staff spends manually filing paper and will allow greater access to the documents by the rest of the staff. This ease of access will allow staff to answer inquiries independently instead of needing to rely on a specific co-worker. The Licensing Branch hopes to implement other means of reducing paper transactions such as having online processing for high-volume transactions. The Licensing Branch hopes to identify a Customer Relation Management (CRM) system combined with other division's systems to allow more calls to be serviced daily.

The Examination Branch will continue to provide ideas and support for the use and integration of technology into the licensure process. For example, the Examination Branch will look for further documents and information that can be transmitted and/or maintained electronically. The branch will also provide assistance in updating and maintaining candidate examination-related information in the ALIAS replacement, a task which was primarily handled by the Licensing Branch. The branch will continue to work closely with the Executive Officers and the Licensing Branch in finding ways to increase self-reliance and independent processing that will include streamlining processes and having more helpful, user-friendly information and instruction available.

The Real Estate Branch (REB) will continue to improve the offering and delivery of real estate pre-licensing and continuing education (CE) courses to stay in line with the increase in CE hours and the changing electronic environment. REB will continue to enhance this electronic environment by contracting with vendors to create online document transfer and application systems. In, FY 14, DCCA, along with PVL, contracted with an online licensing application platform Infor to integrate the existing licensing database with this new one. REB has been tasked with being the first program to utilize the

new database and will work extensively with Infor to implement the program. FY 15 is a renewal year for all real estate licensees. In order to prevent major customer problems, REB has been working diligently with the Licensing Branch to prevent any from occurring. Further, REB reached out to industry groups to provide education on PVL's MyPVL electronic registration site. Rulemaking continues for HAR Chapter 99 for real estate brokers and salespersons, and HRS Chapter 514B. For the condominium program, REB solicited and collected suggestions from stakeholders in the condominium community, and is finalizing proposed new rules for HRS Chapter 514B. Subsequently, the Branch formed a Blue Ribbon Committee for review the complex proposed rules. REB will further work to enhance online public access to condominium projects and Association of Unit Owners registrations. The Program of Work for the Real Estate Commission (REC) and REB also includes the development and implementation of a new registration program for condominium projects. For a comprehensive report on REB's and REC'S FY 15 goals and objectives, please refer to <http://cca.hawaii.gov/reb/reports/> to view their Annual Report for fiscal year ending June 30, 2014.

ACCOMPLISHMENTS and PERFORMANCE MEASURES

Significant Online User Activities

In pursuing the division's objective of improving and expanding customer online services, the ability to allow PVL licensees to renew their licenses online, continues to be successful with an average online renewal user rate of 90.21% for FY 13 and FY 14.

This year, additional improvements were made to existing PVL online systems and their websites as follows: New license types added to the online renewal system included Guard Employees, motor vehicle industry Manufacturers and Distributors, and Respiratory Therapists.

PVL continued to absorb transaction fees that otherwise would have been passed on to licensees who used the online renewal system. With the online system, licensees were provided the ability to pay by Echeck and by credit card, all of which incurred service fees charged by PVL's online system provider. However, instead of passing on these service fees to our licensees, PVL continued to pay these costs using its online renewal revenue. For FY 14, PVL paid \$495,895 in service fees.

For PVL's License Search online system, there were 590,204 "page views" during FY 14. This service is a very popular, valuable, and useful tool for those who want information on licensees. The public can check to see if a licensee is currently licensed and find out if there are any formal disciplinary actions against the licensee, in addition to other pertinent information.

PVL completed the design phase for a new online surety system that allows insurance companies the ability to submit liability and worker's compensation insurance updates for contractor and pest control licensees. This was a challenging project to move forward due to the complexity of designing a system that in the front end, verifies that the surety is licensed to do business in this State and is authorized to write these lines of insurance. Integration with the DCCA Insurance Division license provider database provided a solution. This initiative was deployed in April 2014.

