

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 993, H.D. 1

February 26, 2009

PROPOSING AN AMENDMENT TO THE HAWAII CONSTITUTION, RELATING TO
THE DISPOSITION OF PROJECTED EXCESS REVENUES

House Bill No. 993, H.D. 1, proposes an amendment to the Hawaii Constitution to require the Legislature to deposit into the Emergency and Budget Reserve Fund a portion of the projected increase in general fund revenues in any fiscal year. The required deposit is the projected amount above a 7% increase.

The Department of Budget and Finance concurs with the intent of setting aside excess general fund revenues in the Emergency and Budget Reserve Fund to prepare for a rainy day. Current budget difficulties clearly point out the need for the State to save and build up a financial reserve during periods of strong economic growth, to be used when there is an emergency or economic downturn. The bill provides an additional funding source for the Emergency and Budget Reserve Fund to supplement the annual deposits from the tobacco settlement.

However, we do not support this measure. Decisions regarding general funds should be considered for their impact on the general fund balance and not simply on the basis of projected revenue growth of one fiscal year. Revenue growth above the 7% level for any one fiscal year is not sufficient to ensure that the general fund budget and financial plan is in balance, as required by the State Constitution. Actual and projected revenue

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changes must be considered in the broader context of the six-year financial plan.

Furthermore, as we have seen, revenue projections can change significantly even over a short period of time.

Instead, we support House Bill No. 1067 relating to deposits into the Emergency and Budget Reserve Fund. This is an Administration proposal to statutorily save 1% of the general fund balance when certain conditions are met. This bill also clarifies that the deposit shall be made after the constitutional requirement of a tax refund is satisfied.

We recommend structuring a framework that will provide for both a tax refund and mandatory savings in the Emergency and Budget Reserve Fund when conditions relating to general fund excess revenues are met.



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The Twenty-Fifth Legislature, State of Hawaii
House of Representatives
Committee on Finance

Testimony by
Hawaii Government Employees Association
February 26, 2009

H.B. 993, H.D. 1 – PROPOSING
AN AMENDMENT TO THE
HAWAII CONSTITUTION
RELATING TO THE
DISPOSITION OF EXCESS
REVENUES

The Hawaii Government Employees Association supports the purpose and intent of H.B. 993, H.D. 1. This proposed amendment to the Hawaii State Constitution would require when the general fund revenues are projected to exceed 7% of the general funds revenues of the previous year, a sum equal to the amount above the 7% increase must be deposited into the emergency and budget reserve fund.

When the capacity to generate revenue is strong, the State should save the surplus for use when revenue generation is weak. Passage of this constitutional amendment will provide more flexibility to access needed funds to balance the budget while also providing better planning to address cycles of economic growth and decline.

Many states have successfully used rainy day funds as a cushion against fluctuations in economic and business cycles. Thank you for the opportunity to testify in support of H.B. 993, H.D. 1

Respectfully submitted,

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SUBJECT: CONSTITUTIONAL AMENDMENT, Deposit into emergency and budget reserve fund

BILL NUMBER: HB 993, HD-1

INTRODUCED BY: House Committee on Judiciary

BRIEF SUMMARY: Adds a new section to Article VII of the State Constitution to provide that during a regular session in which the council on revenues projects that general fund revenues for the current fiscal year will exceed general fund revenues for the prior fiscal year by at least 7%, the legislature shall set aside the amount in excess of the projected 7% increase into the emergency and budget reserve fund.

If actual general fund revenues for the fiscal year do not exceed general fund revenues for the prior fiscal year by 7%, then the legislature, in the next regular session, may appropriate the amount previously set aside into an emergency and budget reserve fund for other purposes.

EFFECTIVE DATE: Voter approval

STAFF COMMENTS: The proposed measure would require the legislature to set aside any general funds in a current fiscal year that are in excess of 7% of what was collected in the prior fiscal year into an emergency and budget reserve fund.

The Emergency Budget and Reserve Fund was a recommendation of the 1990 Tax Review Commission which noted that one of the reasons policy makers used in deflecting past attempts to reduce the overall level of taxes in Hawaii was that the high level of taxes provides a cushion against an economic downturn. It should be noted that the emergency budget and reserve fund was viewed as a source of funding in the event of a natural disaster or some unforeseen crisis. It was not intended to supplement ongoing program funding when current resources are not available. However, Act 304, SLH 1999, provided that one of the purposes for which appropriations from the fund could be made is to maintain levels of programs determined to be essential to public health, safety and welfare.

If this measure is approved, it would mandate that the legislature deposit such funds into an emergency and budget reserve fund even though such excess general funds may be necessary to meet outstanding obligations of the state. While this proposal may be in reaction to the fact that whenever the general fund balance at the end of the year exceeds 5% of general fund revenues received in a year just concluded and does so for two consecutive years, a refund shall be made to taxpayers. There is absolutely no sound reason for this amendment other than it would allow lawmakers to "hide" general fund cash in the name of putting money in the rainy day fund. This would allow lawmakers to pare what would be left at the end of a fiscal year to avoid the possibility the general fund balance would exceed 5% of general fund revenues realized. Note well that this amendment would also allow lawmakers to tap the rainy day fund for the amount they put into it should general fund receipts not exceed 7% of the prior year's realizations. The money could be used even if there is no threat to health, safety and welfare. Thus, this nothing more than creating a stash that can be raided for non-emergency uses.

Digested 2/24/09