TESTIMONY BY KALBERT K. YOUNG
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STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 2829, S.D. 1

April 1, 2014

MAKING AN APPROPRIATION TO THE EMERGENCY AND BUDGET RESERVE FUND

Senate Bill No. 2829, S.D. 1, makes an unspecified general fund appropriation in FY 15 to recapitalize the Emergency and Budget Reserve Fund (EBRF).

The Department of Budget and Finance strongly supports this Administration bill which originally proposed to appropriate $50 million in general funds in FY 15 to the EBRF. This bill, along with Senate Bill No. 2830, Making an Appropriation to Recapitalize the Hawaii Hurricane Reserve Trust Fund (HHRTF), are the two Administration measures aimed at further rebuilding the State's fiscal reserves.

Since 2008, the State of Hawaii has had to implement a number of extreme fiscal measures in order to keep the State solvent, including: furloughs; temporary salary reductions; reductions-in-force; forced downsizing of programs and services; purchasing and hiring freezes; and enactment of temporary revenue enhancements. Additionally, most of the State's formal fiscal reserves, the EBRF and the HHRTF, were utilized between FY 09 to FY 11 in order to forestall even greater spending reductions and revenue enhancement measures. In May of 2011, the credit rating of the State of Hawaii was downgraded by Moody's Rating specifically citing - among other reasons - the State's low reserve levels.

Subsequently, as required by Act 62, SLH 2011, $55.5 million of general excise tax revenues were deposited to the HHRTF in FY 14 and another $55.5 million will be deposited in FY 15.

In addition, Act 266 and Act 267, SLH 2013, appropriated $50 million each to the EBRF and the HHRTF to accelerate their recapitalization. Recognizing the State's replenishment efforts, Moody's October 2013 Outlook for the State of Hawaii improved, in part, due to the State's increasing reserve levels.

One of the clear lessons learned from this experience is the obvious necessity of having sufficient fiscal reserves to help carry the State through the worst conditions and the importance of having adequate reserve levels to weather economic down cycles. Now that the economy is rebounding and more revenues are available, a concerted effort must be made to recapitalize the State's depleted fiscal reserves as expeditiously as possible. The Administration has set target benchmarks for the State's fiscal reserves that they should get to a level equal to 10% of general fund revenues. Granted, this is a considerable objective to have as a goal especially in light of the Council on Revenues' recent lowered forecast from 3.3% to 0.0% in FY 14, 7.4% to 5.5% in FY 15, and 7.7% to 5.0% in FY 16. However, the downgraded forecast further demonstrates the need to increase our State reserves. Doing so will put us in a better place in future times of need.

Committing more dollars in FY 15 to further capitalize the State's reserves is a prudent and rational approach that should help reach the target sooner. Therefore, the Administration supports the intent of this bill.