

SB 2806, SD1



EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

Written Testimony of
Linda L. Smith
Senior Policy Advisor to the Governor

Before the
SENATE COMMITTEE ON WAYS AND MEANS
Wednesday, February 24, 2010, 10:10 a.m.
Room 211, State Capitol

SB2806 SD1 RELATING TO THE EMERGENCY BUDGET AND RESERVE FUND

Chair Mercado Kim, Vice Chair Tsutsui, and Members of the Committee:

The Office of the Governor **supports SB2806 SD1**, which is similar to the Administration measure SB2692. The senate draft 1 reflects the Administration's position in SB2692, which requires five percent of year end general fund balances to be deposited into the State Rainy Day Fund when certain conditions are met. Such a proposal is necessary to ensure funds are available for future emergencies by building a financial reserve in good years to offset the state budget shortfall in bad years.

Specifically, SB2806 SD1 sets the condition for depositing into the State Rainy Day Fund at five percent of year end general fund balances whenever state general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by five percent. Deposits into the fund will occur through a transfer by the Director of Finance, who stops transfers into the Rainy Day Fund whenever the fund balance is more than ten percent of general fund revenues for the preceding fiscal year. In addition, the bill also requires that interest earned from moneys in the Rainy Day Fund to remain in the fund.

Under this proposal and the current six-year financial plan, the deposit of year end general fund balances into the Rainy Day Fund will begin in fiscal year 2011-2012, when \$1.62 million of the \$32.4 million in year end balance will be deposited into the fund. Over a four year period for fiscal years 2011-2015, an estimated \$33.8 million will be deposited into the Rainy Day Fund under these proposals, as calculated using the current six-year financial plan. The estimates are attached.

The purpose of this proposal is not to change the concept or use of the Rainy Day Fund, but rather to ensure a steady source of revenue is available to build the fund balance for future emergencies. We believe that in addition to this measure, a constitutional amendment is the only way to safeguard against expending year end general fund balances that in good years will likely not be saved, but rather spent on new programs and services. As such, we respectfully request that your committee also hear SB2693, the Administration's accompanying constitutional amendment for this measure. Both this measure and SB2693 will increase the State's fiscal discipline by requiring deposits into the State Rainy Day Fund upfront, rather than have these funds remain as carry-over balances, which could easily be expended.

The Office of the Governor supports SB2806 SD1 and respectfully request it be passed from your committee. We also request that SB2693 be heard in your committee at your earliest convenience.

State Rainy Day Fund Projections

Fiscal Year	2011	2012	2013	2014	2015
Second Preceding Fiscal Year Rev.	4,203,081,000	4,097,243,000	4,408,318,000	4,672,817,000	4,953,168,000
First Preceding Fiscal Year Rev.	4,097,243,000	4,408,318,000	4,672,817,000	4,953,168,000	5,250,377,000
Current Fiscal Year Rev. (Council on Revenues)	4,408,318,000	4,672,817,000	4,953,168,000	5,250,377,000	5,512,896,000
Deposit Trigger Met (5% Increase for 2 Yrs)	NO	YES	YES	YES	YES
Year End Balance (Financial Plan)	162,700,000	32,400,000	27,800,000	165,800,000	461,800,000
Year End Balance (Due to Prev. Fund Deposit)	162,700,000	32,400,000	26,180,000	164,491,000	453,575,450
Deposit to Fund (5%)	0	1,620,000	1,309,000	8,224,550	22,678,773
Total Fund Deposit	0	1,620,000	2,929,000	11,153,550	33,832,323
Fund As % of Previous FY Revenues	0.00%	0.04%	0.06%	0.23%	0.64%

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2806, S.D. 1

February 24, 2010

RELATING TO THE EMERGENCY AND BUDGET RESERVE FUND

Senate Bill No. 2806, S.D. 1, amends Section 328L-3, Hawaii Revised Statutes, to allow the Legislature to authorize the deposit of five percent of the general fund balance at the close of the fiscal year, available whenever the State's general fund revenues for each of two successive fiscal years exceeds five percent of general fund revenues for each of the preceding fiscal years, to the Emergency and Budget Reserve Fund. Deposits to the fund are suspended when its balance is more than ten percent of general fund revenues for the preceding fiscal year. This bill also amends Act 119, Session Laws of Hawaii 2009, to prevent the repeal of Section 328L-3 on June 30, 2015.

Instead of this bill, we recommend that the committee consider the Administration's proposals, Senate Bill No. 2692, Relating to the State Fiscal Stabilization Fund, and Senate Bill No. 2693, Proposing Amendments to the Constitution of the State of Hawaii Relating to the State Fiscal Stabilization Fund. Together, these measures establish a mechanism for the State to deposit excess revenues, from periods of economic growth, to the State Fiscal Stabilization Fund (currently the Emergency and Budget Reserve Fund). During periods of economic contraction, the additional resources, which would augment Tobacco Settlement moneys, would ensure that a fiscal reserve would be available to support the State's financial obligations during periods of economic difficulty and would provide an alternative to raising taxes at times when the people of our State can least afford it.



