

JAN 25 2010

A BILL FOR AN ACT

RELATING TO THE STATE FISCAL STABILIZATION FUND.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. During periods of economic growth, tax
2 collections can exceed spending needs resulting in a positive
3 balance at the end of the fiscal year. However, when the economy
4 is sluggish, tax revenues generally decline even as the need for
5 public services continues or increases, resulting in short-term
6 budget deficits. As a result, a state fiscal stabilization fund
7 is necessary to balance the highs and lows of an economic cycle
8 by setting aside general fund revenues in good years, and using
9 the saved revenues to offset the State budget shortfall in bad
10 years.

11 The purpose of this Act is to require a percentage of
12 general fund revenues not required for immediate needs to be
13 deposited into a newly established state fiscal stabilization
14 fund during periods of economic growth, which ensures that the
15 fund functions as needed to meet budgeting requirements during
16 periods of economic downturn.

1 SECTION 2. Chapter 37, Hawaii Revised Statutes, is amended
2 by adding to part V a new section to be appropriately designated
3 and to read as follows:

4 "§37- Compliance with expenditure ceiling.

5 Notwithstanding any other law to the contrary, the general fund
6 expenditure ceiling requirement shall not apply to appropriations
7 made to the state fiscal stabilization fund but shall apply to
8 appropriations authorized from the state fiscal stabilization
9 fund."

10 SECTION 3. Section 328L-3, Hawaii Revised Statutes, is
11 amended by to read as follows:

12 "§328L-3 [~~Emergency and budget reserve fund.~~ State fiscal
13 stabilization fund. (a) There is established in the state
14 treasury the [~~emergency and budget reserve~~] state fiscal
15 stabilization fund which shall be a special fund administered by
16 the director of finance, into which shall be [~~deposited~~]:

17 (1) [~~Moneys~~] Deposited moneys received from the tobacco
18 settlement moneys under section 328L-2; [~~and~~]

19 (2) [~~Appropriations~~] Deposited appropriations made by the
20 legislature to the fund[~~-~~]; and

21 (3) Transferred five per cent of the state general fund
22 balance at the close of the fiscal year, whenever

1 state general fund revenues for each of two successive
2 fiscal years exceeds revenues for each of the
3 preceding fiscal years by five per cent, pursuant to
4 article VII, section of the Constitution of the
5 State of Hawaii. For the purpose of this section, the
6 general fund balance at the close of the fiscal year
7 shall be before any tax refund or tax credit, pursuant
8 to article VII, section 6 of the Constitution of the
9 State of Hawaii, that is provided during the same
10 regular session as the transfer depositing such moneys
11 to the state fiscal stabilization fund;
12 provided that transfers shall not be made to the state fiscal
13 stabilization fund whenever the balance of the fund is more than
14 ten per cent of general fund revenues for the preceding fiscal
15 year. The transfer shall be executed by the director of
16 finance.

17 (b) All interest earned from moneys in the [~~emergency and~~
18 ~~budget reserve~~] state fiscal stabilization fund shall be
19 credited to the [~~general~~] state fiscal stabilization fund.

20 (c) Expenditures from the [~~emergency and budget reserve~~]
21 state fiscal stabilization fund shall be a temporary
22 [~~supplemental~~] source of funding for the State during times of

1 ~~[emergency,]~~ severe economic downturn, or unforeseen reduction
2 in revenues. No expenditures shall be made from the ~~[emergency~~
3 ~~and budget reserve]~~ state fiscal stabilization fund except
4 pursuant to appropriations. The general appropriations bill or
5 the supplemental appropriations bill, as defined in section 9 of
6 article VII of the Constitution of the State of Hawaii, shall
7 not be used to appropriate moneys from the ~~[emergency and budget~~
8 ~~reserve]~~ state fiscal stabilization fund. The governor, through
9 an appropriations bill, may recommend expenditures from the
10 ~~[emergency and budget reserve]~~ state fiscal stabilization fund
11 by setting forth the purposes of the expenditures consistent
12 with subsection (d), the amounts, and the reasons justifying the
13 necessity for the appropriations.

14 (d) The legislature may make appropriations from the fund
15 for the following purposes:

- 16 (1) To maintain levels of programs determined to be
17 essential to public health, safety, welfare, and
18 education;
- 19 (2) To provide for counter cyclical economic and
20 employment programs in periods of economic downturn;
- 21 (3) To restore facilities destroyed or damaged or services
22 disrupted by disaster in any county; and

1 (4) To meet other emergencies when declared by the
2 governor or determined to be urgent by the
3 legislature.