PVL launched a new and improved Online Licensing Search that is intended to be more user friendly and compatible across mobile devices for more than 375,000 Hawaii licenses. In 2013, 40,000 out of the 500,000 page visits on the PVL license search were conducted with a mobile device. This initiative was deployed in November 2013.

PVL's efforts to continually enhance and improve its other online services included a new user friendly account login process for online renewals. The new login feature also gives PVL licensees access to a new "MyPVL" dashboard online service. The MyPVL License dashboard service allows licensees to access their PVL licensing and online renewal information via a single online user account 24/7, 365 days a year. This initiative was deployed in November 2013.

Significant Branch Activities

The Administration Branch successfully filled the Supervising Executive Officer position on September 16, 2013. The role of the Supervising EO is to oversee and administer the staff of 14 Executive Officers.

The Administration Branch also participated in the DCCA Resource Fair at the State Capitol on March 3, 2014. The event was organized to showcase legislators and their staff on what DCCA is all about. PVL Executive Officers appeared in full force and brochures covering everything from Contractors to Condominium Property Regimes were made available.

A Memorandum of Agreement (MOA) was entered into by the Hawaii Center for Nursing/UH Manoa School of Nursing and Dental Hygiene and DCCA on April 29, 2014. The purpose of the MOA is to establish a collaborative relationship between the agencies to achieve shared goals to benefit Hawaii and improve public safety. The MOA allows DCCA to share Hawaii nurse licensee information to enable the Center to more efficiently and cost-effectively fulfill its duties prescribed in Act 198, Session Laws of Hawaii (SLH) 2003.

The Licensing Administrator had the honor of being asked to Chair the King Kalakaua Building (KKB) 10th Anniversary Commemorative Blessing, an event that was held on December 5, 2013, in the Courtyard of the KKB. The program included, to name a few, music by the Royal Hawaiian Band, posting of the King Kalakaua Banner and Colors of the Hawaii State Flag by the Royal Guard of the Hawaii Air National Guard, Oli (Chant), Pule and Blessing by the Reverend David Kaupu. There were speakers and a musical makana who paid tribute to His Majesty King Kalakaua. It was a joyous event filled with historical remembrance.

The Licensing Branch processed approximately 21,762 new licenses and was able to attain a 90% on-time processing rate. In addition, approximately 83,000 licensees received updated pocket ID cards either due to renewing, restoring, or reactivation of a license or requests for duplicate card. One of the goals of the Licensing Branch was to increase communication and information regarding processes in an effort to diffuse confusion, misunderstandings, and misinformation in dealing with the public. Telephones were finally provided to all staff members in the records section to assist with the numerous phone inquiries. The Licensing Branch Chief also created a validation code fee "help sheet" for the staff, to assist them with the coding of applications. This ensured for smoother and accurate processing

of forms submitted at the counter. Also, a new processing time policy took effect on June 2, 2014. Upon receipt of application forms, the Licensing Branch notated this information into ALIAS within one to five days of receipt. Within six to twenty days, the Licensing Branch either issued licenses or indicated the need for Boards' review. Effective June 13, 2014, five staffers were on phone duty rather than four.

The Examination Branch as a whole was able to maintain timely processing of applicant eligibility for testing, post-examination results, and inquiries and requests. For instance, candidate eligibility information and confirmation was provided to test agencies within approximately three business days of Examination Branch staff receiving the request, and examination results were processed approximately within five business days of Examination Branch's receipt of the results. The Examination Branch continued to work closely with the testing organizations, the applicants, and PVL staff such as its Executive Officers and the Licensing Branch, to ensure the examination processes remained as efficient as possible. For example, when the opportunity became available for candidates to register for exams without applying to the board, the Exam Branch worked with the Executive Officer and the Licensing Branch to ensure we took advantage of this opportunity and established the necessary processes. The Examination Branch also created processes to increase use of electronic files that resulted in a decrease in manual filing by the Licensing Branch, decrease in lost documents, and greater access to the information by the Licensing Branch and board's offices.

