

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. 250

February 18, 2015

RELATING TO FEDERAL FUNDS

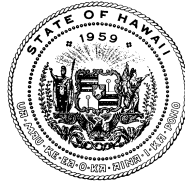
Senate Bill No. 250 proposes to amend Chapter 29, HRS, Federal Aid, to require that all federal aid moneys received by the State be subject to appropriation or other law authorizing expenditure. The bill also proposes to amend Chapter 37, HRS, Budget, to: 1) amend the definitions of the various types of federal aid to include not only funds received but also funds “reasonably anticipated to be received” from the federal government; 2) define “unanticipated or excess federal moneys” to be federal financial aid that is not included in the aforementioned definitions; and 3) provide that unanticipated or excess federal moneys may be expended pursuant to budget act proviso and deemed an appropriation for the purpose of Article VII, Section 5 of the Constitution of the State of Hawaii.

The Department of Budget and Finance has several concerns regarding this bill. First, we do not believe the statutory changes proposed by this bill are necessary. In terms of the federal fund management process, the changes, for the most part, reflect how we already handle federal funds. While we are aware that past budgets may have had unrealistic budget ceilings for federal funds, this department has made a concerted effort in the past few years towards ensuring that all federal aid awards are appropriated, to the extent possible, at levels reflecting more realistic amounts that the departments expect to receive.

Second, the proposed changes may complicate a process that is already working. Because the budget is prospective, the budget has had to include federal aid which was “reasonably anticipated to be received.” Hence, on face value, we do not have a concern regarding the proposed changes to define the various federal funds (i.e., federal aid primary, secondary, and urban and federal funds) as funds or federal aid received or “reasonably anticipated to be received.” However, the amendment which appears to clarify that federal funds, specifically, “. . . includ[e] financial aid for which an agency’s application is pending before the federal government on the date of submission to the legislature of the budget or supplemental budget” makes the intent and meaning of funds “reasonably anticipated to be received” questionable.

When the biennium budget is prepared, departments have often not yet applied for the first year of anticipated federal aid and it is unlikely that any have applied for the second year. It is unclear if the intent of this amendment is to include in the budget only federal funds which have been applied for by the submission date of the budget to the Legislature in the budget. If so, then a significant amount of federal fund grants will not be includable in the budget.

Consequently, the definition of “unanticipated or excess federal moneys” also becomes unclear because its definition relies on the definitions of other federal aid. While the measure allows for the federal moneys to be expended when authorized by budget act proviso, as is done currently, it also deems the authorized expenditure as an appropriation for the purpose of Article VII, Section 5 of the Constitution of the State of Hawaii which requires that all public funds be expended pursuant to appropriation made by law. We are uncertain that such an expenditure, as authorized by the Governor pursuant to proviso, would constitute an appropriation.



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**Testimony COMMENTING on SB250
RELATING TO FEDERAL FUNDS**

SENATOR JILL TOKUDA, CHAIR
SENATE COMMITTEE ON WAYS AND MEANS

Hearing Date: February 18, 2015

Room Number: 211

1 **Fiscal Implications:** Likely negative impact on drawdown of discretionary federal funds.

2 **Department Testimony:** The Department of Health (DOH) has **serious reservations** about the
3 unintended consequences of SB250, which put state agencies at a significant competitive
4 disadvantage for discretionary federal funds.

5 The department acknowledges the goal of the measure which is to align public policy, the state
6 budget, and sources of revenue for state agencies but SB250 will likely jeopardize significant
7 amounts of discretionary federal funds.

8 DOH administered approximately \$40,000,000 in discretionary federal funds in FY15 and
9 expends them pursuant to the Budget Execution Policy established by the Department of Budget
10 and Finance, including the periodic reporting of all non-general funding sources. Requests are
11 made to the Governor to apply for and expend such funds.

12 This measure cannot be reconciled with federal grant making practices. Eligible applicants for
13 federal funds receive no official advance notice of a federal grant opportunity and when
14 announced frequently have no more than five weeks to apply. Funding opportunities are highly
15 competitive and awards are made based on the merits of an agency's proposal and past
16 performance. Federal project officers oversee awards and demand immediate action and
17 sustained progress; otherwise moneys may be rescinded and redistributed to other states. The
18 requirement for statutory authorization prior to expenditure of federal funds, particularly
19 discretionary funds, places state agencies at a distinct competitive disadvantage.

- 1 DOH respectfully requests a more thorough analysis of the ramifications of SB250, or at a
- 2 minimum the exemption of discretionary federal funds from a requirement for legislative
- 3 appropriation.

- 4 Thank you for the opportunity to provide comments.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

WRITTEN ONLY

Testimony Presented Before the
Senate Committee on Ways and Means
February 18, 2015 at 9:00 am, Room 211

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

SB 250 – RELATING TO FEDERAL 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) has concerns with SB 250, Relating to Federal Funds. This measure would amend statute to expressly state that the expenditure of federal-aid moneys is subject to appropriation. This measure would also broaden the definition of "federal funds" and would allow unanticipated or excess federal money that are not appropriated to be expended when authorized by proviso in the budget or supplemental budget act.

While we agree that best practices would be foreknowledge of an impending federal grant and a corresponding appropriation to authorize the expenditure of that grant, in practice, the timing, mechanics and nature of federal grants would make such a blanket policy impractical. The application and awarding of federal grants may occur at any time. Departments pursue federal grants whenever they are offered and this means throughout the course of a calendar year. It is not uncommon for departments to be unaware of a grant, or the potential future existence of a grant, during the time the legislature is in session.

SB 250 would practically require a department to only be able to apply for grants that have resources (i.e., positions and funding authority) already approved by the legislature. Failure to respond to a grant announcement in a timely manner places the State in an unfavorable position when competing for a grant against other states. While this would be impactful for UH since the university benefits from a lot of federal funds and pursues federal grants with vigor, the same impact should also effect other departments as well.

Current budget procedures allow for the expenditure of such federal awards. Should the Legislature have concerns about the transparency or accountability of these awards, it might be best to work with the state Department of Budget and Finance to address those concerns.

Thank you for your time and consideration.