4 Any act making appropriations from the [~~emergency and~~
5 ~~budget reserve~~] state fiscal stabilization fund shall include a
6 declaration of findings and purposes setting forth the purposes,
7 the amounts, and the reasons why the appropriations are
8 necessary and shall require a two-thirds majority vote of each
9 house of the legislature.

10 (e) Appropriations for the following purposes from the
11 [~~emergency and budget reserve~~] state fiscal stabilization fund
12 are specifically prohibited:

- 13 (1) To meet expenses of the legislature;
- 14 (2) To provide for salary adjustments for officials
15 appointed pursuant to article V, section 6 or article
16 VI, section 3 of the Constitution of the State of
17 Hawaii and for others whose salaries are directly
18 related to salaries of these officials; and
- 19 (3) To fund cost items in any collective bargaining
20 contract."

21 SECTION 4. Statutory material to be repealed is bracketed
22 and stricken. New statutory material is underscored.

S.B. NO. 2692

1 SECTION 5. This Act shall take effect on July 1, 2011,
2 following the ratification of a constitutional amendment to
3 establish the state fiscal stabilization fund; provided that the
4 amendments made to section 328L-3, Hawaii Revised Statutes, by
5 this Act shall not be repealed when section 328L-3, Hawaii
6 Revised Statutes, is reenacted pursuant to section 6 of Act 119,
7 Session Laws of Hawaii 2009.

8
9 INTRODUCED BY: _____

10 BY REQUEST

Report Title:

State Fiscal Stabilization Fund; Deposits; Uses

Description:

Ensures funds are available for future fiscal emergencies by renaming and revising the Emergency Budget and Reserve Fund to create the State Fiscal Stabilization Fund and requiring five percent of general fund end of year balances to be deposited into it.

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO THE STATE FISCAL STABILIZATION FUND.

PURPOSE: To ensure funds are available for future fiscal emergencies by renaming and revising the Emergency Budget and Reserve Fund to create the State Fiscal Stabilization Fund and requiring five percent of general fund end of year balances to be deposited into it.

MEANS: Add a new section to part V of chapter 37, Hawaii Revised Statutes and amend section 328L-3, Hawaii Revised Statutes.

JUSTIFICATION: This bill renames and revises the Emergency Budget and Reserve Fund, also known as the Rainy Day Fund, to create the State Fiscal Stabilization Fund. This Stabilization Fund will help the State build a financial reserve to lessen the negative impact of severe economic downturns on the State budget. To ensure that the State has sufficient resources to serve as a cushion during periods of economic stress, this bill requires five percent of the State general fund balance at the close of the fiscal year to be deposited into the Fund.

Specifically, in addition to tobacco settlement moneys and appropriations, this bill ensures that contributions to the Fund are made whenever state general fund revenues for each of two successive fiscal years exceed revenues for each of the preceding fiscal years by five percent. The fund balance is capped at ten percent of general fund revenues for the preceding fiscal year.

Deposits into the fund from the end of year general fund balances will be transferred by the Director of Budget and Finance.

Clarifies that the transfers will occur prior to calculating whether the conditions have been met for a tax refund or tax credit under article VII, section 6 of the State Constitution.

Finally, this bill ensures that deposits into the State Fiscal Stabilization Fund are not counted towards the general fund expenditure ceiling since the moneys are being saved, not spent. However, appropriations out of the State Fiscal Stabilization Fund must be counted towards the general fund expenditure ceiling because they represent expenditure of moneys that were previously general funds. Appropriations require a two-thirds vote of both houses of the Legislature.

Impact on the public: Ensures that the State can meet its financial obligations during periods of economic difficulty and lessens the need for tax increases during periods when the economy and the community can least afford to pay more taxes.

Impact on the department and other agencies: Ensures that the State can meet its financial obligations during periods of economic difficulty.

GENERAL FUND: Transfers a portion of general fund revenues to the State Fiscal Stabilization Fund.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: None.

OTHER AFFECTED AGENCIES: All agencies and branches of government.

EFFECTIVE DATE: July 1, 2011, following the ratification of a constitutional amendment to establish the State fiscal stabilization fund.