In line with PVL's objectives of improving and expanding the division's online services, REB continued with its implementation of online services, including condominium association registration and a CE system which provided real estate licensees the ability to view the number of CE hours required and earned for the current licensing period, their CE history, and the ability to search for future CE courses being offered by approved CE providers. Real estate licensees may also access and print their own course completion certificates for the current and previous bienniums, whereas in the past this was done by the CE providers. Additionally, real estate principal brokers and brokers-in-charge may monitor and view the current CE hours, CE history, and license status of all licensees associated with the brokerage. The system is updated daily and is simple to use. Information may be found at <https://pvl.hawaii.gov/rece/app/welcome.html>.

REB and REC continued their working relationship with industry groups. During this first biennium of increased CE hours licensees must complete from ten to twenty hours to keep their real estate licenses on an active status, the online renewal process went fairly smoothly.

Additionally, REB continued its efforts to improve services to licensees by conducting in house training for employees not within REB but who provides services to REB's and REC's customers. To supplement this training, REB created a comprehensive training manual to PVL's clerical support staff for the processing and intake of forms.

For a comprehensive report on matters addressed by REB and REC in FY 14, please refer to <http://cca.hawaii.gov/reb/reports/> to view their Annual Report for fiscal year ending June 30, 2014.

Significant Legislative Activities

PVL had a successful 2014 Legislative Session. The division introduced two administration bills and both were approved by the Governor. They are S.B. No. 2822 (Act 38, SLH 2014), relating to criminal history record checks for real estate appraisers; and H.B. No. 2272 (Act 225, SLH 2014), relating to the motor vehicle mechanic certification program. The division was also busy monitoring and testifying on bills that affected PVL. For a list of twenty-three bills impacting PVL, which were passed into law in 2014, see Table 3: PVL List of 2014 Acts, Session Laws of Hawaii.

Hawaii Administrative Rules Activities

In FY 14, amendments to the following rule chapters were adopted: HAR Chapter 79, relating to Dentists and Dental Hygienists, and HAR Chapter 88, relating to Naturopaths.

Significant Division Activity

PVL’s Private Detective and Guard – Guard Employee (PDG-GDE) Registration Processing Team won the Team of the Year award at the DCCA Incentive and Service Awards Ceremony. This team represented the DCCA at the Governor’s Awards Ceremony on October 3, 2014. The fourteen individuals on the PDG-GDE Registration Processing Team joined forces to work during a critical time to review and approve thousands of security guard applications by year’s end.

The Administration Branch formed a PVL Working Committee in October 2013, consisting of Executive Officers and staff from the Licensing Branch to work on improving customer service by discussing potential changes that could be done to help improve the current telephone system. The Working Committee agreed to establish a liaison position between the Executive Officers/Administration Branch and the Licensing Branch to address across-the-board issues. The Working Committee is also interested in establishing standardized PVL policies and procedures for all Boards/Commissions/Programs regarding the handling of licensing issues (license verifications, change of address forms, duplicate card requests, and returned mail).

CRF Financial Summary

The CRF financial summary relating to PVL for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$3,920,738	\$1,399,963	\$5,320,701	\$6,729,244

CONCLUSION

PVL continues to move ahead with its initiatives to improve accessibility to licensing services and information, and to streamline the licensing process without compromising consumer protection. PVL is committed to working with licensees and the public to achieve the optimum balance between

Professional and Vocational Licensing Division (PVL)

thoughtful and fair regulation, and consumer protection. PVL is mindful of the strain on Hawaii’s businesses and seeks to integrate licensing measures and procedures that will facilitate business. Ultimately, PVL’s objective is to achieve and facilitate a fair marketplace for the State of Hawaii.

The PVL staff and the regulatory licensing boards and programs of PVL continue to maintain high performance standards, uphold consumer protection, work well as a team, and are responsive to increased demands.

