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No. _____

TESTIMONY ON HOUSE BILL 1653, HOUSE DRAFT 2
RELATING TO NON-GENERAL FUNDS

by

Nolan P. Espinda, Director
Department of Public Safety

Senate Committee on Ways and Means
Senator Donovan Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

Tuesday, April 3, 2018; 10:00 a.m.
State Capitol, Conference Room 211

Chair Nishihara, Vice Chair Wakai, and Members of the Committee:

The Department of Public Safety (PSD) **supports** House Bill (HB) 1653, House Draft (HD) 2. The three (3) revolving fund accounts that will be impacted by this measure are the Halawa Correctional Facility, Waiawa Correctional Facility, and the Oahu Community Correctional Facility Stores accounts. Since the store operations at these facilities are now maintained by PSD's Hawaii Correctional Industries, the three aforementioned revolving fund accounts are no longer needed.

Thank you for the opportunity to present this testimony.

TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Repeal non-general funds

BILL NUMBER: HB 1653, HD-2

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: Abolishes non-general funds and accounts, in accordance with the State Auditor's recommendation in Report No. 17-11.

SYNOPSIS: Abolishes the revolving funds for correctional facility stores account as recommended in Auditor's Report No. 17-11: Unencumbered balances will lapse to the administrator/inmate activity trust account.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This measure implements the state auditor's recommendation in Report No. 17-11.

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.

Because of the spotlight of monies in special funds, Hawaii Revised Statutes section 23-12 requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and at five-year intervals. This review assists in making government finances more transparent.

Digested 3/9/2018