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**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON HOUSE BILL NO. 707,
RELATING TO NON-GENERAL FUNDS**

House Committee on Finance

February 18, 2015

Chair Luke and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for the opportunity to testify in support of House Bill No. 707 (HB 707), which repeals and transfers the unencumbered balances of various non-general funds and accounts as recommended by the Auditor in Auditor's Report Nos. 14-04 and 14-13.

In 2014, we reviewed the non-general funds of DOD and DLNR (Report No. 14-04) and ATG and DBEDT (Report No. 14-13). Our review includes an evaluation of the original intent and purpose of each fund, including the degree to which each fund continues to serve its intended purpose. We also evaluate whether each fund meets statutory criteria for its respective fund type (i.e., special, revolving, or trust). We do not conclude about the effectiveness of programs and their management; however, for special and revolving funds, we conclude on the need for the fund based on the purpose and scope of the program it supports. This bill would implement many of our report recommendations.



We concluded the funds and accounts in HB 707 no longer serve their intended purpose or meet statutory criteria; hence, it is appropriate for the Legislature to repeal each statutory provision, repeal or abolish administratively established funds or accounts, and transfer remaining balances to the general fund:

1. **Cancer Detection Development Revolving Fund** (Section 3), established under 211F-5.5, HRS, does not meet criteria for a revolving fund (Report No. 14-13);
2. **Hawai'i Criminal Justice Commission Trust Account** (Section 4), established under §28-10.6(a)(5), HRS. We recommended the trust account be closed (Report No. 14-13);
3. **Preservation of Endangered Plants Trust Account** (Section 4), administratively established. We recommended the trust account be closed; DLNR agreed (Report No. 14-04); and
4. **State DOD Physical Amelioration Donation Trust Fund** (Section 4), administratively established. We recommended DOD evaluate the need for the account; DOD agreed to close the account.

Thank you for this opportunity to testify in support of HB 707. I am available to answer any questions you may have.



STATE OF HAWAII
DEPARTMENT OF DEFENSE

TESTIMONY ON HOUSE BILL 707
A BILL RELATING TO NON-GENERAL FUNDS

PRESENTATION TO
THE HOUSE COMMITTEE ON FINANCE

BY
BRIGADIER GENERAL ARTHUR J. LOGAN
ADJUTANT GENERAL
AND DIRECTOR OF THE HAWAII EMERGENCY MANAGEMENT AGENCY
February 18, 2015

Chair Luke, Vice Chair Nishimoto, and Members of the House Committees on Finance:

I am Brigadier General Arthur J. Logan, State Adjutant General and the Director of the Hawaii Emergency Management Agency. I am testifying in **support** of House Bill 707.

This measure repeals and transfers the unencumbered balances of various non-general funds, including the State DOD physical amelioration donation fund, to the General Fund.

Established in 2010, State DOD physical amelioration donation fund was to receive donations for disaster assistance. However, the fund never received any donations.

The Department of Defense has no objection to abolishing this fund as recommended by auditors.

Thank you for allowing me to testify in **support** of House Bill 707.



Written Statement of

KARL FOOKS
President

Hawaii Strategic Development Corporation

Before the
COMMITTEE ON FINANCE

February 18, 2015
2:00 PM
State Capitol, Conference Room 308

In consideration of
HB 707 RELATING TO NON-GENERAL FUNDS

Chair Luke, Vice Chair Nishimoto, and Members of the Committee on Finance:

The Hawaii Strategic Development Corporation (HSDC) respectfully submits testimony in support of HB 707, legislation that repeals and transfers the unencumbered balances of various non-general funds and accounts as recommended by the auditor in auditor's report nos. 14-04 and 14-13.

Thank you for the opportunity to provide testimony.



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SUBJECT: MISCELLANEOUS, Repeals non-general funds

BILL NUMBER: HB 707

INTRODUCED BY: Jordan, Choy, Cullen, Kobayashi, LoPresti, Nishimoto, Onishi, Oshiro, Say, Yamashita and 1 Democrat

EXECUTIVE SUMMARY: Repeals various non-general funds including the special funds, revolving funds, trust funds, and trust accounts of the department of defense and the department of land and natural resources and the department of the attorney general and department of business, economic development and tourism, all in accordance with the State Auditor's recommendations.

BRIEF SUMMARY: Repeals the following and transfers any unencumbered balances to the general fund:

Cancer detection development revolving fund (HRS section 211F-5.5)

Abolishes the following funds and transfers any unencumbered balances to the general fund:

(1) the Hawaii criminal justice commission trust account established in 1985 and administered by the department of the attorney general;

(2) the preservation of endangered plants administratively established in 1989 and administered by the department of land and natural resources; and

(3) the State DOD physical amelioration donation administratively established in 2010 and administered by the department of defense.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This measure implements some of the state auditor's recommendation in the auditor's reports No. 14-04 and 14-13 that reviewed the special funds, revolving funds, trust funds, and trust accounts of the department of defense and the department of land and natural resources and the department of the attorney general and department of business, economic development and tourism.

The 1989 Tax Review Commission noted that use of special fund financing is a "departure from Hawaii's sound fiscal policies and should be avoided." It also noted that special funds are appropriate where the revenues to the funds maintain some direct connection between a public service and the beneficiary of that service. The Commission found that special funds which merely set aside general funds cannot be justified as such actions restrict budget flexibility, create inefficiencies, and lessen accountability. It recommended that such programs can be given priority under the normal budget process without having to resort to this type of financing.



Seconding the Commission's harsh criticism was the State Auditor's report issued in February of 1991 that recognized that the "tax is levied on the general public rather than specific beneficiaries of the program," and thus the fund did not reflect a "direct link between user benefits and user charges."

As a result of the recent spotlight of monies in special funds, the legislature by Act 130, SLH 2013, requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and every five years which assists in making government finances more transparent.

Digested 2/17/15