Table 1: PVL Statistical Overview

	FY 12-13	FY 13-14
No. of applications received	14,290	20,779
No. of applicants licensed	9,678	21,434
No. of licenses renewed	57,243	60,016
No. of permits issued	1,461	1,603
No. of changes processed	209,689	239,340
No. of calls received by Licensing Branch	61,398	61,584
No. of current licensees	136,717	141,946
Total licensee population (all statuses - i.e. Current, forfeited, delinquent)	363,880	389,256

Table 2: Total Number of Current PVL Licensees

Boards and Commissions (shown by asterisk *), and Programs	FY 12-13	FY 13-14
Accountants*	3,327	3,331
Activity Desks	851	812
Acupuncturists*	719	698
Athletic Trainers	196	226
Barbering and Cosmetology*		
Barbers	1,386	1,345
Barber Shops	208	187
Beauty Operator*	8,718	8,325
Beauty Instructor	105	105
Beauty School	11	12
Beauty Shops	1,415	1,270
Boxing (all categories)*	23	26
Cemeteries and Pre-Need Funeral Authorities	22	23
Chiropractors*	626	591
Collection Agencies	604	639
Contractors*	12,589	12,501
Dentists*	1,520	1,473
Community Service Dentists	28	27
Dental Hygienists	1,030	1,010
Community Service Dental Hygienists	1	1
Dispensing Opticians	195	204
Electricians (all categories)*	3,443	3,749
Plumbers (all categories)*	1,164	1,251
Electrologists	17	19
Elevator Mechanics*	227	232
Employment Agencies	69	71
Engineers, Architects, Surveyors, and Landscape Architects:*		

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Professional and Vocational Licensing Division (PVL)

Engineers	6,450	6,342
Architects	2,372	2,263
Surveyors	207	208
Landscape Architects	153	150
Hearing Aid Dealers & Fitters	130	114
Marriage and Family Therapists	323	341
Massage Therapists*	7,750	8,260
Massage Establishments	812	903
Medical and Osteopathy*		
Physicians	8,772	8,683
Podiatrists	82	79
Osteopaths	764	865
Physician Assistants	302	274
Emergency Medical Technicians	688	695
Mobile Intensive Care Technicians	493	485
Mental Health Counselors	264	296
Mixed Martial Arts	214	120
Motor Vehicle Dealers*	251	270
Motor Vehicle Dealer Branch	39	43
Motor Vehicle Distributor	37	37
Motor Vehicle Manufacturer	38	44
Motor Vehicle Salespersons	1,672	1,737
Motor Vehicle Other (Auction, Broker, Consultant)		10
Motor Vehicle Repair Dealers*	829	756
Motor Vehicle Mechanics	1,860	1,637
Naturopaths*	141	137
Nursing*		
Registered Nurses (RN)	23,534	23,156
Licensed Practical Nurses (LPN)	2,982	2,663
Advanced Practice Registered Nurse (APRN)	1,180	1,235
Nurse Aides	7,490	7,582
Nursing Home Administrators	139	155
Occupational Therapists	583	690
Optometrists*	410	402
Pest Control Operators*	188	194
Pest Control Field Representatives	216	235
Pharmacists*	2,395	2,445
Pharmacies	277	270
Wholesale Prescription Drug Distributors	75	535
Miscellaneous Permit	445	62
Physical Therapists*	1,398	1,592
Port Pilots	10	10
Private Detective Agencies*	41	43
Private Detectives	108	114
Guard Agencies	82	85
Guards	103	107
Guard Employees		10,158
Psychologists*	1,044	1,109
Real Estate Appraisers	584	543
Real Estate Brokers*	6,247	6,514
Real Estate Salespersons	10,851	11,949
Real Estate Branch Offices	85	94
Condominium Hotel Operators	27	29
Respiratory Therapists	447	532
Social Workers	1,915	1,801
Speech Pathologists*	618	588

