

DAVID Y. IGE
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To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, February 17, 2015
Time: 9:00 A.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 159, Relating to the Repeal of Non-General Funds

S.B. 159 proposes to repeal certain non-general funds, including the returned ACH tax refund trust account as set forth in section 22 of this bill. The Department supports the repeal of this trust account as it is no longer used.

Since 2012, with the collaboration of the Department of Accounting and General Services, the Department now handles all returned tax refunds directly; therefore, the returned ACH tax refund trust account is no longer necessary.

Thank you for the opportunity to provide comments.

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 159

February 17, 2015

RELATING TO THE REPEAL OF NON-GENERAL FUNDS

Senate Bill No. 159 repeals several unused or inactive non-general fund accounts with low balances or no activity in recent years, abolishes various administratively established trust accounts, and transfers the balance of the Fee Simple Residential Revolving Fund to the general fund. The funds being repealed in the bill are as follows:

- Captain Cook Memorial Fund, Sections 6E-4, 6E-33, HRS
- Statewide Geospatial Information and Data Integration Special Fund, Sections 225M-6, 225M-7, HRS
- Food Distribution Program Revolving Fund, Sections 302A-1315, HRS
- Career and Technical Training Projects Revolving Fund, Section 304A-2268, HRS
- University of Hawaii Alumni Special Fund, Sections 304A-2175, HRS
- Animal Research Farm, Waialeale, Oahu Special Fund, Sections 304A-2177, HRS
- Public Health Nursing Services Special Fund, Chapter 321, Part XXXV, HRS, and Sections 321-432, HRS
- Blind Shop Revolving and Handicraft Fund, Section 347-12, HRS
- Fee Simple Residential Revolving Fund, Section 516-44, HRS

- Donations for Voter Registration Drive Trust, Hawaii FYI-ICSD Trust Account, Parking Control Revolving Fund Escrow Account, Returned ACH Tax Refunds Trust Account, HDOA Bio-control Foreign Exploration Special Fund, Hawaii EUTF Self-Directed Investments Trust Account and an account controlled by the State Commission on Fatherhood

The Department of Budget and Finance supports this bill which is similar to the Administration bill, Senate Bill No. 1092. For the Committee's information, the Administration bill also repeals two additional non-general funds: the Pineapple Workers and Retirees Housing Assistance Fund, Section 201H-85, HRS, and the Transportation Use Special Fund, Sections 261D-1, 261D-4, 261D-5, 36-30 (a), HRS. These two funds are also no longer necessary due to low balances and inactivity.

DAVID Y. IGE
GOVERNOR



DOUGLAS MURDOCK
Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

WRITTEN TESTIMONY
OF
DOUGLAS MURDOCK, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
SENATE COMMITTEE
ON
WAYS AND MEANS
ON
FEBRUARY 17, 2015

S.B. 159

RELATING TO THE REPEAL OF NON-GENERAL FUNDS

Chair Tokuda and members of the Committee, thank you for the opportunity to submit written testimony on S.B. 159.

The Department of Accounting and General Services (DAGS) supports S.B. 159 with respect to those accounts administered by DAGS.

Thank you for the opportunity to submit written testimony on this matter.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Ways and Means
February 17, 2015 at 9:00 am, Room 211

by
Kalbert Young
Vice President – Budget & Finance & Chief Financial Officer
University of Hawai'i

SB 159 – RELATING TO THE REPEAL OF NON-GENERAL FUNDS

Chair Tokuda, Vice Chair Kouchi, and members of the Ways and Means committee:

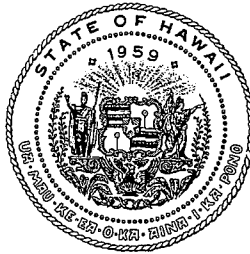
Thank you for this opportunity to testify. The University of Hawai'i (UH) SUPPORTS SB159, Relating to the Repeal of Non-General Funds.