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February 24, 2010

To: The Honorable Donna Mercado Kim
Chair, Senate Committee on Ways and Means

From: 'Ohana Health Plan

Re: Senate Bill 2806, Senate Draft 1-Relating to the Emergency and Budget Reserve Fund

Hearing: Wednesday, February 24, 2010, 10:10 a.m.
Hawai'i State Capitol, Room 211

Since February 2009, 'Ohana Health Plan has provided services under the Hawai'i QUEST Expanded Access (QExA) program. 'Ohana is managed by a local team of experienced care professionals who embrace cultural diversity, advocate preventative care and facilitate communications between members and providers. Our philosophy is to place members and their families at the center of the health care continuum.

'Ohana Health Plan is offered by WellCare Health Insurance of Arizona, Inc. WellCare provides managed care services exclusively for government-sponsored health care programs serving approximately 2.3 million Medicaid and Medicare members nationwide. 'Ohana is able to take the national experience in providing an 'Ohana care model that addresses local members' healthcare and health coordination needs.

We appreciate this opportunity to submit our comments in support of Senate Bill 2806, Senate Draft 1-Relating to the Emergency and Budget Reserve Fund.

'Ohana Health Plan (OHP) is one of the five health care plans contracted under the QUEST program through the DHS. As a new plan, operating largely with the support of government funding from the State of Hawai'i, we are deeply concerned about the potential for a three to four month payment deferral. This deferral may significantly impact our ability to pay our contracted providers in a timely manner and could cause a disruption in services to our members, which are low-income, aged, blind and disabled residents of our State.

As a contracted provider of services for the State of Hawai'i, we take our federally mandated responsibility to make covered services available and accessible through a sufficient delivery network very seriously. During this time of economic and financial challenge it has become increasingly important that we explore every possible option available to us, such as this bill, in order to honor our existing financial obligations.

OHP deeply appreciates your assistance in helping to secure additional funding into the HMS 401 budget in order to avoid the DHS payment deferral in the first place. We respectfully request that you pass this measure. Thank you for the opportunity to testify in support of Senate Bill 2806, Senate Draft 1.

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SUBJECT: MISCELLANEOUS, Emergency and budget reserve fund

BILL NUMBER: SB 2806, SD-1

INTRODUCED BY: Senate Committees on Human Services and Health

BRIEF SUMMARY: Amends HRS section 328L-3 to add a new paragraph (3) to provide that the director of finance shall transfer an amount equal to 5% of the general fund balance at the close of a fiscal year into the emergency and budget reserve fund whenever the state general fund revenues at the close of each of two successive fiscal years exceeds 5% of general fund revenues for each of the preceding fiscal years, pursuant to article VII, section ____ of the constitution of the state of Hawaii. For the purposes of this section, the general fund balance at the close of the fiscal year shall be determined before any tax refund or tax credit, pursuant to article VII, section 6 of the constitution of the state of Hawaii is calculated. Transfers shall not be made to the emergency and budget reserve fund if the balance of the fund is more than 10% of general fund revenues for the preceding fiscal year.

This amendment shall take effect upon approval and upon compliance with article XVII, section 3, of the state constitution; provided that the amendments made to HRS section 328L-3, by section 1 of this act shall not be repealed when HRS section 328L-3 is reenacted pursuant to section 6 of Act 119, SLH 2009.

EFFECTIVE DATE: Voter approval

STAFF COMMENTS: This measure proposes that 5% of the state general fund balance at the close of the fiscal year shall be deposited into the emergency and budget reserve fund whenever state general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%.

While the existing emergency budget and reserve fund was established by the 1999 legislature, utilizing the realizations of the Master Settlement Agreement reached with the major tobacco companies, lawmakers have continually dipped into the fund to pay for ongoing programs. This allowed lawmakers to avoid making hard decisions and setting priorities as to which of the ongoing programs should be reduced or eliminated. This was not the intent of the Tax Review Commission. 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 were not available as was the situation a few short years ago. This is because the legislature 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 the public health, safety and welfare." This provision is much too broad and allows lawmakers to escape accountability for prudent use of such emergency funds.

It should be noted that this measure also proposes a cap on the balance that would be allowed in the emergency and budget reserve fund of 10% of general fund revenues. Further, it should be noted that the budget reserve fund is the beneficiary of 15% of the proceeds of the Master Settlement Agreement

(MSA). The amount has been estimated to total about \$12 million for the next few years. Further, there is another 15 years under the MSA during which the state will continue to receive payments. Lawmakers need to determine just what an acceptable balance for the fund should be and they must also be more specific about the potential uses of the fund.

This year, for example, the fund has been the target for solving “furlough Fridays” in the department of education as well as for budget shortfalls in the area of health and human services. It does not seem appropriate to use these funds to maintain the status quo in state programs at a time when the entire economy is undergoing stress and downsizing and restructuring is taking place in the private sector. On the other hand, unforeseen events which disrupt daily life in Hawaii, such as hurricanes, earthquakes, or tsunami, are good examples of appropriate uses of the fund in times of emergencies. Given that deposits into the fund will not be ongoing as it is likely that there will be years when there are no excess revenues, expenditures should be for “one-time” occurrences.

Digested 2/23/10