Professional and Vocational Licensing Division (PVL)

Audiologists	77	70
Travel Agencies	1,282	1,157
Uniform Athlete Agents	3	6
Veterinarians*	489	526
TOTAL	138,900	149,528

Table 3: PVL List of 2014 Acts, Session Laws of Hawaii

Act No.	Bill No.	Title
4	H.B. No. 2585	Relating to Foreclosures
20	S.B. No. 2033, H.D. 1	Relating To Dentists
28	S.B. No. 2466	Relating To Continuing Education for Marriage and Family Therapists
29	S.B. No. 2475	Relating To Assisting Unlicensed Contractors
32	H.B. No. 570	Relating To Contractors
45	S.B. No. 2492, S.D. 1	Relating To Advanced Practice Registered Nurses
46	S.B. No. 2491	Relating To Nursing
49	S.B. No. 2078, S.D. 1	Relating To Condominiums
58	H.B. No. 716, S.D. 1	Relating To the Disciplinary Authority of the Board of Public Accountancy
63	H.B. No. 1882, H.D. 2, S.D. 1	Relating To Podiatrists
69	S.B. No. 2467, H.D. 1	Relating To Podiatrists
70	S.B. No. 2481, S.D. 1, H.D. 1	Relating To Time Shares
73	H.B. No. 1830, H.D. 2, S.D. 1	Relating To Real Estate Appraisers
94	S.B. No. 2486, S.D. 1, H.D. 1, C.D. 1	Relating To Private Guards
106	S.B. No. 2657, S.D. 2, H.D. 1, C.D. 1	Relating To Renewable Energy
159	S.B. No. 2469, S.D. 2, H.D. 3, C.D. 1	Relating To Telehealth
187	S.B. No. 2465, S.D. 2, H.D. 2	Relating To Continuing Education for Psychologists
188	H.B. No. 2401, H.D. 2, S.D. 2, C.D. 1	Relating To Condominiums
189	H.B. No. 2482, H.D. 1, S.D. 1	Relating To Condominiums
209	S.B. No. 2472, S.D. 2, H.D. 3, C.D. 1	Relating To Occupational Therapy Practice
222	S.B. No. 2577, S.D. 2, H.D. 2, C.D. 1	Relating To Naturopathic Physicians
228	H.B. No. 2019, H.D. 2, S.D. 1	Relating To Time Share
235	S.B. No. 2483, S.D. 1, H.D. 1, C.D. 1	Relating To Condominium Associations

REGULATED INDUSTRIES COMPLAINTS OFFICE (RICO)

website: www.cca.hawaii.gov/rico

e-mail address: rico@dcca.hawaii.gov

OVERVIEW

The Regulated Industries Complaints Office (RICO) assists the public through education, complaints processing, and the enforcement of professional licensing laws.

As the enforcement arm of the Department's professional and vocational licensing boards, commissions and programs, RICO handles complaints, investigations and prosecutions of over forty-eight (48) different professions and vocations. In addition, the office administers the state's State Certified Arbitration Program, commonly referred to as "lemon law" by providing an arbitration forum for consumers with warranty-related disputes with motor vehicle manufacturers.

RICO's main office is located on Oahu at the Leiopapa A Kamehameha Building (State Office Tower), 235 South Beretania Street (8th and 9th Floors), Honolulu, Hawaii 96813. The division additionally operates four neighbor island offices in Hilo, Kailua-Kona, Wailuku, and Lihue.