This measure repeals several non-general funds through various departments of State government and lapses their balances to the general fund. Three of these funds are under UH's purview:

- Career and Technical Training Projects Revolving Fund (Part IV);
- University of Hawai'i Alumni Special Fund (Part V); and
- Animal Research Farm, Waiale'e, O'ahu Special Fund (Part VI);

These funds were identified in Auditor's Report No. 14-18, and UH is supportive of the actions contemplated in this bill, as already stated in its response included in that Report.

Thank you for your time and consideration.



**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON SENATE BILL NO. 159,
RELATING TO THE REPEAL OF NON-GENERAL FUNDS**

Senate Committee on Ways and Means

February 17, 2015

Chair Tokuda and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for the opportunity to testify in partial support of Senate Bill No. 159 (SB 159), which would, among other purposes, repeal various non-general funds and accounts and lapse the unencumbered balances to the general fund. We also offer comments on specific sections of this bill.

In 2014, we released three reports on our reviews of special, revolving, and trust funds and trust accounts of the following departments:

- 1) Report No. 14-01 (DAGS, AGR, and B&F);
- 2) Report No. 14-13 (AG and DBEDT); and
- 3) Report No. 14-18 (UH).

Our funds reviews evaluate 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.

Funds that do not meet criteria would be repealed by SB 159

We support repealing funds in DBEDT and UH that *do not meet* criteria:

1. **Statewide Geospatial Information and Data Integration Special Fund** (Section 6) established under §225M-7, HRS. We recommended repeal; DBEDT agreed (Report No. 14-13).

2. **Career and Technical Training Projects Revolving Fund** (Section 10) established under §304A-2268, HRS. We recommended repeal; UH deferred to the Legislature (Report No. 14-18).

3. **University of Hawai‘i Alumni Special Fund** (Section 12) established under §304A-2175, HRS. We recommended repeal; UH deferred to the Legislature (Report No. 14-18).

4. **Animal Research Farm, Waiale‘e O‘ahu Special Fund** (Section 14) established under §304A-2177, HRS. We recommended repeal; UH deferred to the Legislature (Report No. 14-18).

Funds that do not meet criteria would be abolished by SB 159

Section 22 of the bill abolishes administratively created funds and trust accounts in DAGS and AGR that *do not meet* criteria.

1. **Donations for Voter Registration Drive;**
2. **Hawai‘i FYI-ICSD;**
3. **Parking Control Revolving Fund Escrow Account;**
4. **Returned ACH Tax Refunds;**
5. **HDOA Biocontrol Foreign Exploration Special Fund;** and
6. **Hawai‘i EUTF Self-Directed Investments.**

In addition, we support the intent to abolish an account controlled by the State Commission on Fatherhood in line 10, page 17 of Section 22; however, we did not review this account.

Transferring cash balances from a fund is appropriate, especially one that should be repealed

We support Section 21 of this bill that transfers unexpended and unencumbered cash balances from the **Fee Simple Residential Revolving Fund**, established under §516-44, HRS, to the general fund. In the alternative, we suggest amending this language to repeal the fund. In Report No. 14-13, we recommended repeal; DBEDT agreed.

A fund that *meets* criteria would be repealed by SB 159

Section 3 of this bill would repeal the **Captain Cook Memorial Fund** established under §6E-33, HRS. We generally support the Legislature decreasing the high number of special and revolving funds. However, in Report No. 14-01, we noted that this trust fund *meets* criteria and continues to serve the purpose for which it was originally created. Financial activity exists but is not shown due to rounding.

We have little to no information on funds repealed in Parts III, VII, and VIII of the bill

While we support the intent of Parts III, VII, and VIII of this bill, we have little to no information on the following funds:

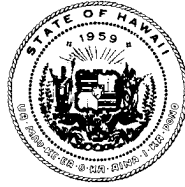
1. **Food Distribution Revolving Fund** (Section 8) established in the Department of Education under §302A-1315, HRS. The last time we reviewed this fund in 2011 (Report No. 11-04, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i Public Library System, and Office of Hawaiian Affairs*), we were unable to conclude whether the fund meets applicable criteria as the fund had not yet been implemented. If there has been no financial activity in the fund to date, then it is not serving the purpose for which it was originally created and its repeal is appropriate.

