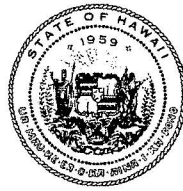


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
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**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 1905
RELATING TO GOVERNMENT**

*****WRITTEN TESTIMONY ONLY*****

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 22, 2010

TIME: 11:30AM

ROOM: 308

This measure proposes to direct general excise tax revenues to pay fringe benefit costs and deferred tax refunds.

The Department of Taxation ("Department") takes no position on the concept of this legislation; however opposes the funding mechanism.

THE DEPARTMENT CANNOT SUPPORT GET REVENUE DIVERSIONS—The Department is always cautious about policy that redirects general excise tax revenue away from the general fund and into specific special funds. The Department routinely opposes funding mechanisms such as this because the general excise tax represents over one-half of the State's overall operating revenue stream. The Department strongly prefers that a direct appropriation be the means for funding this liability so that the amount may be budgeted and prioritized just as any other program.

REVENUE IMPACT—This measure could potentially have a dramatic impact on the general fund budgeting this fiscal year. This measure will divert general fund revenues in amounts equal to the amounts set aside in the measure.

February 22, 2010

I'm currently a science teacher at Kapolei HS and I have been teaching for 9 years. I love my job and do my best to make sure the children of Hawaii get the education they need to be productive members of society. I have been very pleased with the VEBA medical plan and feel that it would be detrimental not only to me but to my fellow teachers if the HD2 version passes as written.

I oppose the HD2 version as written because if there will be an extension, it should be for at least 2 years. The EUTF clearly needs time to regroup and in the meantime, VEBA can continue to save the state millions of dollars in premium payments for both actives and retirees. VEBA saves state and members money. When money is tough to come by, we shouldn't be spending more.

Sincerely,
Gerry Clarin

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1905

February 22, 2010

RELATING TO STATE PAYMENTS

House Bill No. 1905 sets aside \$63 million from the general excise tax revenues and deposits the funds into a separate account in the general fund to pay for employer fringe benefit contributions to the Employees' Retirement System and Hawaii Employer-Union Health Benefits Trust Fund that were deferred in Fiscal Year 2009. It also sets aside \$275 million in a comparable fashion to address the planned delay in processing of income tax refunds in Fiscal Year 2010. The two general excise tax set asides take effect on July 1, 2011.

We have serious concerns with this bill because the set asides will adversely affect the Administration's financial plan in Fiscal Year 2012. It is noted that we project a general fund balance of \$32.4 million in Fiscal Year 2012 and the two set asides would reduce revenues by up to \$338 million in that year.

TESTIMONY BY DAVID SHIMABUKURO
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1905

RELATING TO STATE PAYMENTS

FEBRUARY 22, 2010

Chair Rhoads and Members of the Committee:

The ERS Board of Trustees supports the intent of H.B. 1905 which proposes to deposit general excise tax revenues into a separate account to address the delayed payments of State contributions to the ERS that were not paid in fiscal year 2008-2009.

We recommend the effective date in Section 5 be changed to January 1, 2011 instead of July 1, 2011 to be consistent with the provision in Section 3 which requires the governor to submit appropriate legislation to the Senate and House prior to the regular session of 2011 (January, 2011) proposing appropriations to make the payments under this Bill.

Thank you for the opportunity to testify on this measure.

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SUBJECT: GENERAL EXCISE, Disposition for delayed payments

BILL NUMBER: HB 1905

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 237-31 to provide that \$63 million in general excise tax revenues shall be deposited into a special account in the general fund to address delayed payments of state contributions to the employees' retirement system and Hawaii employer-union health benefits trust fund that were not paid in the fiscal 2009 year.

Amends HRS section 237-31 to provide that \$275 million in general excise tax revenues shall be deposited into a special account in the general fund to address delayed payments of state tax refunds that were not paid in order to balance the supplemental executive budget for the fiscal year 2010.

The legislature intends that the moneys in the account established by this act is to be expended during fiscal 2012 to pay the fringe benefit contributions and tax refund amounts that were not paid in order to balance the state budget during the fiscal period 2008-2009 to 2010-2011. Directs the governor to submit appropriate legislation to the 2011 legislature proposing appropriations to make payments under this act.

EFFECTIVE DATE: July 1, 2011; applicable to tax years beginning after December 31, 2010

STAFF COMMENTS: The proposed measure sets aside general excise tax revenues into a special account of the general fund to address delayed payments of: (1) state contributions to the employee's retirement system and Hawaii employer-union health benefits trust funds that were not paid in fiscal 2009; and (2) state tax refunds that were not paid out. The measure further provides that the amounts set aside are to be expended in fiscal 2012. The measure states that these payments were delayed to balance the state budget during the fiscal period 2008-2009 to 2010-2011. This "creative" accounting merely hides the true financial condition of the state for a fiscal period.

If this measure is adopted, it would set aside general funds and result in less general funds available for other programs and services, even though the moneys will not be expended until fiscal 2012. In addition, the danger in adopting this measure is that it may spawn additional requests for other "creative" accounting through the earmarking of general excise tax revenues.

How soon lawmakers have forgotten how earmarking general fund revenues can get the state into trouble. It was only 1989 when lawmakers approved earmarking \$90 million for educational facilities as the "commitment" to education and only three years later took back the earmarking because general fund revenues started to dwindle. Further, rather than spurring on construction of classrooms, the earmarking merely created apathy as school officials knew they would receive \$90 million off the top and they didn't have to justify a request for funding. Instead of proposing measures like this, lawmakers should go back

and read a little of their own history and learn from their mistakes. Rather than perpetuating the earmarking of general funds, lawmakers should repeal all earmarking and utilize the appropriation process which would be more accountable than any earmarking scheme.

Finally, this measure violates the spirit, if not the intent, of the general fund expenditure ceiling. Inasmuch as the "set aside" would direct these tax revenues into the proposed special account within the general fund it does not absolve the fact that this money is not being appropriated and there it remains questionable whether or not the "expenditure" of these funds would be measured against the constitutional spending ceiling of general funds. For the state council on revenues, this would represent yet one more adjustment they have to make to their forecast of general fund tax revenues.

Digested 1/28/10