Composition and Functions

RICO's functions can be divided into two main categories: (1) education, information, complaint intake and alternative dispute resolution functions which are performed by the division's Consumer Resource Center, and (2) investigation and prosecution functions for the licensing boards, commissions and programs within the Department's Professional and Vocational Licensing Division which are performed by the division's field investigation and legal branches.¹ RICO staff consists of intake investigators, field investigators, attorneys and support staff. Approximately one-fifth of RICO's full-time positions are located in four neighbor island offices. The primary functions of the RICO branches are generally described as follows:

Consumer Resource Center (Education, Information, and Intake)

The Consumer Resource Center ("CRC") handles all intake functions for RICO and the Office of Consumer Protection ("OCP"). With the easy to remember 587-4272 (4-CRC) telephone number, CRC provides an efficient means for the public to obtain consumer information, make complaint-related inquiries, and submit formal complaints. Information and assistance to the public is available through telephone, facsimile, walk in contact, and through the RICO website at www.cca.hawaii.gov/rico. CRC investigators answer questions and educate the public about governmental services, RICO's and OCP's jurisdictional areas, and RICO's and OCP's complaint processes. CRC staff also conducts preliminary investigations of RICO complaints and forwards appropriate cases for further investigations or prosecution to the other sections of RICO.

Consumer-initiated complaints comprise the majority of RICO's cases. Upon receipt of a complaint, CRC will determine whether an actionable violation is involved. If so, the complaint is handled through mediation, further investigation or prosecution, or other resolution.

¹ See, Section 26-9, Hawaii Revised Statutes.

Another important aspect of CRC’s work is the service provided by CRC’s Licensing & Business Information Section (LBIS). LBIS is a consolidated service operated by RICO for OCP, the Business Registration Division, the Professional and Vocational Licensing Division, and RICO. The service allows callers to use just one telephone number (587-4272) to find out (1) basic business registration information; (2) professional license information; and (3) complaints history information on file with RICO and OCP. Through LBIS’ service, callers are able to gather important information about a particular licensee or business without having to call multiple state offices.

Public access to complaints information has been significantly enhanced with the availability of the interactive Business and Licensee Complaints History search site at www.businesscheck.hawaii.gov. Consumers and businesses have 24-hour access to current information about an individual’s or business’ complaints history. The site provides information about complaints that were filed as well as administrative and civil legal actions that have been taken. The site is widely used by consumers, businesses, licensees, and credentialing organizations in Hawaii, as well as in other states, and is designed to provide the inquirer with a printable complaints history report.

See Table 1, which provides more specific information about the CRC.

Table 1: RICO Consumer Resource Center

	2012	2013	2014
Telephone Requests for Complaints History, License Status and Business Registration	57,399	53,631	50,356
Complaint Inquiries & Forms issued by CRC	14,554	12,691	12,574
TOTAL	71,953	66,322	62,930*

*RICO continues to see a decrease in telephone requests for information as the public’s use of RICO’s Internet site to obtain information increases.

Field Investigation Branch

The Investigation Branch, consisting of field investigators and clerical support staff, contains the largest concentration of RICO personnel statewide. With enforcement responsibility over the licensing laws of 48 different boards, commissions and programs, investigators evaluate a wide range of licensing violations within a diverse population of licensees. In addition, both CRC and Field staff investigate many tips, anonymous reports and other complaints from consumers, businesses and other interested parties.

Field investigators are responsible for gathering evidence in RICO cases to determine whether licensing law violations have occurred. RICO’s investigators also take an active part in resolving cases, and in issuing administrative citations where unlicensed activity is observed.

In many cases, field investigators will seek an independent evaluation of the case by an appointed member of a board’s advisory committee. Advisory committee members provide opinions about the

particular practice being investigated and are helpful in determining industry standards. Once the field investigator has gathered the evidence in a particular case, the case may be referred to the Legal Section for evaluation and disposition.

In addition to handling RICO complaints, the neighbor island offices within RICO’s investigative section serve as liaisons for the Department of Commerce and Consumer Affairs. To meet this responsibility, neighbor island staff members must know some information about every division in the department. As illustrated in Table 2, neighbor island RICO offices provide the most information in areas concerning the Professional and Vocational Licensing Division and the Business Registration Division. Neighbor island staff provide information, forms, educational brochures, technical assistance for hearings, and assistance in the facilitation of professional and vocational licensing examinations.