2. **Public Health Nursing Services Special Fund** (Section 17) established in the Department of Health under §321-432, HRS.

3. **Blind Shop Revolving and Handicraft Fund** (Section 19) established in the Department of Budget and Finance under §347-12, HRS.

Thank you for this opportunity to testify in partial support of SB 159 and to offer comments. I am available to answer any questions you may have.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
EXECUTIVE DIRECTOR

STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON WAYS AND MEANS

February 17, 2015 at 9:00 a.m.
State Capitol, Room 211

In consideration of
S.B. 159
RELATING TO THE REPEAL OF NON-GENERAL FUNDS.

The HHFDC **supports** Part IX of S.B. 159 **with a requested amendment.** We defer to the appropriate department or agency with respect to the remainder of the bill.

The HHFDC concurred with the Legislative Auditor's findings that the Fee Simple Residential Revolving Fund, is no longer serving the purpose for which it was created. Accordingly, we request that S.B. 159 be amended to **repeal** the Fee Simple Residential Revolving Fund.

Thank you for the opportunity to testify.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Repeal of special funds

BILL NUMBER: SB 159

INTRODUCED BY: Tokuda, English, Keith-Agaran, Kouchi, Wakai

EXECUTIVE SUMMARY: Implements the state auditor's recommendation to repeal various special funds.

BRIEF SUMMARY: Repeals the following:

Captain Cook memorial fund (HRS section 6E-33)
 Statewide geospatial information and data integration special fund (HRS section 225M-7)
 Food distribution program revolving fund (320A-1315)
 Career and technical training projects revolving fund ; UH of Hilo (HRS section 304A-2268)
 University of Hawaii alumni special fund (HRS section 304A-2175)
 Animal research farm, Waialea, Oahu special fund (HRS section 304A-2177)
 Public health nursing services special fund (HRS section 321-432)
 Blind shop revolving and handicraft fund (HRS section 347-12)

Transfers the balance of the fee simple residential revolving fund into the general fund on June 30, 2015.

Abolishes the following:

- (1) The donations for voter registration drive trust account established in 1984 and administered by the department of accounting and general services;
- (2) The Hawaii FYI - ICSD trust account administratively established in 1996 and administered by the department of accounting and general services;
- (3) The parking control revolving fund escrow account administered by the department of accounting and general services;
- (4) The returned ACH tax refunds trust account administratively established in 2004 and administered by the department of accounting and general services;
- (5) The HDOA biocontrol foreign exploration special fund created in 2010 and administered by the department of agriculture;
- (6) The Hawaii EUTF self-directed investments trust account created in 2007 and administered by the department of budget and finance; and
- (7) An account controlled by the state commission on fatherhood,

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This measure implements the state auditor's recommendation in the recently released auditor's reports that reviewed the special funds, revolving funds, trust funds, and trust accounts of the various state departments.

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 2/13/15

TO: Members of the Committee on Ways and Means

FROM: Natalie Iwasa
Honolulu, HI 96825
808-395-3233

HEARING: 9 a.m. Tuesday, February 17, 2015

SUBJECT: SB 159 Repeal Non-General Funds **SUPPORT**

Aloha Chair and Committee Members,

Thank you for allowing me the opportunity to provide testimony on SB159, which would repeal certain non-general funds and transfer any remaining unencumbered balances in those funds to the general fund.

Special funds make the accounting system more cumbersome, create inefficiencies and reduce transparency. I therefore support the repeal of these funds and ask that other funds be carefully reviewed for repeal.

Please vote "yes" on this bill.