Table 2: Assistance by Neighbor Island RICO Offices in FY 2014

AGENCY	HILO	KAUAI	KONA	MAUI	TOTAL
Division of Financial Institutions	12	0	20	4	36
Business Registration	275	503	495	77	1,350
Cable Television	6	0	1	1	8
Insurance Division	49	15	27	9	100
Division of Consumer Advocacy	14	5	6	0	25
Professional & Vocational Licensing	382	337	509	196	1,424
Office of Consumer Protection	170	143	153	176	642
Non-Department Related	551	585	266	495	1,897
Totals	1,459	1,588	1,477	958	5,482

Legal Branch

The Legal Branch has the principal responsibility of taking disciplinary or civil action against violators of the statutes and rules within RICO’s jurisdiction.

Upon receipt of a case, the Legal Branch will determine the appropriate course of action based upon the information contained in the investigative file. Formal action may be taken by either the filing of a Petition for Disciplinary Action with the Office of Administrative Hearings (for cases involving licensees), a hearing related to the issuance of a citation, or a Complaint for Injunctive and Other Relief in circuit court (for cases involving unlicensed activity).

The **State Certified Arbitration Program (SCAP)**, more commonly known as the lemon law program, provides an arbitration forum for consumers to resolve warranty-related disputes with motor vehicle manufacturers without having to hire an attorney.

RICO’s Legal Branch handles the administration of SCAP. Staff is actively involved in arbitrator training and in overseeing the actual arbitrations, and provides educational information to the public about the lemon law and the arbitration process. The SCAP administrator is also actively involved in

representing Hawaii in the International Association of Lemon Law Administrators. See Table 3, which provides for more specific information about SCAP case outcomes.

Table 3: RICO State Certified Arbitration Program (“SCAP”) Activity

TOTAL NO. OF COMPLAINTS CALENDAR YEAR 2014	
Ford	1
GM (Chevrolet)	1
Hyundai	1
Infiniti	1
Kia	1
Nissan	4
Toyota	1
Volkswagen	1
Volvo	1
Totals	12
CASE OUTCOMES	
Arbitrated*	8
Settled	1
Withdrawn/Dismissed	1
CONSUMER RECOVERY	
Amount Recovered by Consumer for 2014	\$225,300

*Of the cases arbitrated, 4 arbitrations were in favor of the manufacturer and 4 were in favor of the consumers.

GOALS, OBJECTIVES, and POLICIES

RICO has three main operational goals: to uphold a fair and safe marketplace, to provide excellent customer service, and to optimize operational efficiency.

In upholding a fair and safe marketplace, RICO activities are directed toward addressing license violations and complaints and inquiries through appropriate referral, investigation, resolution and/or prosecution, and toward making regulation more effective. The division does this proactively through sweeps, stings, and compliance checks. The division gauges performance by, among other things, the number of enforcement actions it brings and the number it completes.

In providing excellent customer service, RICO staff strives to address complaints timely and expeditiously, investigations and prosecutions are to be handled fairly, equally and with integrity, and all people are to be treated with respect. Excellent customer service occurs throughout the RICO process: intake investigators familiarize themselves with other agencies and assist consumers who have reached RICO in error to find the appropriate agency/resource; field investigators may attempt to mediate disputes where possible; and staff attorneys consider restitution requests when evaluating RICO cases. RICO activities are also directed toward enabling members of the public to become knowledgeable participants in transactions with licensed professionals, fostering an awareness of the importance of licensure, and

providing meaningful assistance and support to the public in a user-friendly manner. The division is doing this through participation in relevant consumer fairs and shows, especially on the neighbor islands, and through providing additional information available online. The division gauges performance by, among other things, the amount of consumer outreach conducted (educational, fairs, neighbor island assistance, speaking engagements and telephone assistance).

In optimizing operational efficiency, RICO activities are directed toward promoting internal case handling systems and related tools and systems that aid in fair, timely and effective enforcement, and enabling (training) and assisting staff in fulfilling RICO objectives and policies. The division is doing this through training for staff, adequate staffing, database enhancements, and streamlined report writing. The division evaluates performance by monitoring the amount of time a case is handled by each branch.

ACCOMPLISHMENTS

Enforcement Actions:

The following table summarizes RICO legal actions for the 2013-2014 fiscal year:

RICO Proceedings Filed FY 14	
Petitions for Disciplinary Action	41
Settlement Agreement and Order	95
Citations (Unlicensed Activity)	22
Complaints (Unlicensed Activity)	24
Consent Judgments (Unlicensed Activity)	41
Assurance of Voluntary Compliance	25
Miscellaneous/Special Proceedings	0
Total	248

RICO Proceedings Outcomes FY 14		
Board Orders (total)		138
Revocation Orders	44	
Suspension Orders	7	
Assurance of Voluntary Compliance		25
Unlicensed Activity Judgments and Orders		85
Fines Assessed	\$1,236,783	
Restitution Assessed	\$318,264	
Total Proceeding Outcomes		248

Enforcement:

In 2014, RICO expanded enforcement to include oversight over individually licensed guards. RICO is continually looking at ways to improve enforcement efforts, including expanding hours of enforcement, prioritizing cases and continuing its work with law enforcement and other agencies.

Legislation:

RICO worked on several important legislative initiatives including a bill to increase the fine against unlicensed contractors who commit violations against the elderly from \$10,000 to \$20,000, and a bill to clarify association documents, records, and information to which condominium unit owners are entitled.

From license sanctions for public accountants, to warranties on roof penetrations during solar installations, RICO provided input and substantive suggestions on a variety of issues related to consumer protection and Hawaii licensees.

Consumer and Licensee Outreach:

RICO continues to work with the building industry to provide contracting law information to consumers as part of a series of Building Industry Association presentations about remodeling issues and has participated in a number of home shows and industry group presentations. In August, RICO was invited to the National Construction Investigators Conference in Laughlin, Nevada, to present on its recent unlicensed contracting initiatives. RICO is working to improve outreach, tailoring its message to certain target groups and increasing its media presence. Currently, in addition to providing complaint history about alleged unlicensed contracting, RICO provides a Quarterly List of Unlicensed Activity Judgments online. For the general public, RICO provides a link on its website to both the Department's monthly press release of professional disciplinary orders and a detailed explanation of its complaints handling process.

RICO is also committed to providing information to seniors about fraud. RICO works with law enforcement agencies on elder abuse issues, and participates in several elder abuse task forces in the state. Over the year, RICO also participated in a number of senior fairs, providing information and tips geared toward seniors. This year, RICO produced a card that seniors can keep by the phone or at the door – the card includes safety tips and strategies for answering the door and answering the phone.

Over 28,000 individuals visited the RICO website last year. RICO estimates it directly provided information to over 8,000 consumers at presentations and trade shows in Honolulu and on the neighbor islands. RICO is continually working to improve consumer outreach. RICO staff welcomes invitations to present on RICO topics.

CRF Financial summary

The CRF financial summary relating to RICO for FY13-14 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$4,369,799	\$534,377	\$4,904,176	\$5,574,322

CONCLUSION

With responsibility for the enforcement of the licensing laws of over 48 boards, commissions and programs, RICO continues to receive a large number of inquiries, complaints and other requests for assistance. Rapid changes and increased complexity in the way many of the licensed professionals conduct business, as well as changes in state law have spawned new enforcement issues and new challenges for RICO. Through strategic initiatives, enhanced training, and a commitment to continual improvement, the division will continue its efforts to provide a fair and safe marketplace for the consumers, businesses and professionals it serves.